China C-stores' Opportunities and Challenges in New Era

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China C-stores` Opportunities
and Challenges in New Era

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1. Overview of China C-store industry
2. Prospects of China C-store industry
3. Challenges of China C-store industry
4. Opportunities of China C-store industry
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2. Prospects of China C-store industry

3. Challenges of China C-store industry

4. Opportunities of China C-store industry
Eight points of view to read China c-store industry development status

1. In 2017, China C-Store industry recorded a 23% increase in market-size, which is now over RMB190 billion. Number of stores opened and sales per store both grew.

2. Huge markets. Mega and large cities continue to be central for growth. Meantime brands exploring within its territory and no national-wide brand emerged.

3. Gross margin existing huge growth potential. Sales, margin is improving, but the gap with international industry is big.


5. The category mix need improving. Dispensable food and beverage and private label products ratio is low.

6. Franchising scheme need improvement. The franchise management is loose. About 40% companies has no franchise.

7. Digital emerging. About 40% companies introduced on line sales. The total on line sales is 8%. Mobile payment become more and more common.

8. Membership and loyalty program need improvement. Only about 40% companies built membership system contributing 35% sales.
In 2017, the market size of China C-store industry grew 23%, with number of stores reached 100,000 and total sales over RMB1,900 billion.

**Total sales of China C-store industry**
(including Gas station C-store, Billion RMB)

- **2015**: 1,181
- **2016**: 1,373
- **2017**: 2,000

**Number of stores**
(including Gas station C-store, 10 thousand)

- **2015**: 3,576
- **2016**: 4,504
- **2017**: 4,936

**Avg. sales per day, single store**
(including Gas station C-store, RMB /per store/per day)

- **2015**: 4,584
- **2016**: 4,936
- **2017**: 5,324

Source: 2018 CCFA C-Store Research
The market is large. Mega and large cities continue to be central for growth.

Store growth rate in sample cities, 2017

C-store density: Number of stores/population (stores/10,000 people)

Sources: CCFA 2017-2018 China C-store Index
Most C-store chains are regional concentrated (excluding gas station c-stores).

Number of stores accounted for total stores %, 2017 (excluding gas station C-store)

- Lawson: 2.9, 3.2
- 7-11: 2.5, 3.5
- 沃尔得/可的: 4.4
- 唐久: 6.2, 3.2
- 快客: 8.0
- Family Mart: 22.3
- 天福: 40.7
- Mei Yi Jia

备註：1.不含石油系便利店，如易捷
Source: Euromonitor
We conducted a survey on 55 C-store companies. The average daily sales of the sample companies was about RMB5,000 per store, a large room for improvement.

Source: 2018 CCFA C-Store Research
Profit level of China C-store in 2017 has improved, but the gap with international leading companies is still large.

Increase in the number of high-margin (≥20%) companies

Distribution of sample company`s gross profit (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>10% - 20%</th>
<th>20% - 30%</th>
<th>Gross Profit &gt;=30%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>39</td>
<td>53</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>25</td>
<td>51</td>
<td>13</td>
</tr>
<tr>
<td>2017</td>
<td>11</td>
<td>51</td>
<td>16</td>
</tr>
</tbody>
</table>

Net profit margin mainly falls within 0-4%

Distribution of sample company`s net profit (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>&lt;0%</th>
<th>0% - 2%</th>
<th>2% - 4%</th>
<th>&gt;=4%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td></td>
<td>15</td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td></td>
<td></td>
<td>15</td>
</tr>
<tr>
<td>2017</td>
<td></td>
<td></td>
<td></td>
<td>16</td>
</tr>
</tbody>
</table>

Gross profit of 7-11 in Japan is over 30%

Source: 2018 CCFA C-Store Research
Operating costs are rising rapidly, especially rents and labor

- Investors continue to focus on the development of C-store.
- Pressure of rising rent still exists.
- Staff turnover increases, raising the costs of staffing.
- The increase in utility cannot be ignored.

C-store companies need to improve management leanness to battle rising costs

Source: 2018 CCFA C-Store Research
Dispensable F&B and private label ratio increasing, but huge improvement potential

40% of sample companies dispensable F&B sales less than 10%.

80% of sample companies private label ratio less than 10%.

Japanese ratio 30-40%

Private Label ratio%

日本比例 30-40%

自有品牌占比 >30%

资料来源：2018年CCFA便利店调研、文件检索、分析师报告
Franchising ratio has huge development room comparing with matured Japan market

China Vs Japan

China Vs Japan franchise ratio (%)

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>中国</td>
<td>59</td>
<td>57</td>
</tr>
<tr>
<td>日本罗森</td>
<td>41</td>
<td>43</td>
</tr>
<tr>
<td>日本全家</td>
<td>95</td>
<td>97</td>
</tr>
<tr>
<td>日本7-11</td>
<td>98</td>
<td></td>
</tr>
</tbody>
</table>

34% of sample companies has no franchise system

China Franchising ratio (%)

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>加盟店比例&gt;=50%</td>
<td>28</td>
<td>35</td>
</tr>
<tr>
<td>30-50%</td>
<td>17</td>
<td>14</td>
</tr>
<tr>
<td>0-30%</td>
<td>36</td>
<td>16</td>
</tr>
<tr>
<td>0%</td>
<td>34</td>
<td></td>
</tr>
</tbody>
</table>

来源：2018年CCFA便利店调研、文件检索、分析师报告
36% of stores have on line ordering, contributing about 10% of total sales

In 2018, 36% companies have on line sales

Sample companies on-line sales growth about 1.5 times than one year ago. On line sales become the one of major growth driven factor

On line sales ratio (%)

2015 2016 2017

0 50 100

75 71 64

On line sales contribution (%)

2015 2016 2017

0 10 90 100

92

线下 线上（网络）

资料来源：2018年CCFA便利店调研、文件检索
Mobile check-out become common. WeChat Pay share is slight higher than Ali Pay

More than 50% companies mobile payment sales share >30%

2017 WeChat Pay Share is slightly higher than Alipay

移动支付占总支付金额比例>=30%

在技术渗透已达到较高水平的基础之上，应进一步激活移动支付的应用场景，发挥价值
Membership is in junior period, only 40% companies have system, contributing about 35% of total sales

Growth from 38% in 2015 up to 40% in 2018

2018 membership sales contribution 35%

资料来源：2018年CCFA便利店调研、文件检索、
Facing operational cost hike, c-stores increasing new tech investments

2017 C-strors new tech investments growth rapidly

New tech focusing unmanned store and logistics improving

资料来源：2018年CCFA便利店调研、文件检索、
Section Summary

status quo

Category improvement

Good industry growth

Big improvement room

Gross Margin soso

Franchising Ratio

Digital emerging

Customer needs understanding

Two major costs hike
<table>
<thead>
<tr>
<th>Market Segments</th>
<th>Position</th>
<th>Elevation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department stores-</td>
<td>Supplementary</td>
<td>Major industry</td>
</tr>
<tr>
<td>Supermarket-C-store</td>
<td>Industry</td>
<td></td>
</tr>
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C-store industry has made rapid progress in digital transformation in the past two years.

Source: 2018 CCFA C-Store Research, BCG
Three factors contributed to the digital transformation

1. Customers has been digitalized
2. Internet giants create digital environment system
3. Traditional c-store digital transformation

C-store rapid digital exploration in the past year

Partial unmanned c-store new brands
Large Internet Companies are increasingly involved in offline retail business.
Traditional c-store digital transformation in logistics and intelligent store

- **Logistics digital**
  - 7-11 构建了以数据中心为数据交互和整合的供应链信息系统，将各个节点进行连接
  - 通过数字化变革大幅提升配送效率，减少门店配送次数至9次

- **Marketing Digital**
  - 全家上线了客户忠诚管理（CRM）、铁杆粉丝营（Fans）和顾客终身价值（CLV）实现了数据整合
  - 通过数字化闭环，针对到店频率和客单价不断进行营销方案的优化

- **Payment digital**
  - 罗森上线自助支付服务，提升消费感受，目前还需人工最后确认支付成功
  - 7-11首家无人门店X-Store在台湾开业，只需刷脸即可完成购物
Section Summary

Environment

- Government support
- Digital transforming
- Consuming Upgrading
- Supplier coordination
- Unmanned stores
- Capital Driven
3. Challenges of China C-store industry
Market environment changes in the new retail era

1、New consumers
Post-80 and post-90 put forward higher requirements for communication, selection and logistics efficiency.
Market environment changes in the new retail era

2. New technologies
Rapid development of technology enables communication, selection, and logistics efficiency improvement.

推动三大效率的提升：

- 沟通效率
- 选择效率
- 物流效率

社交媒体、移动支付
- 大数据、云计算
- 生物识别、机器学习
- 智能客服、人工智能精准推荐、物联网提高物流效率等

消费者连接的机会
消费者洞察的机会
个性化服务的机会
数据沉淀的机会
Market environment changes in the new retail era

3. Capital driven
Capital is the sugar daddy of new retail, bringing more changings

- Unmanned store, showcase and vending machines
  1. New model needs market test;
  2. Vending machines as the stores 'extending

- Store + F&B, Store + Fresh
  1. Category upgrading subject to need changing;
  2. F&B, fresh products depending on capacity;
  3. New investment needed

- Traditional c-stores attracted venture capital
  1. VC injection subject to strategy
  2. Thinking of why VC before decision making
Challenges Encountered

Difficulties in site selection, rising costs, low net profit margin

VS

The need for rapid growth
Problems in development of C-store

C-store category management is still a week point!
Problems in development of C-store

• Confit between complex product category and poor logistic.
• Supply chain needs improvement.
Challenges Encountered

Capital pros and cons

New niching professional stores getting the ground of c-store market

C-stores needs conversion the challenges to opportunities.
Challenges Encountered

**Food Service**
- Both ele.me & meituan.com on line ordering platform satisfied customer’s foodservice delivery “whole” and “Fast” needs

**Products**
- Ali and JD’s B2B, Internet giants helping mom and pop stores increasing competence

**Convenience**
- Representatives such as Hema, JDDJ, Ali Taoxianda, Duodian and etc, committed 30 mins delivery, some 24 hours operation

**Freshness**
- Representatives such as Fresh Legend, Bravo YH Life, community markets focusing on “whole, quick and cheap”, close to customers, 24 hours operation and home delivery
Section Summary

Convivence — Home delivery  

Food service — take-away

Crisis

Weakening of advantages

Products — B2B platform  

Traditional Business model  

“Community Fresh”
Section Summary

**GAP**

Three Major foreign companies

Outside

Find the gap

Industry

Outstanding Peers
Section Summary

Balance between management and expansion

Balance of demand and supply

Balance between initial heart and ambition

Balance between core and side business

Balance between capital and development
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Opportunities

- National-scale C-stores chain has not yet been formed.
- Opportunities exist in regional development and integration.
Opportunities

The rapid development of Internet & IT technology continues to empower convenience stores and integrates difference resources.
Opportunities

• Service and consumer experience improvement
• Differentiation strategy
Case-analysis

7-11  Amazon Go  美宜佳
*Coping with changes*  *Leader in technology*  *Supply-chain Technology*

便利蜂  今日  好邻居
*1,000+ IT staffs*  *Fresh Food Factory*  *Natural Store Type*
Summary

Focusing category

Improve logistic efficiency

Fundamental

Improving competences (work flow, standard and methodology) is the core capability
C-store is a slow business just like bending down to pick up the coin money from the ground.
Official WeChat of CCFA

Speaker`s WeChat

13th-15th May.
China C-store Summit
Wuhan, China
Thank You For Your Attention!
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