2019 China Convenience Store Development Report

May 2019
Foreword

Wang Hongtao
Deputy Secretary-General
China Chain Store and Franchise Association

The 2019 China Convenience Store Development Report, published jointly by China Chain Store and Franchise Association (CCFA) and KPMG, is richer in content than that of previous years. The main reason for content expansion was that the industry’s vigorous development and continuous innovation provided plenty of substantial case studies and materials for the report. This year is the fifth consecutive year in which China Convenience Store Development Report is released. We strive to provide benchmarks and reference points for convenience store companies and offer policy and investment making insights for governmental departments and investors through analysis of overall industry data, summary of the current industry and research into future trends. The aim is to collectively promote the development of convenience stores in China.

I would like to thank the companies that are sitting in CCFA Convenience Stores Committee who participated in the report’s research every year. I also call on other convenience store companies to participate in the association’s data collection and research, which can enable us to improve the industry data pool and sample size. This will allow us to conduct more comprehensive and accurate research and in turn guide the development of the industry better.

I would like especially thank KPMG China for its support. I would also like to take this opportunity to thank members of the team who worked on the drafts of this report, including Ms. Jessie Qian, Mr. Willi Sun, Mr. Michael Mao, Mr. Kevin Lo and Ms. Emma Qin from KPMG and Mr. Zhang Detao from the CCFA. Thank you!

Michael Mao
Partner
Digital and Customer
IT Advisory, KPMG China

Convenience stores are physical stores. They represent a retail format that is closest to the end customer. Convenience stores have seen significant transformations over the years under the influence of digitization. Leading enterprises in the country are all expanding their business sizes. Major regional players are steadily pushing ahead while others companies and enterprises from other industries are also crossing industry boundaries. The competition intensifies day by day.

The good news is that we see the convenience store industry continuing to expand in scale while gradually deepening their operational depth, testing the waters with innovative new models. Continuous improvements of quantitative indicators such as profitability, store efficiency, employee efficiency, and sales per unit area are observed. New models such as omnichannel model, community group buying model and mobile payment model are explored and applied. Combining new technologies and models, these efforts help companies lay a solid foundation for continued expansion.

Looking ahead, the convenience store industry will continue its accelerated evolution. Digital technology will be used to enhance the operational capabilities of front office, middle and back-end in the following areas: promote member in-depth operation, reshape supply chain and coordinate business ecosystems. Improved operational capabilities will lead to a safer, more convenient and seamless shopping experience for the customers.
KPMG and CCFA explore future paths to success for China’s convenience stores

CCFA and KPMG conducted an in-depth analysis on the current status and future market trends of convenience store companies across the country. The report explores the current level of development in the industry and direction to take for future successes.

We conducted quantitative research on 84 convenience store companies (including gas station convenience stores), analyzing sales performance, operating costs, key indicators, digital development and public-private partnership. At the same time, we also compiled and summarized articles, business cases and market data on related topics accumulated by KPMG in the previous years. The aim was to gain a more comprehensive and in-depth understanding of the current situation and future development of the convenience store industry in China.

### Annual sales of companies surveyed
(In CNY)

- < 100 million: 9%
- 100-300 million: 19%
- 300-500 million: 19%
- 500-1 billion: 20%
- 1-10 billion: 27%
- > 10 billion: 6%

### Number of stores of companies surveyed
(Number of stores)

- < 100: 19%
- 100-300: 27%
- 300-500: 21%
- 500-1,000: 8%
- > 1,000: 24%
<table>
<thead>
<tr>
<th></th>
<th>Overview</th>
<th>01</th>
</tr>
</thead>
<tbody>
<tr>
<td>II</td>
<td>Outlook</td>
<td>13</td>
</tr>
</tbody>
</table>
Overview of China's convenience store industry in 2018

01
In 2018, China’s convenience stores achieved sales of 226.4 billion yuan and the number of stores reached 120,000. The industry’s CAGR reached 19%.

02
Average sales of a single store was close to 5,300 yuan, up 7% over the same period last year.

03
Profitability improved slightly but operational capacity and supply chain efficiency still leaves room for enhancement.

04
Merchandise structure of convenience stores was optimized and proportion of own brand items on the shelf increased.

05
Franchise system of convenience stores saw gradual improvement and the proportion of franchise stores reached 46%, with leading enterprises having had an obvious effect.

06
Improved policy outlook but details to be further refined.

07
Operating costs for stores remained high and investment in human resources had become a major concern.

08
Vast potential in utilizing external funding but industry remains rational.

09
Active promotion of digital transformation and loyalty program.
In 2018 China’s convenience stores achieved sales of 226.4 billion yuan and the number of stores reached 120,000. The industry’s CAGR reached 19%.

### Sales for China’s convenience stores

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (in billion CNY)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>154.3</td>
</tr>
<tr>
<td>2017</td>
<td>190.5</td>
</tr>
<tr>
<td>2018</td>
<td>226.4</td>
</tr>
</tbody>
</table>

### Number of convenience stores

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of stores (in 10,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>9.4</td>
</tr>
<tr>
<td>2017</td>
<td>10.6</td>
</tr>
<tr>
<td>2018</td>
<td>12.2</td>
</tr>
</tbody>
</table>

Source: 2018 CCFA Convenience Store Survey
Average sales of a single store was close to 5,300 yuan, up 7% over the same period last year

**Average annual sales of companies surveyed in 2018**
(In CNY)

- 2017: 4,936
- 2018: 5,299

**Daily sales growth rate of companies surveyed in 2018**
(%)

- 2017: 4%
- 2018: 7%

Source: 2018 CCFA Convenience Store Survey
In 2018 profitability improved slightly, but operational capacity and supply chain efficiency still leaves room for enhancement

<table>
<thead>
<tr>
<th>Gross margin of companies surveyed (%)</th>
<th>Net profit margin of companies surveyed (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;=30%</td>
<td>&gt;=4%</td>
</tr>
<tr>
<td>13%</td>
<td>22%</td>
</tr>
<tr>
<td>22%</td>
<td>17%</td>
</tr>
<tr>
<td>30%</td>
<td>20%</td>
</tr>
<tr>
<td>20%-30%</td>
<td>2%-4%</td>
</tr>
<tr>
<td>51%</td>
<td>15%</td>
</tr>
<tr>
<td>47%</td>
<td>21%</td>
</tr>
<tr>
<td>43%</td>
<td>18%</td>
</tr>
<tr>
<td>10%-20%</td>
<td>0%-2%</td>
</tr>
<tr>
<td>25%</td>
<td>38%</td>
</tr>
<tr>
<td>28%</td>
<td>35%</td>
</tr>
<tr>
<td>24%</td>
<td>37%</td>
</tr>
<tr>
<td>&lt;10%</td>
<td>&lt;0%</td>
</tr>
<tr>
<td>11%</td>
<td>25%</td>
</tr>
<tr>
<td>3%</td>
<td>27%</td>
</tr>
<tr>
<td></td>
<td>25%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Inventory turnover of companies surveyed (In days)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
</tr>
<tr>
<td>32</td>
</tr>
</tbody>
</table>

Source: 2018 CCFA Convenience Store Survey
Merchandise structure of convenience stores was further optimized and proportion of own brand items on the shelf increased.

**Distribution of ready-to-eat food sales in companies surveyed (%)**

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;=40%</td>
<td>15%</td>
<td>11%</td>
<td>13%</td>
</tr>
<tr>
<td>20-40%</td>
<td>18%</td>
<td>18%</td>
<td>25%</td>
</tr>
<tr>
<td>10-20%</td>
<td>18%</td>
<td>33%</td>
<td>27%</td>
</tr>
<tr>
<td>&lt;10%</td>
<td>49%</td>
<td>38%</td>
<td>35%</td>
</tr>
</tbody>
</table>

**Distribution of own-brand products in companies surveyed (%)**

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;=30%</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>10-30%</td>
<td>8%</td>
<td>6%</td>
<td>8%</td>
</tr>
<tr>
<td>0-10%</td>
<td>61%</td>
<td>72%</td>
<td>74%</td>
</tr>
<tr>
<td>0%</td>
<td>23%</td>
<td>14%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: 2018 CCFA Convenience Store Survey
The franchise system of convenience stores was constantly improving, with leading enterprises having had an obvious effect.

Proportion of franchised Chinese convenience stores (%)

- **Franchises**
  - 2016: 41%
  - 2017: 44%
  - 2018: 46%

- **Self-owned**
  - 2016: 59%
  - 2017: 56%
  - 2018: 54%

Top ten Chinese convenience store brands in 2018 (Number of stores)

- **Easy Joy**: 27,259
- **uSmile**: 19,700
- **Meiyijia**: 15,559
- **Suning**: 4,508
- **Tianfu**: 4,212
- **Hong Qi**: 2,817
- **FamilyMart**: 2,571
- **C&U, ZHSH**: 2,141
- **Lawson**: 1,973
- **7-Eleven**: 1,882

Source: 2018 CCFA Convenience Store Survey, KPMG analysis
Improved policy outlook but details to be further refined

How much policy support from city government did surveyed companies think they received (%)

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good</td>
<td>22%</td>
<td>23%</td>
</tr>
<tr>
<td>Average</td>
<td>52%</td>
<td>52%</td>
</tr>
<tr>
<td>None</td>
<td>26%</td>
<td>25%</td>
</tr>
</tbody>
</table>

Source: 2018 CCFA Convenience Store Survey

- In October 2018, Beijing issued the Notice Regarding Printing and Distribution of ‘Measures for Further Promotion of Development of Convenience Stores’, and launched 19 new measures to promote the convenience store industry by clarifying policy orientation, strengthening financial support, and reforming regulatory models.
- During the Two Sessions, the Ministry of Commerce proposed to encourage urban consumption, promote consumption upgrading, optimize the layout of convenience stores, and support convenience store developing in branding and franchising.
- In October 2018, Beijing city government announced that chain convenience stores could apply for retail sales of Class B prescription drugs if they met applicable standards. However, relevant parties indicated that the policy had too high the threshold was difficult to meet and could be challenging for stores to implement.
- At present, the regulatory systems for new financial and new retail-related models such as P2P and unmanned stores have not yet matured. Further policy details need to be added to reduce the operational risks for the industry.
07

Operational costs for stores remained high and investment in human resources had become a major concern.

### Average expenditure of surveyed companies in 2018

<table>
<thead>
<tr>
<th>Category</th>
<th>(In 1,000 CNY)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales and Management Costs</td>
<td>24</td>
<td>1%</td>
</tr>
<tr>
<td>Electricity Costs</td>
<td>126</td>
<td>5%</td>
</tr>
<tr>
<td>Rent</td>
<td>853</td>
<td>34%</td>
</tr>
<tr>
<td>Employees’ Salary</td>
<td>1528</td>
<td>60%</td>
</tr>
</tbody>
</table>

### Sales per person for surveyed companies in 2018

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales per Person (In 1,000 CNY)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>106</td>
</tr>
<tr>
<td>2018</td>
<td>102</td>
</tr>
<tr>
<td>Top 100'</td>
<td>198</td>
</tr>
</tbody>
</table>

Note: 1. ‘Top 100’ refers to the top 100 convenience store companies of 2018
Source: 2018 CCFA Convenience Store Survey

© 2019 KPMG, KPMG Advisory (China) Limited, a wholly foreign owned enterprise in China and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (KPMG International), a Swiss entity. All rights reserved. Printed in China.
Vast potential in utilizing external funding but industry remains rational

Proportion of surveyed companies utilizing external funding (%)

- **Have obtained external funding**: 12% in 2017 vs. 10% in 2018
- **Have not obtained external funding**: 88% in 2017 vs. 90% in 2018

**Recent cases of capital raise**

- **November 2018**: Alibaba completed strategic investments in C-store.
- **November 2018**: Megvii completed strategic financing for Hi-24 Good Neighbor.
- **October 2018**: Tencent Industry Collaboration Fund and Hillhouse Capital completed strategic financing for Bianlifeng.
- **June 2018**: General Atlantic completed B+ round of investments in Today Convenience Stores.
- **April 2018**: Sequoia Capital completed strategic financing for Fook.
- **March 2018**: Chunxiao Huishang Equity Investment completed A round of financing for Everyday Chain.

Source: 2018 CCFA Convenience Store Survey
Active promotion of digital transformation and loyalty program...

Investment ratio of digital technology spent by surveyed companies (%)

Intelligent delivery
- Investments: 77%
- No investments: 23%

Unmanned stores/shelves
- 38%
- 62%

Change loyalty program to loyalty program (%)

- Loyalty programs
  - 2017: 60%
  - 2018: 40%

- No loyalty program
  - 2017: 40%
  - 2018: 60%

Consumption ratio of survey companies that has a loyalty program (%)

- Member consumption
  - 2017: 18%
  - 2018: 22%

- Non-member consumption
  - 2017: 82%
  - 2018: 78%

Source: 2018 CCFA Convenience Store Survey
Online and offline close-loop ecosystems developed gradually with the help of online channels...

### Ratio of surveyed companies that introduced online retail (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Introduced online retail</th>
<th>No online retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>29%</td>
<td>71%</td>
</tr>
<tr>
<td>2017</td>
<td>51%</td>
<td>49%</td>
</tr>
<tr>
<td>2018</td>
<td>55%</td>
<td>45%</td>
</tr>
</tbody>
</table>

### Ratio of online and offline sales in surveyed companies that introduced online retail (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Online</th>
<th>Offline</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>5%</td>
<td>95%</td>
</tr>
<tr>
<td>2017</td>
<td>8%</td>
<td>92%</td>
</tr>
<tr>
<td>2018</td>
<td>15%</td>
<td>85%</td>
</tr>
</tbody>
</table>

Source: 2018 CCFA Convenience Store Survey
...At the same time, mobile payment, a pioneer in digital transformation, became mainstream in the market

**Percentage of mobile payment in surveyed companies**

<table>
<thead>
<tr>
<th>(%)</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;=30%</td>
<td>32%</td>
<td>76%</td>
<td>89%</td>
</tr>
<tr>
<td>20-30%</td>
<td>13%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10-20%</td>
<td>12%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt;10%</td>
<td>43%</td>
<td>6%</td>
<td>6%</td>
</tr>
</tbody>
</table>

**Percentage of mobile payments in surveyed companies**

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>AliPay</td>
<td>48%</td>
<td>47%</td>
<td>41%</td>
</tr>
<tr>
<td>WeChat</td>
<td>43%</td>
<td>49%</td>
<td>57%</td>
</tr>
<tr>
<td>Others</td>
<td>9%</td>
<td>4%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: 2018 CCFA Convenience Store Survey
The convenience store industry has gone through many stages of development in China and is now undergoing a new change due to the influence of the Internet.

**Foreign convenience store brands enter China**

In 1992, 7-Eleven, the king of global convenience stores, entered the Chinese market for the first time. Other foreign companies (such as FamilyMart and Lawson) also followed in its path. They offered a range of diversified products to meet consumer demands.

**The rise of local convenience stores**

Inspired by foreign-owned convenience stores, local Chinese convenience store brands emerged rapidly and started to serve households in China.

With national policy support for convenience stores, supermarket and hypermarket companies gradually entered the convenience store industry, such as Kuai-ke, established in Shanghai in 1997, and Wumart, established in Beijing in 1999.

**Facing competitive pressure from multiple sources**

Convenience stores experienced a period of relatively slow development around 2010 because market participants continuously increased while large chains and hypermarkets developed rapidly.

This period of slow development also prompted the market to ponder and experiment on different development directions for convenience stores.

**Evolution of the Internet**

With the rapid development of domestic information technology, Internet companies have entered the convenience store industry and challenged traditional business models, introducing innovative models such as mobile payment, face recognition and unmanned stores.

However, the transformation has only just begun. Players in the industry are constantly exploring new opportunities through digital transformation and continuing to introduce innovative models to shake up the industry.

Source: Desk research, KPMG analysis
Convenience stores continue to grow at a high rate despite physical retail growth slows

![Retail sales growth rate for physical sales in China](chart)

Source: 2018 CCFA Convenience Store Survey, National Bureau of Statistics, KPMG analysis
However, convenience stores were facing a plethora of challenges. Companies have sought to increase their competitiveness through digital transformation of the value chain.

The value proposition of convenience stores is gradually being taken over.

**E-Commerce:** Consumers can easily purchase the same products as convenience stores through e-commerce companies such as Taobao, JD and Meituan.

**Market competitors:** With the gradual rise of other competitors, such as Luckin Coffee, consumers are able to choose from a multiple of segmented purchase channels and options.

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**Trend of digital transformation of the convenience store value chains**

- **Data collection:** Collect and analyze data through online and offline channels to tap into consumers’ spending habits.
- **Loyalty program:** Increase customer purchase rate and brand loyalty of core customers through loyalty program.
- **Differentiation:** Tap into different consumer demands and provide diversified products in each store.
- **Store operations:** Digitize every operational stage to improve efficiency and reduce costs.
- **Digital supply chain:** Open the supply chain from end-to-end and improve development, selection and distribution efficiency of products through digitalization.

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Source: Desk research, KPMG analysis
Front Office: Collect and accumulate data through online and offline touchpoints and offline digital transformation

Building online platforms
Attract online consumers through self-built platforms or third-party platforms

Self-built platform/App

Data capture

Third party platforms

Digital transformation of offline stores
Obtain offline consumer data through digital transformation of stores

Digital stores
Face recognition
Foot traffic statistics
Hot-spot analysis
Smart payments
Digital membership,
etc.

Case Study

7-ELEVEN

Meituanwaimai

In August 2018 all 7-Eleven stores in Beijing are connected to Meituan for takeaways services.

This collaboration have expanded online sales channel as well as consumer data collection channels.

Case Study

Xianshenghuo

Kuangshikeji

In May 2018 Fresh You Life and Megvii reached strategic cooperation agreement, under which both parties worked together to create new digital stores.

Collect consumer’s offline store purchase data by using smart cameras, smart shelves and IoT sensors.

Source: Desk research, KPMG analysis
FamilyMart combined the loyalty program system and big data analysis in their effort to achieve rapid growth; from loyalty points, brand events and e-commerce cooperation, Familymark accurately targeted post-90s consumers.

FamilyMart customer insight and management system

Three major FamilyMart member management systems
- CRM
- Fans
- CLV

Use big data to analyze the member’s RFM
R: Recency
F: Frequency
M: Monetary

Accurately targeted the spending habits of different consumer age-group with a particular focus on post-90s generation.

<table>
<thead>
<tr>
<th>Age distribution of members</th>
<th>Male</th>
<th>Female</th>
<th>Gender ratio of members</th>
<th>Frequency of store visits</th>
<th>Per customer transaction</th>
<th>Member consumption data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Post-95s</td>
<td>16%</td>
<td>40%</td>
<td>40%</td>
<td>~30%</td>
<td>13.5</td>
<td></td>
</tr>
<tr>
<td>Post-90s</td>
<td>20%</td>
<td>60%</td>
<td></td>
<td>5.25 Times/Month</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Post-85s</td>
<td>22%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>42%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Desk research, public sources, expert interviews, KPMG analysis

Membership management

Store points
- By awarding store points for certain amount of purchases, the store point system not only increased average basket size but also promoted the frequency of customer-to-store consumption, significantly improving FamilyMart customer stickiness.
- During the first half of the year, member consumption increased to 23.5% and the average member basket size was 2.1 yuan higher than non-members.

Brand events
- Through event planning, product selection and full store mobilization, store clerks and store manager customized major IP and movie-related themed events for the post-90s customer group to stimulate purchase of ‘fun products’ that can only be bought at FamilyMart.

E-Commerce
- Offered low-cost online selection of products exclusive to members by charging an annual membership fee of 100 yuan while encouraging customers to choose offline delivery to promote offline purchases.
- Per customer transaction for exclusive members was 10.5 times higher than ordinary members and frequency of their visits to the store increased 2.33 times.
Through refined membership operation strategy, Meiyijia closely monitored and managed the different life cycles of members, which resulted in the brand successfully waking up dormant members.

**Case Description**

**Meiyijia**

- Through the monitoring and analysis of store data, the Meiyijia Member Center found that some high-valued members decreased their activity. They needed to be reactivated in due course.
- RFM model was used to break down different stages of the membership to achieve precise marketing and improve profitability by tracking and analyzing member behavior.
- 150,000 dormant members were reached within two weeks by issuing them with 20% off coupons. During the event, a sale of 1.18 million yuan was generated.

**Actual Results**

**Product level**

Meiyijia coupons, Meiyijia memberships, Meiyijia delivery and other small programs worked together to build a complete membership product matrix that connected more than 23 million consumers and accumulated consumer data of purchase behavior under multiple scenarios.

**Platform level**

Meiyijia’s refined membership service platform achieved ‘human-level’ services including identification, insight generation, predication and accurate recommendations.

**RFM Models**

Achieve refined membership lifecycle operation

<table>
<thead>
<tr>
<th>R: Last purchase time</th>
<th>F: Frequency of transactions</th>
<th>M: Purchase amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>New customers</td>
<td>Participation</td>
<td>Highly active</td>
</tr>
<tr>
<td>Stabilization</td>
<td>Regression</td>
<td>Dormant</td>
</tr>
<tr>
<td>Dropout</td>
<td>Decline</td>
<td></td>
</tr>
</tbody>
</table>

Source: Desk research, public sources, KPMG analysis
Middle Office: Used big data analysis to meet differentiated needs of local consumers

Special merchandise layout design for different stores based on business big data analysis

- Hotel districts
- Business districts
- Residential area
- Elderly residence

| Hotel districts | Alcohol and cigarettes |
| Business districts | Bento boxes and light meals |
| Residential area | Fruits and vegetables |
| Elderly residence | Desserts and snacks |

Case Study 7-ELEVEN

**Offline**
Provide differentiated products based on store’s surrounding environment
- Taoyuanju, Shenzhen Store
- Shenzhen High-Tech Industry Park Malata Store

**Online**
Provide differentiated products based on store’s surrounding environment

Source: Desk research, public sources, KPMG analysis
Good Neighbor transformed into a new generation of 'green label stores' to meet diversified consumer demands and successfully increased turnover

### Case Description

**Haolinju**

- The Good Neighbor Chegongzhuang Xikou Store was established by renovating an existing store. It was a typical community-based ‘red label store’ that mainly relied on street traffic.
- Good Neighbor sought to create demand scenarios based on customer profiling. The brand covered all potential purchase demands in the community by improving areas such as brand image and experience, customer insight and product combination.

#### Renovated brand image through four major changes

1. **Image upgrade for cold chain and interior decoration**
2. **Increased household dinner items such as vegetables, meat and semi-finished products.**
3. **Added hot food kitchen to enhance the store’s ability to make or heat breakfast and dinner for customers.**
4. **Introduced equipment such as IoT facilities and smart self-service counters.**

### Actual Results

<table>
<thead>
<tr>
<th>Daily average</th>
<th>Before renovation</th>
<th>After renovation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traffic</td>
<td>550 persons</td>
<td>950 persons</td>
</tr>
<tr>
<td>Sales</td>
<td>9,600 yuan</td>
<td>21,000 yuan</td>
</tr>
<tr>
<td>Per customer transaction</td>
<td>17.5 yuan</td>
<td>22.5 yuan</td>
</tr>
<tr>
<td>Gross margin</td>
<td>31.4%</td>
<td>33.8%</td>
</tr>
</tbody>
</table>

Source: Desk research, public sources, KPMG analysis
Middle Office: Integrate digital technology in every stage of the operation to improve daily production efficiency and reduce overall cost

Digitization of three middle management modules

- Unmanned store
- Human resource management
- Labor-saving
- Product management
- AI/Robotics
- Store management
- Real time monitoring
- Increase efficiency
- Remote store inspections
- Smart warehouse
- Price sync
- Big data analysis

Case Study

01 LAWSON

Through promotion of ‘self-scanning’, ‘robot cashier’ development, ‘self-checkout’ service during off-peak and opening of unmanned stores, a series of labor-saving efforts was carried out.

02 Yijie

Partnership with JD enabled the stores to price sync online and offline stores by using ‘JD B2B’ web-based terminal, which also benefited the stores with services such as smart product selection, order and restock.

03 Meiyijia

Cooperation with YALA Technology brought YALA IP cameras into the stores, enabling remote monitor of stores on mobile phone apps, which reduced time and financial cost for travel with improved efficiency.

Source: Desk research, KPMG analysis
Back Office: Create a demand-driven digital supply chain that would improve product development capabilities and distribution efficiency by 'providing the right product to the right store at the right time'

- Explore latent demands through big data analysis and recommend around 30 new products every month.
- 7-Eleven developed products based on their category in teams with members from R&D, materials, equipment and manufacturing department. All products have to pass rigorous R&D and internal testing.
- Maximize quality control and response speed of new products through a dedicated supplier network.

Today independently developed a unified system platform that included warehouse, inventory and distribution functions. The platform enabled stores to differentiate product development by dividing products into categories of normal temperatures, cold chain and fresh food.

After the platform went online, inventory accuracy rate increased to 99.9% and delivery punctuality also increased to 95%.

Source: Desk research, KPMG analysis
Foreign brands further enhanced their brand localization and sought partnership for long-term development in the Chinese market

**Strengthen local cooperation**

Lawson’s localization effort included expanding the number of franchisees, working with local businesses and acquiring local brands to speed up Lawson’s convenience store expansion.

**Third tier regions**

Lawson accelerated the pace of entering county-level cities with populations of 500,000. Lawson worked with local companies to understand the local spending habits, acquire prime store locations and gain access to special resources such as hospitals and schools.

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**Open to franchising request**

Local companies in many new regions were attracted to join convenience store franchises by applying for regional authorization.

**Local cooperation**

7-Eleven formed a 20-year cooperation agreement with local Nanjing retailer Golden Eagle Retail Group to jointly develop the regional retail business.

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Source: Desk research, KPMG analysis
Local brands are committed to deepening development in the region and gradually radiating to peripheral markets

**Meiyijia, Guangdong**
Based in Guangdong, Meiyijia is gradually expanding to Fujian, Hunan, Hubei, Jiangxi, Guangxi and other regions surrounding Guangdong in accordance to the hometown of its main consumer group, migrant workers.

- Regional visibility
- Opening a large number of stores
- Trade radiation

**C&U, Zhejiang**
C&U is rooted deeply in the Zhejiang region. In addition to top tier cities, it has also established brand influence in third tier cities with its lower prices and products that suit the local taste.

- Regional visibility
- Opening of a large number of stores
- Local style

**Hong Qi, Chengdu**
Hong Qi implements an expansion strategy of ‘focusing on Chengdu and radiating out to surrounding cities’ and has built up its brand advantage with various value added services.

- Regional visibility
- Trade radiation
- Value added services

Source: Desk research, public sources, KPMG analysis
The digital transformation of value chains will become a key measure for convenience stores to succeed; it is also one of the main factors driving further innovation in the industry.

Source: Desk research, KPMG analysis
Convenience stores are trying out a new differentiated model of 'convenience store+' through data empowerment

<table>
<thead>
<tr>
<th>7-ELEVEN</th>
<th>Convenience store + Community 2.0</th>
</tr>
</thead>
<tbody>
<tr>
<td>7-Eleven launched the brand new Big 7 in Taiwan: a single store that integrated coffee shop, reading parlor, candy store, beauty counter, bakery and supermarket. In-store products are regularly updated according to consumption data to provide a one-stop service for consumers.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LAWSON</th>
<th>Convenience store + IP</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Lawson and Bilibili opened themed store in Shanghai. As both brands target young consumers, a collaboration was mutually beneficial.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Bianlifeng</th>
<th>Convenience store + Sharing economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bianlifeng extended its business model to incorporate the sharing economic model. Sharing umbrellas met the needs of its core customer base and sharing bicycles enhanced each store’s the range of influence. Bianlifeng’s endeavor successfully achieved a win-win situation in which consumer demands were met and brand awareness increased.</td>
<td></td>
</tr>
</tbody>
</table>

Source: Desk research, public sources, KPMG analysis
Aside from the competition they face from e-commerce platforms, many convenience stores have begun to form alliances with e-commerce channels. Both sides benefit from such mutually complimentary partnerships.

**Case Study**

*Convenience Stores*

7-ELEVEN

Today 今天

*E-Commerce*

*Matching supply chains*

Limited physical range

Inconvenient transactions

Limited types of products

Single market strategy

*Matching demand chains*

Limited types of products

Limited physical range

Single market strategy

Inconvenient transactions

*Mainly orders to pick up from store*

Limited physical range

Inconvenient transactions

Limited types of products

Single market strategy

*Low time cost*

High time costs

What you see is what you get

Low time cost

Mainly orders to pick up from store

*High distribution costs*

High time costs

What you see is not what you get

Diversified marketing

Large range of products

Flexible transactions

No limit to range

*Docking information chains*

Online

Matching supply chains

E-Commerce

Offline

**Source:** Desk research, Iyiou, KPMG analysis

In 2018, Ele.me continued to form cooperation agreements with various convenience stores. Both sides were able to utilize their respective advantages in distribution and network outlets to enhance each other’s ability to serve consumers which increased their competitiveness in own industries.

Convenience store is a rare new retail resource... by combining each store’s advantages, they collectively improve the time efficiency of the entire chain so that online traffic can be effectively converted into orders to perfect the hourly performance ability of offline convenience stores.

—— Industry Expert