



毕马威



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.

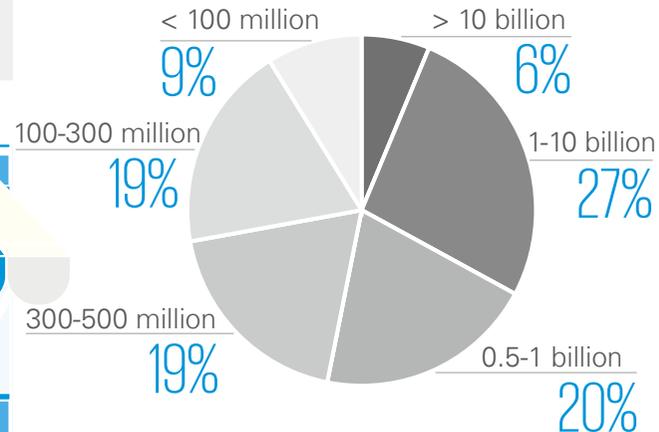
Foreword

KPMG and CCFA explore future paths to success for China's convenience stores

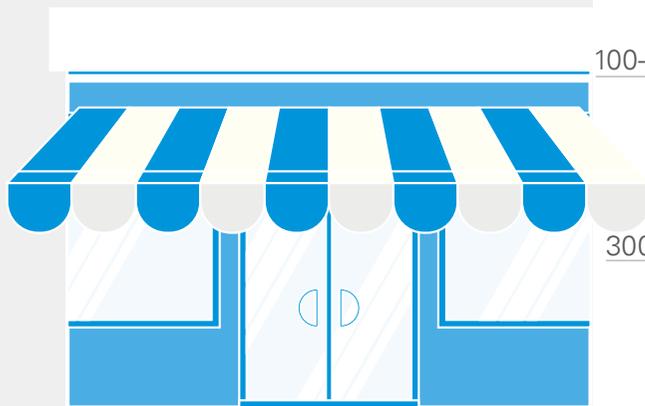
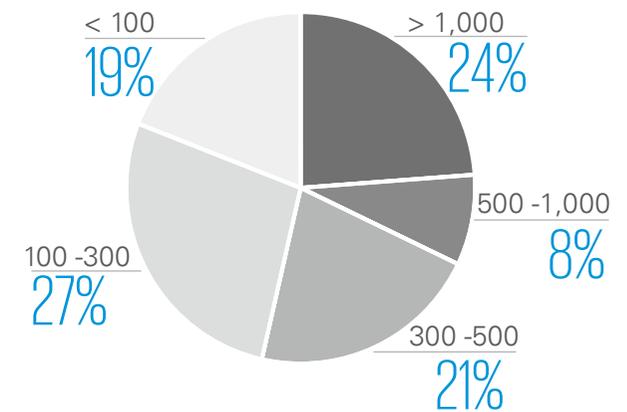
CCFA and KPMG conducted an in-depth analysis on the current status and future market trends of convenience store companies across the country. The report explores the current level of development in the industry and direction to take for future successes.

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.

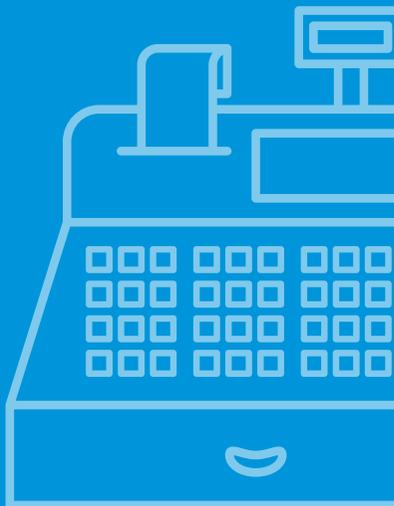
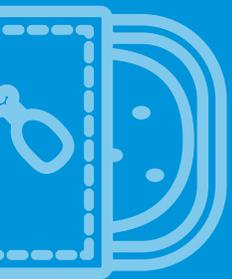
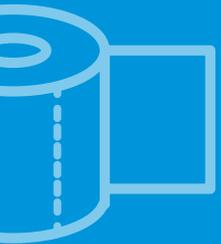
Annual sales of companies surveyed
(In CNY)



Number of stores of companies surveyed
(Number of stores)



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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

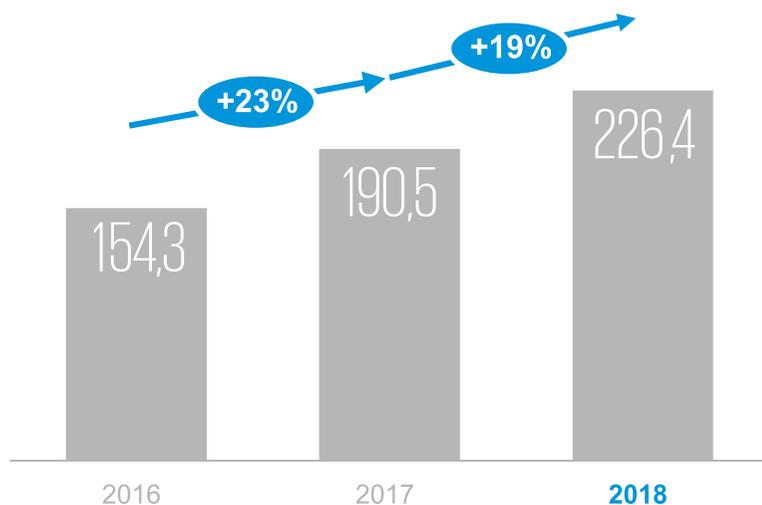
Active promotion of digital transformation and loyalty program.

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%

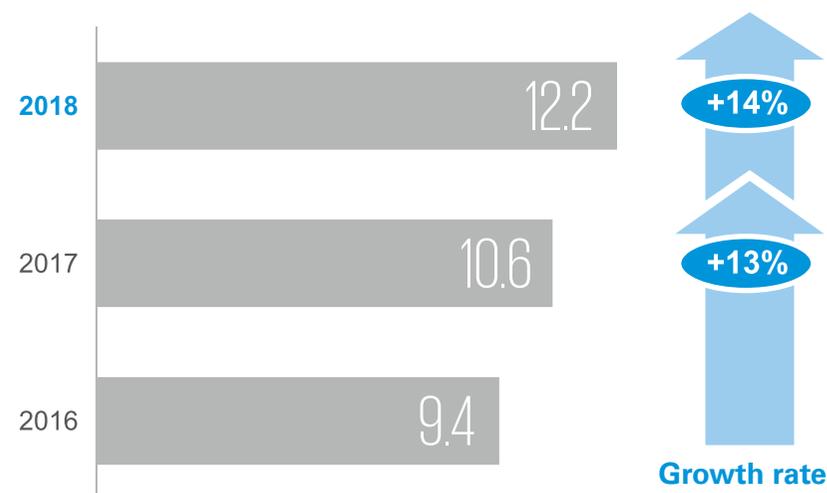
Sales for China's convenience stores

(In billion CNY)



Number of convenience stores

(Number of stores in 10,000)



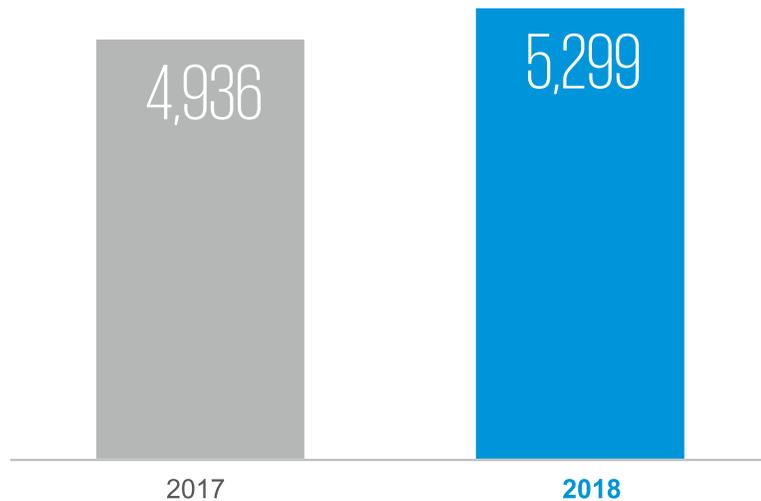
Source: 2018 CCFA Convenience Store Survey

02

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

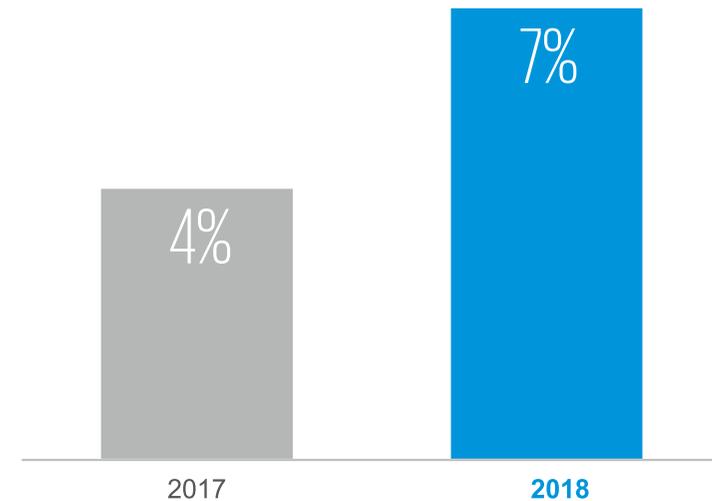
Average annual sales of companies surveyed in 2018

(In CNY)



Daily sales growth rate of companies surveyed in 2018

(%)



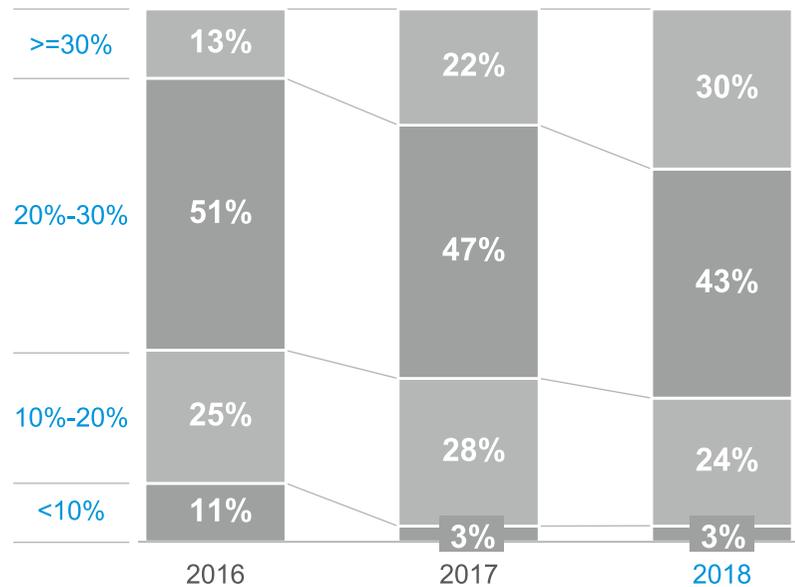
Source: 2018 CCFA Convenience Store Survey

03

In 2018 profitability improved slightly, but operational capacity and supply chain efficiency still leaves room for enhancement

Gross margin of companies surveyed

(%)



Net profit margin of companies surveyed

(%)

>=4%	22%	17%	20%
2%-4%	15%	21%	18%
0%-2%	38%	35%	37%
<0%	25%	27%	25%
	2016	2017	2018

Inventory turnover of companies surveyed

(In days)



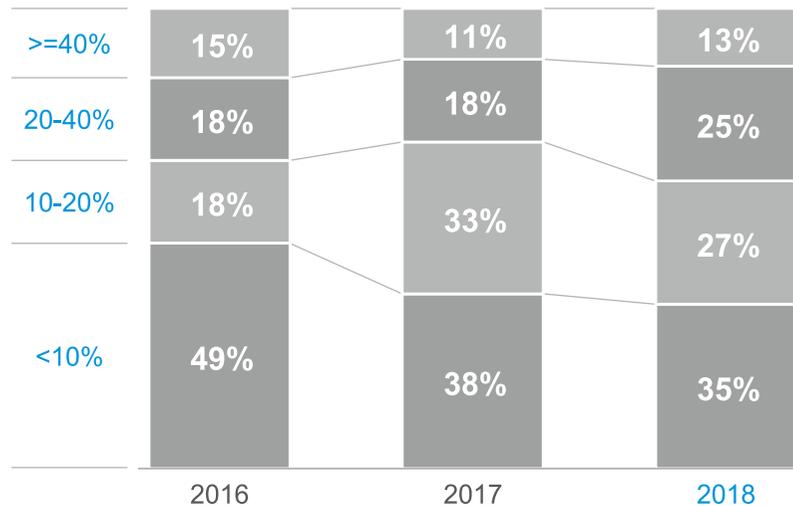
Source: 2018 CCFA Convenience Store Survey

04

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

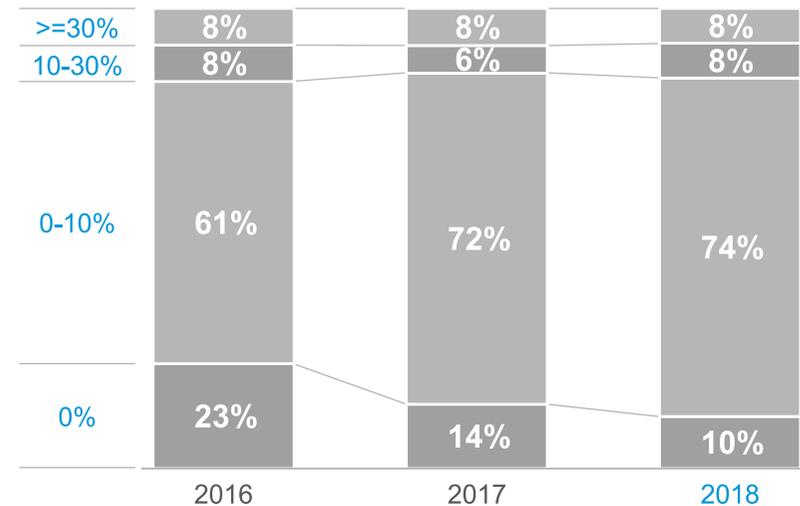
Distribution of ready-to-eat food sales in companies surveyed

(%)



Distribution of own-brand products in companies surveyed

(%)



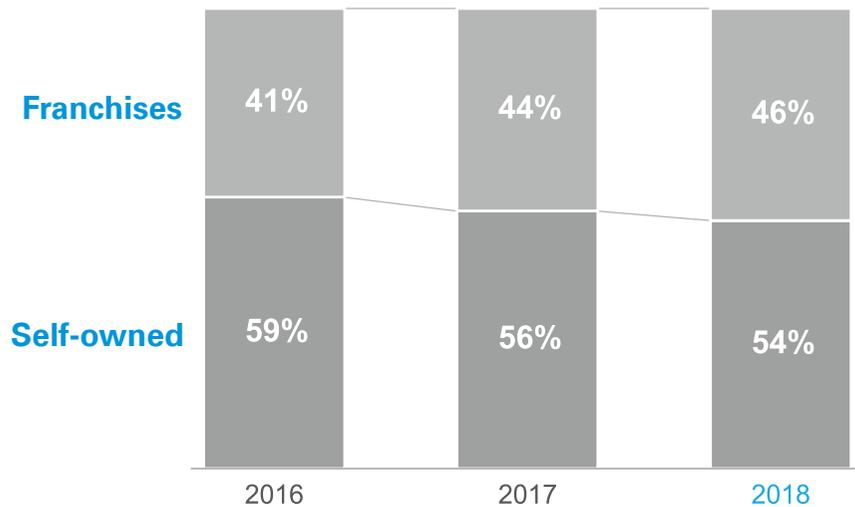
Source: 2018 CCFA Convenience Store Survey

05

The franchise system of convenience stores was constantly improving, with leading enterprises having had an obvious effect

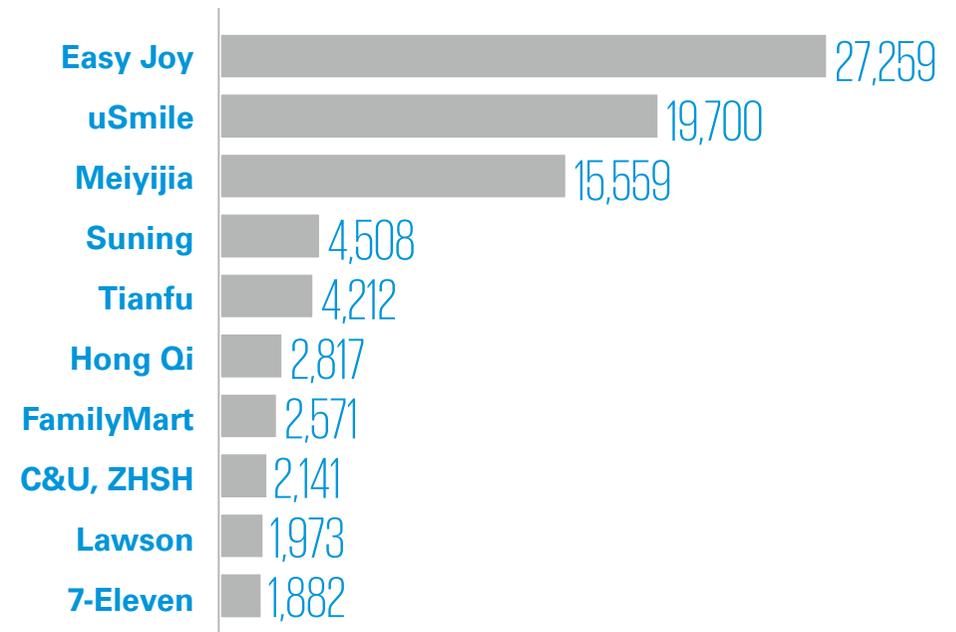
Proportion of franchised Chinese convenience stores

(%)



Top ten Chinese convenience store brands in 2018

(Number of stores)



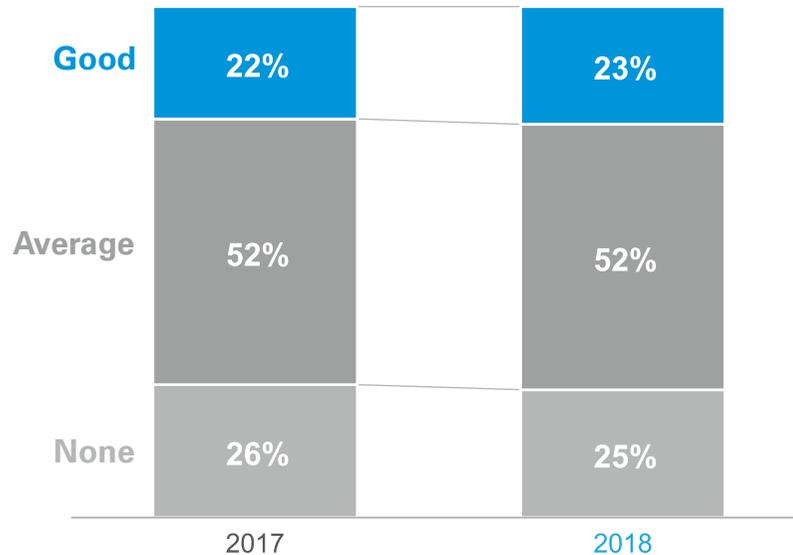
Source: 2018 CCFA Convenience Store Survey, KPMG analysis

06

Improved policy outlook but details to be further refined

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

(%)



Source: 2018 CCFA Convenience Store Survey

More governmental guidance and supportive policies are released

- 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.

Policies need to be optimized at the implementation level

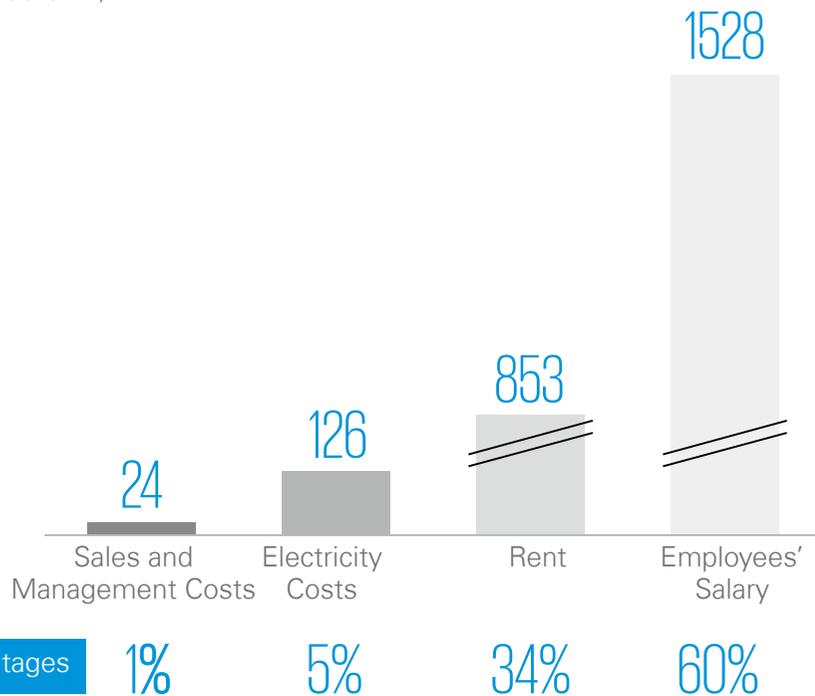
- In October 2018, Beijing city government announced that chain convenience stores could apply for retail sales of Class B prescription drugs if they met applicable standards. However, relevant parties indicated that the policy had too high the threshold was difficult to meet and could be challenging 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

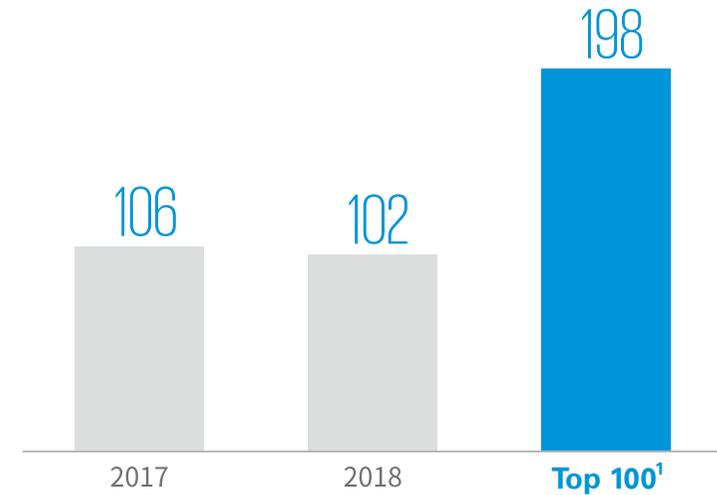
Average expenditure of surveyed companies in 2018

(In 1,000 CNY)



Sales per person for surveyed companies in 2018

(In 1,000 CNY)



Note: 1. 'Top 100' refers to the top 100 convenience store companies of 2018

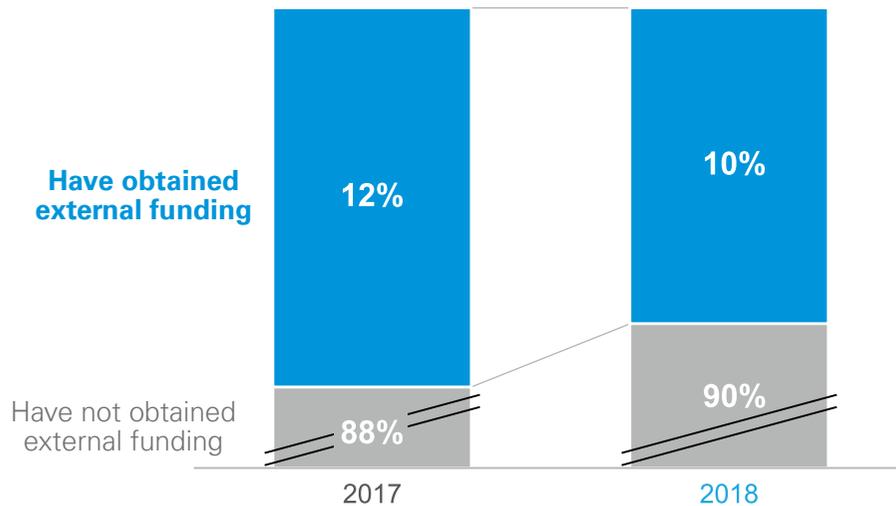
Source: 2018 CCFA Convenience Store Survey

08

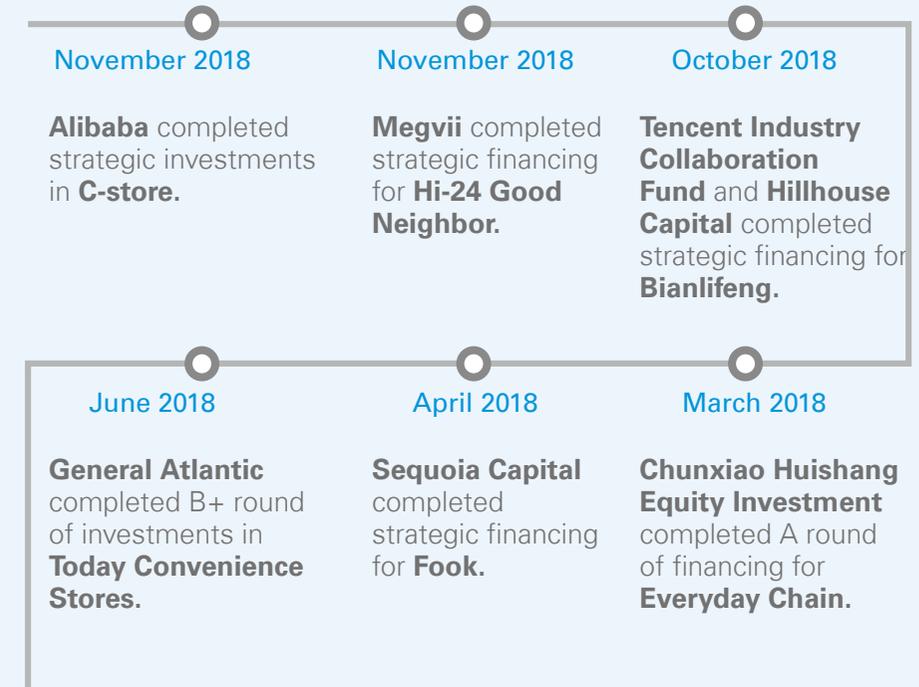
Vast potential in utilizing external funding but industry remains rational

Proportion of surveyed companies utilizing external funding

(%)



Recent cases of capital raise



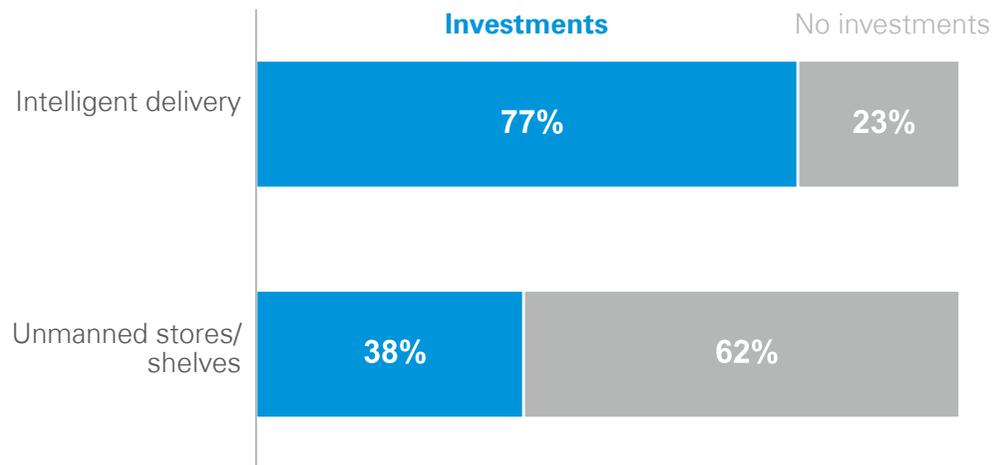
Source: 2018 CCFA Convenience Store Survey

09

Active promotion of digital transformation and loyalty program...

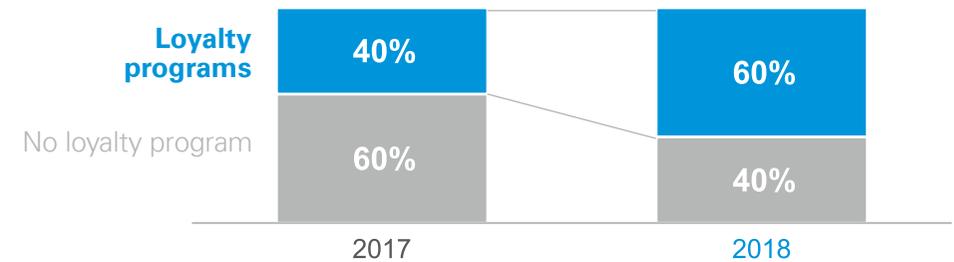
Investment ratio of digital technology spent by surveyed companies

(%)



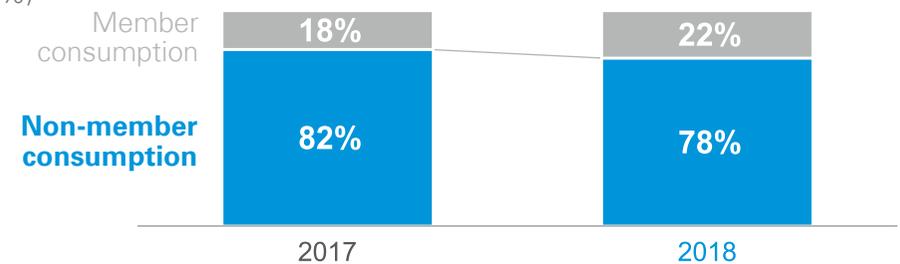
Change loyalty program to loyalty program

(%)



Consumption ratio of survey companies that has a loyalty program

(%)

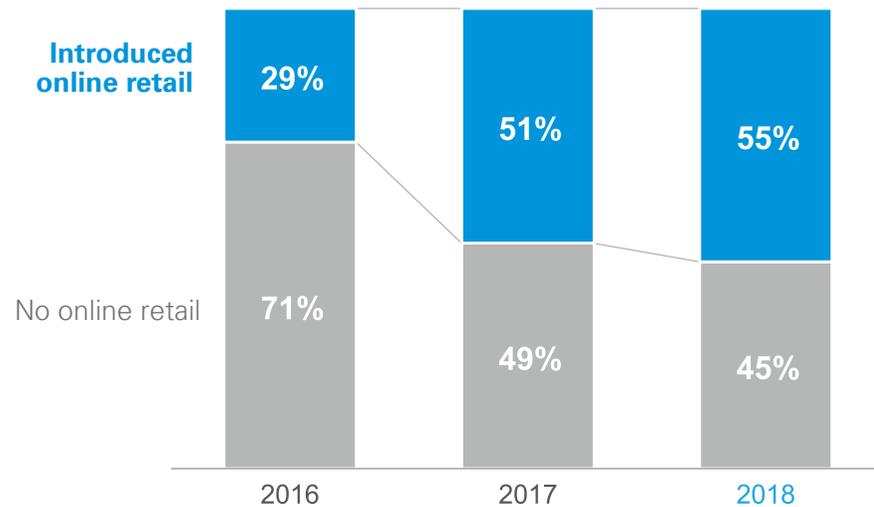


Source: 2018 CCFA Convenience Store Survey

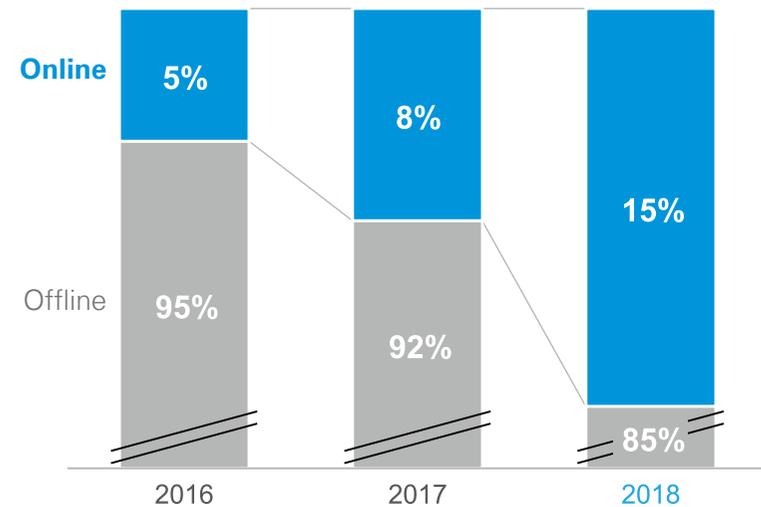
09

...Online and offline close-loop ecosystems developed gradually with the help of online channels...

Ratio of surveyed companies that introduced online retail
(%)



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



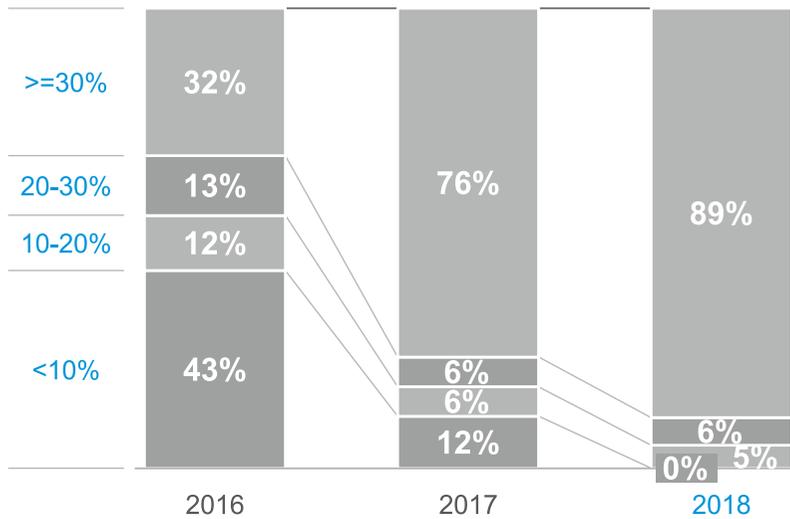
Source: 2018 CCFA Convenience Store Survey

09

...At the same time, mobile payment, a pioneer in digital transformation, became mainstream in the market

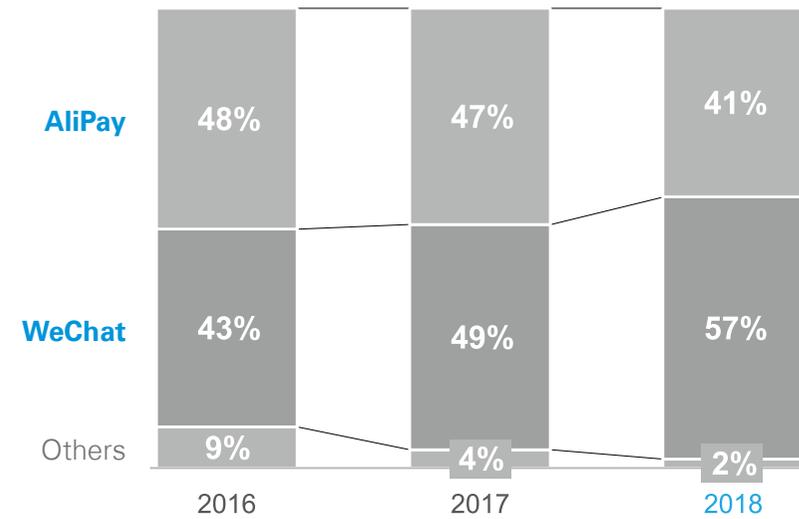
Percentage of mobile payment in surveyed companies

(%)



Percentage of mobile payments in surveyed companies

(%)



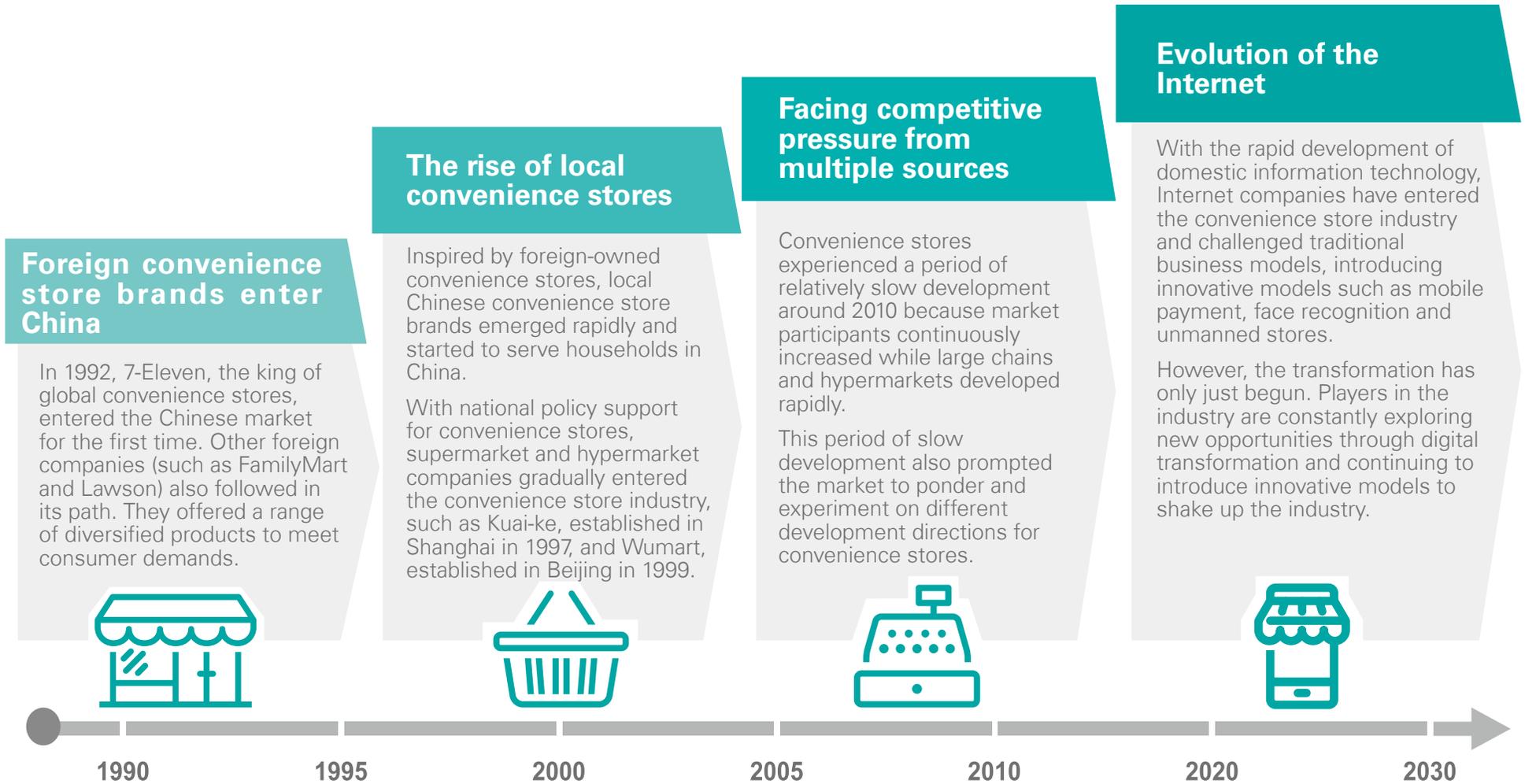
Source: 2018 CCFA Convenience Store Survey

II

Outlook



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

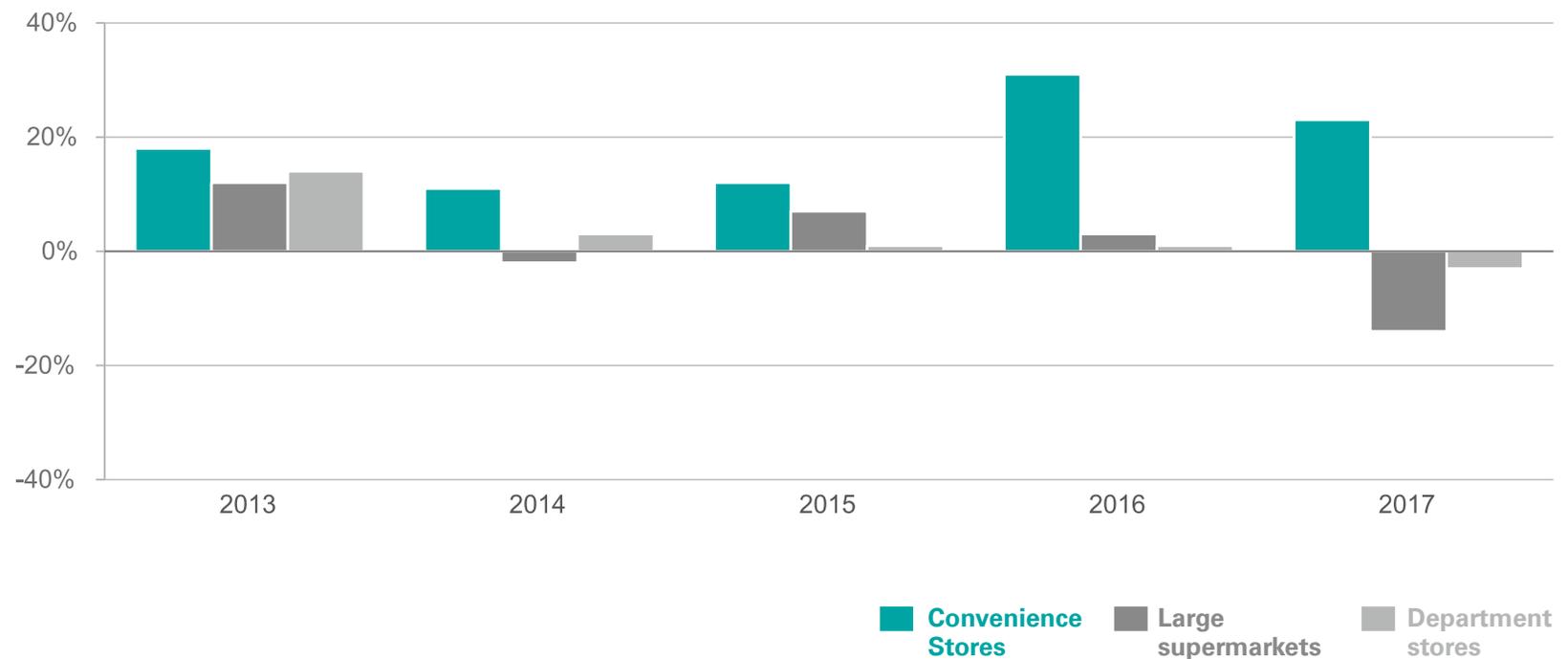


Source: Desk research, KPMG analysis

Convenience stores continue to grow at a high rate despite physical retail growth slows

Retail sales growth rate for physical sales in China

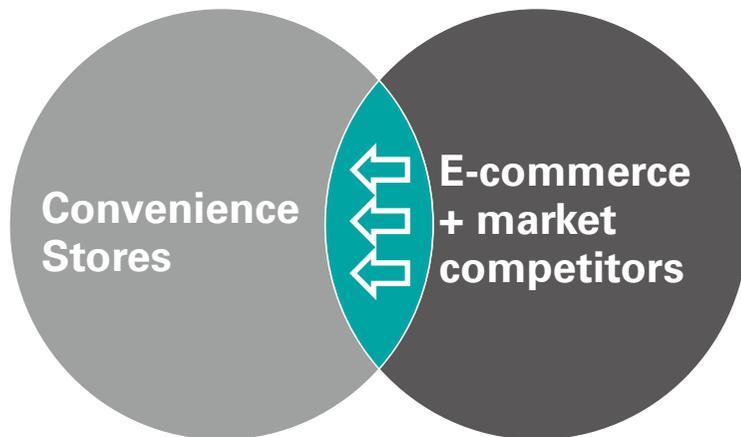
(2013-2017,%)



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.

Trend of digital transformation of the convenience store value chains

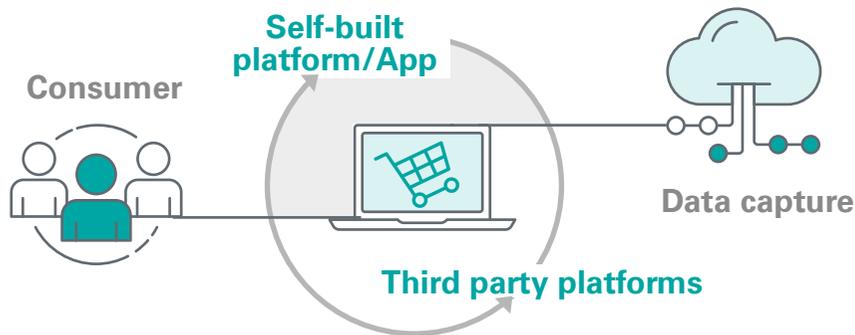


Source: Desk research, KPMG analysis

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



Case Study

7-ELEVEN

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

Meituanwaimai

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

Digital transformation of offline stores

Obtain offline consumer data through digital transformation of stores



Case Study

Xianshenghuo

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

Kuangshikeji

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, FamilyMart accurately targeted post-90s consumers

FamilyMart customer insight and management system

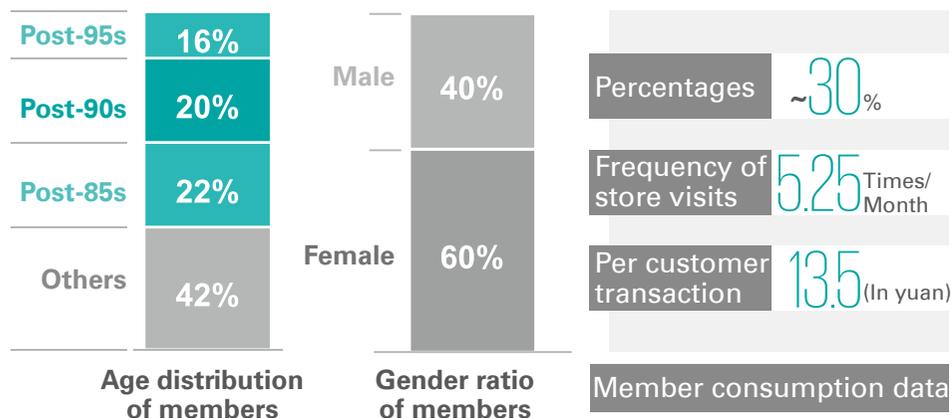
Three major FamilyMart member management systems

- 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.



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.

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

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

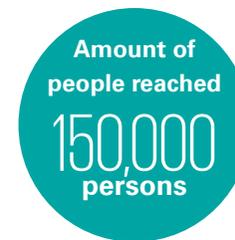
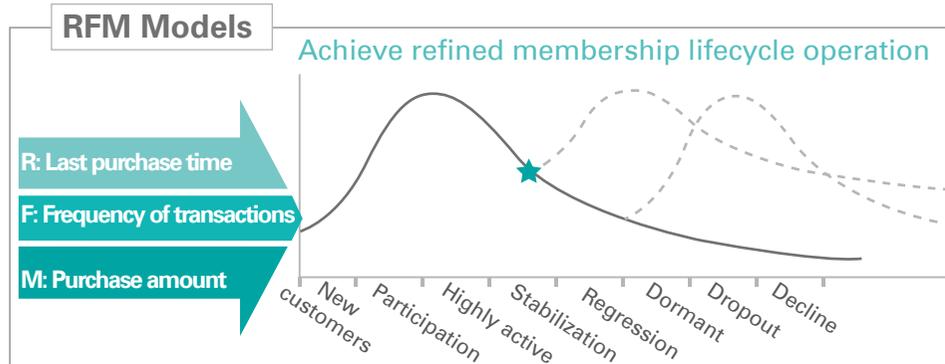


Meiyijia coupons, Meiyijia memberships, Meiyijia delivery and other small programs worked together to build a complete membership product matrix that connected more than 23 million consumers and accumulated consumer data of purchase behavior under multiple scenarios.

Platform level



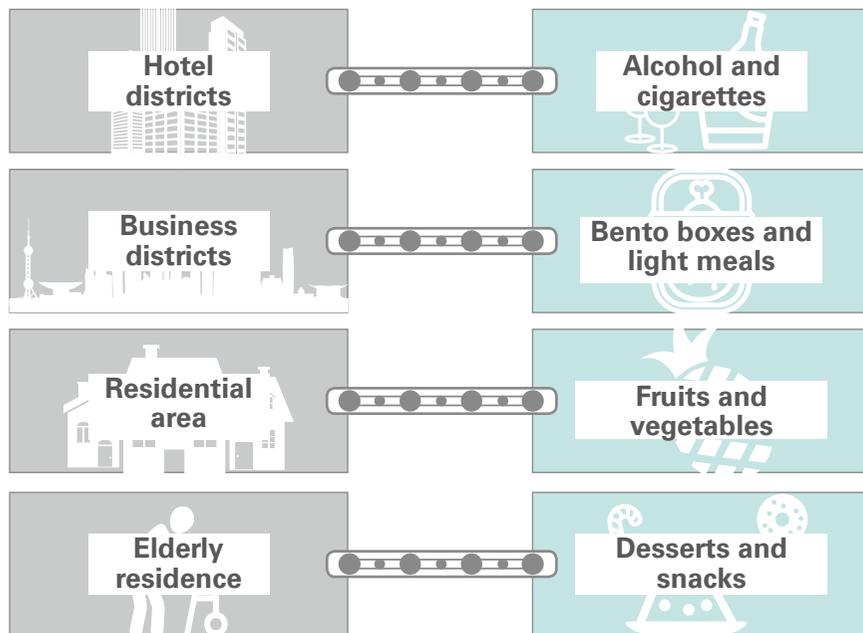
Meiyijia's refined membership service platform achieved 'human-level' services including identification, insight generation, predication and accurate recommendations.



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



Source: Desk research, public sources, KPMG analysis

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



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.

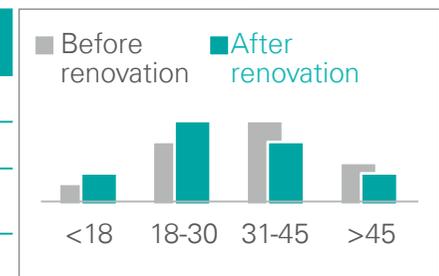
Renovated brand image through four major changes

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



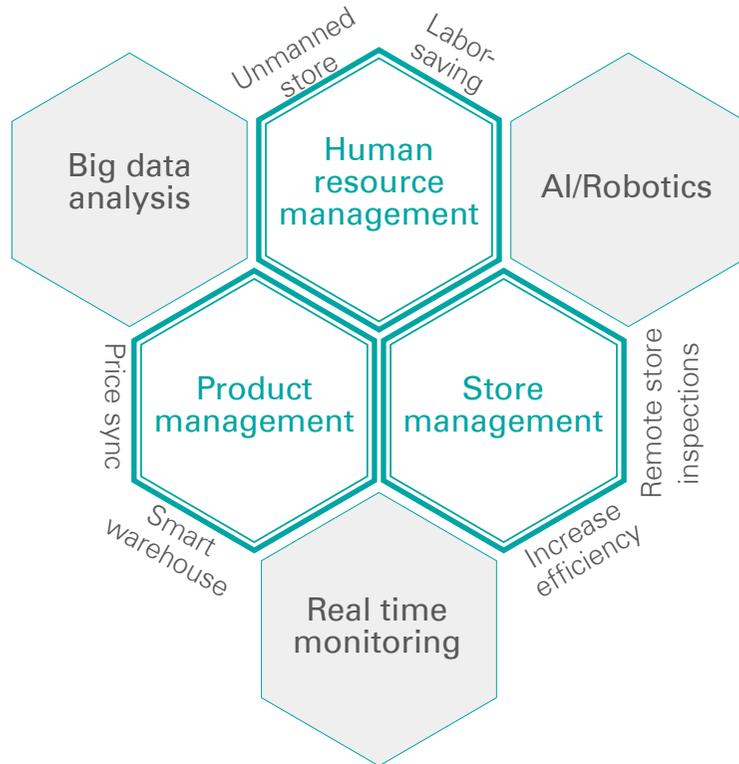
Daily average	Before renovation	After renovation
Traffic	550 persons	950 persons
Sales	9,600 yuan	21,000 yuan
Per customer transaction	17.5 yuan	22.5 yuan
Gross margin	31.4%	33.8%



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



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

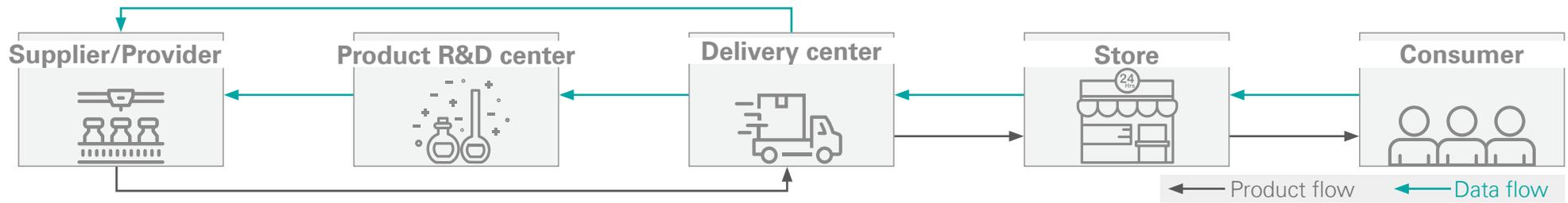
Meiyijia

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'

Front Office → Middle → Back End

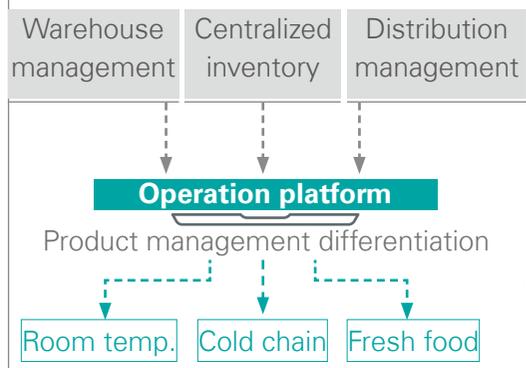


Case Study



- 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.

Case Study



- 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

LAWSON

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.

7-ELEVEN

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.

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

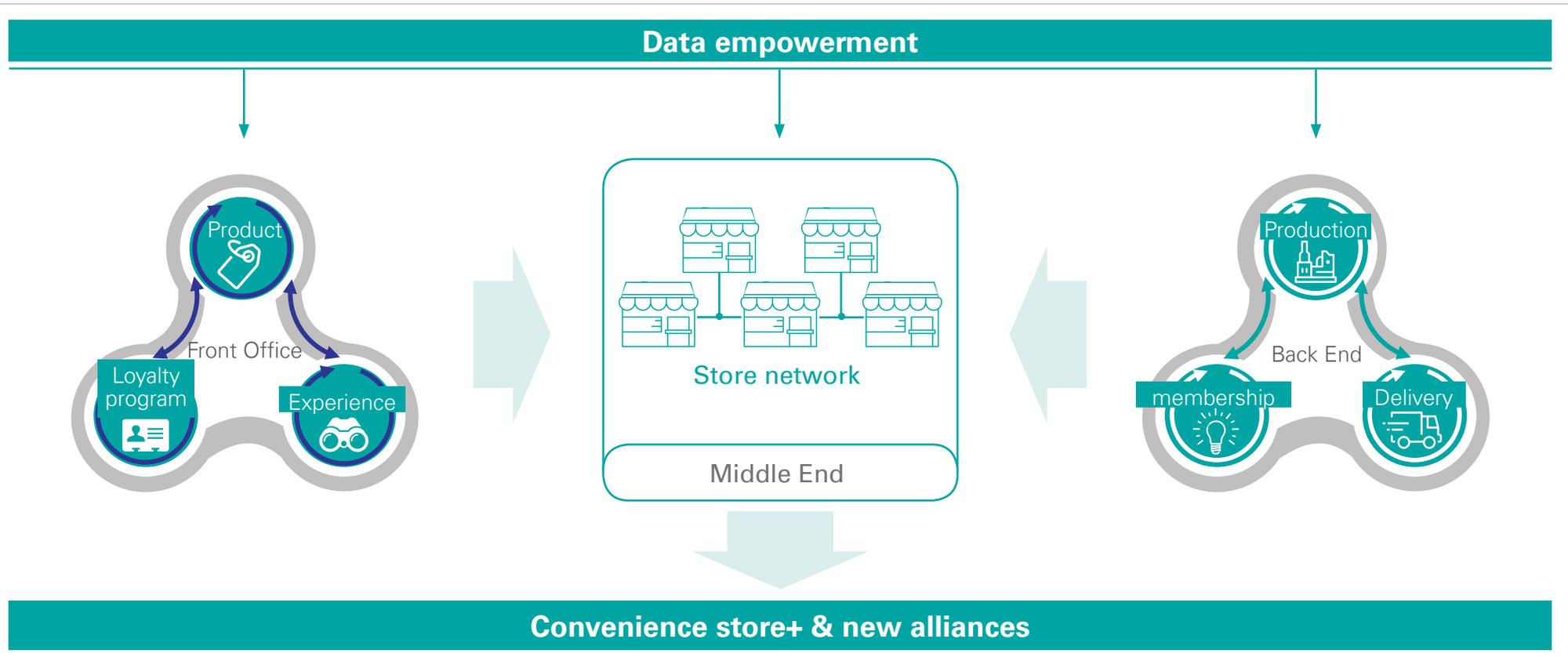
Trade radiation

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

7-ELEVEN

Convenience store +
Community 2.0



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.

LAWSON

Convenience store + IP



The Lawson and Bilibili opened themed store in Shanghai. As both brands target young consumers, a collaboration was mutually beneficial.

Bianlifeng

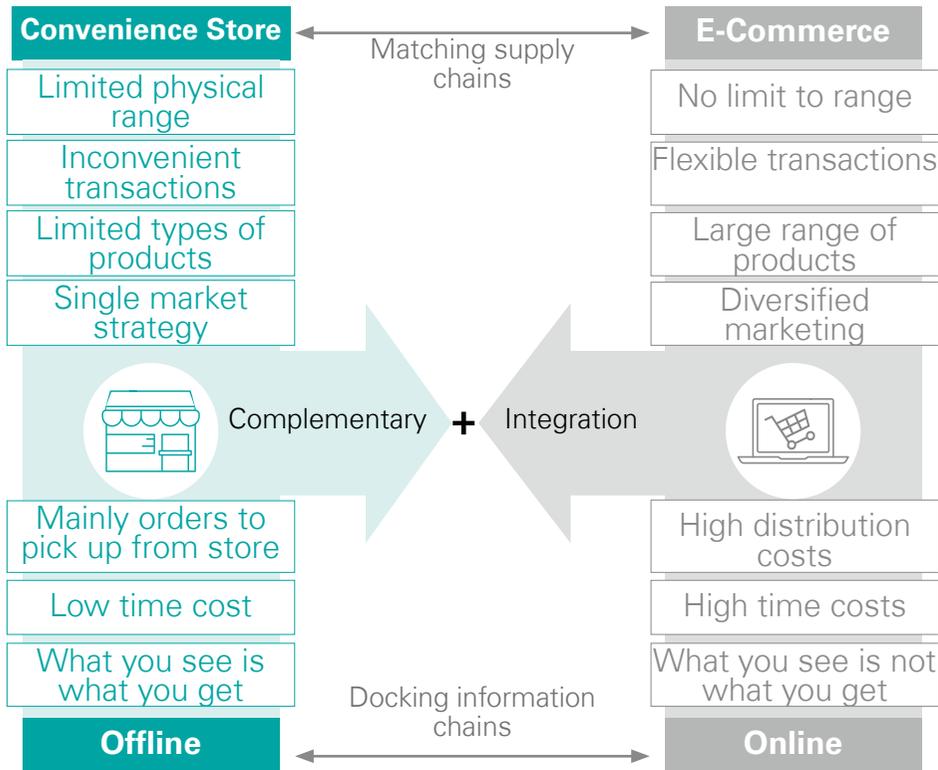
Convenience store +
Sharing economy



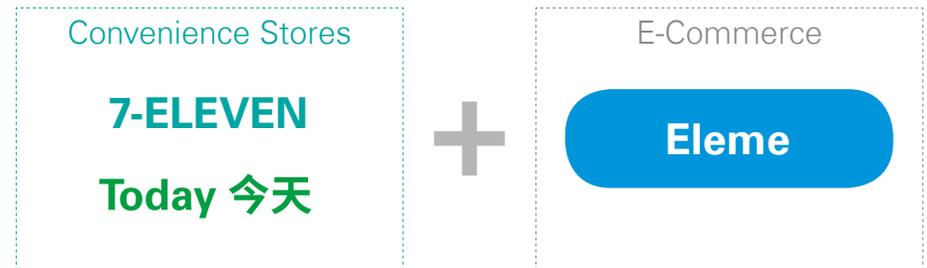
Bianlifeng extended its business model to incorporate the sharing economic model. Sharing umbrellas met the needs of its core customer base and sharing bicycles enhanced each store's the range of influence. Bianlifeng's endeavor successfully achieved a win-win situation in which consumer demands were met and brand awareness increased.

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 benefits from such mutually complimentary partnerships



Case Study



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

Source: Desk research, Iyiou, KPMG analysis



Contact us

**Wang Hongtao**

Deputy Secretary-General
China Chain Store and Franchise
Association
Phone: +86 (10) 6878 4969
Mobile: 139 1176 0026
Email: tony@ccfa.org.cn

**Zhang Detao**

Deputy Director
Community Life Services
Development Department
China Chain Store and Franchise
Association
Phone: +86 (10) 6878 4995
Mobile: 134 6639 4906
Email: zdt@ccfa.org.cn

**Jessie Qian**

Head of Consumer Markets
KPMG China
Tel: +86 (21) 2212 2580
Email: jessie.qian@kpmg.com

**Wei Lin**

Partner
Consumer Markets Advisory lead
KPMG China
Tel: +86 (21) 2212 3508
Email: wei.lin@kpmg.com

**Michael Mao**

Partner
Digital and Customer
IT Advisory
KPMG China
Tel: +86 (21) 2212 3066
Email: michael.mao@kpmg.com

**Willi Sun**

Director
Consumer Markets
Global Strategy Group
KPMG China
Phone: +86 (21) 2212 3740
Email: willi.sun@kpmg.com

**Kevin Lo**

Senior Consultant
Consumer Markets
Global Strategy Group
KPMG China
Phone: +86 (21) 2212 4609
Email: kevin.lo@kpmg.com

**Antony Lin**

Senior Consultant
Consumer Markets
Global Strategy Group
KPMG China
Phone: +86 (21) 2212 4602
Email: antony.lin@kpmg.com

**Jon Yu**

Consultant
Consumer Markets
Global Strategy Group
KPMG China
Phone: +86 (21) 2212 2930
Email: jon.yu@kpmg.com

kpmg.com/cn/socialmedia



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