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Introduction

China’s distribution landscape has witnessed significant transformation over the past years. Eyeing the huge potential of the burgeoning consumer market, many manufacturers and retailers have strived their best to expand their distribution network as well as improving supply chain efficiency in recent years. The Chinese government has also launched a series of initiatives to support the distribution sector, with a view to boosting domestic consumption. There are opportunities abound.

Rapid expansion of retailers, on the other hand, has also put tremendous pressures on many of the traditional wholesalers and distributors; there is much discussion about disintermediation. Nonetheless, given the vast geographical span and huge regional differences, distribution in China remains a complicated task. In Part I of this report, we will give you a general overview of China’s distribution sector and we will focus on the distribution of apparel, confectionery and beauty and personal care products in Part II.
Part I

Overview

In China, goods have to pass through multi-tiers of distribution players before reaching the hands of consumers. There are different parties involved in the product supply chains, such as agents, distributors, wholesalers and sub-distributors, etc. Given the complexity of the Chinese market, companies in China often adopt a combination of distribution models (see Exhibit 1).

Exhibit 1: Product Distribution in China

Source: Li & Fung Research Centre
Types of Distribution Channels

There are different types of distribution channels for consumer goods in China.

**Distributors and agents**

Distributors and agents are authorized by brand owners or manufacturers to distribute their products; typically, they do not involve in manufacturing and retailing of the products. Some of them are obliged to the buyout of these products, thereby carrying inventory risk; whereas some do not need to buy out but receive a certain amount of commissions.

Currently, domestic distributors account for a large share of the wholesale trade in China. Many of these distributors come with state-owned background and have operated since the pre-economic reform era, giving them an edge in terms of established infrastructure, government “guanxi” and network reach (especially in towns and counties).

Distribution sector was opened to foreign investors in 2004. Since then, foreign agents and distributors have been expanding quickly. They have brought into China the international perspective and sound management experience. Exhibit 2 shows the major characteristics of domestic and foreign players.

**Exhibit 2: Characteristics of Domestic and Foreign Distributors in China**

<table>
<thead>
<tr>
<th></th>
<th>Domestic distributors</th>
<th>Foreign distributors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Network</td>
<td>Regional; more confined in their service networks</td>
<td>National; tend to have wider footprints</td>
</tr>
<tr>
<td>Services</td>
<td>Focus mainly on simple services including:</td>
<td>Provide a broader menu of value-added services including:</td>
</tr>
<tr>
<td></td>
<td>• Invoicing &amp; selling</td>
<td>• Merchandising</td>
</tr>
<tr>
<td></td>
<td>• Logistics</td>
<td>• Business intelligence</td>
</tr>
<tr>
<td></td>
<td>• Warehousing and transportation</td>
<td>• Product tracking</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Cold-chain logistics</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Promotion and marketing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Capital financing</td>
</tr>
<tr>
<td>Major channels</td>
<td>• Traditional Trade Channels¹</td>
<td>• Modern Trade Channels</td>
</tr>
<tr>
<td></td>
<td>• Modern Trade Channels²</td>
<td></td>
</tr>
<tr>
<td>Distinct advantage</td>
<td>• Government “guanxi”</td>
<td>• Good corporate governance</td>
</tr>
<tr>
<td></td>
<td>• Network reach (especially in towns and counties)</td>
<td>• State-of-the-art facilities</td>
</tr>
<tr>
<td></td>
<td>• Highly price-competitive</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Li & Fung Research Centre*

¹ Traditional Trade Channels: small chained retailer, independent retailer such as small grocers, small grocery retailers, mom and pop shops, etc.
² Modern Trade Channels: hypermarket, supermarket, convenience store, personal care store, professional store, department store, etc.
**Wholesale markets**

Allowing groups of merchants to display and sell their goods on site, wholesale markets are often regarded as a distinct feature of China’s distribution landscape. Mushroomed in the 1980s-90s, wholesale markets have been playing a significant role in channeling products of the country’s numerous small-and-medium-sized manufacturers into the hands of urban and rural consumers. According to the National Bureau of Statistics of China (NBS), the number of wholesale markets with transaction value over 100 million yuan amounted to 4,940 in 2010, up by 5.4% yoy.

A lot of people view wholesale markets in China as disorganized markets selling low-end and unbranded products. In recent years, however, some large-scale wholesale markets have been upgrading themselves with sound management, modernized facilities and better brand positioning. It is widely believed that wholesale markets would continue to be an important player in China’s distribution landscape.

**Direct sale by manufacturers**

Facilitated by improving logistics infrastructure in China, some established brand owners or manufacturers have set up their own wholesale and retail arms to conduct wholesaling and retail activities. Indeed, these enterprises view distributing their own products as an effective way to keep abreast with latest market developments.

For instance, a growing number of manufacturers start selling directly to consumers in apparel sector. However, a lot of them use a combination of direct-operated as well as franchise stores. This is probably due to China’s vast geographical span and the substantial investment involved.
**Warehouse-style supermarkets**

Warehouse-style supermarkets are another effective way to distribute products in China. Metro is a typical example. Metro adopts a membership system and sells goods in bulk at wholesale prices to its members. Only cash payment is accepted. Targeted the intermediaries and commercial customers, Metro today has more than 3 million registered members in China. Metro’s major customers include “HoReCa” (hotels, restaurants and catering businesses), small retail outlets and kiosks, and other business users (offices, service companies and government agencies).

**Online distribution channels**

Online distribution channels are gaining attention. For instance, some export-trading-oriented companies have opened online shops on B2C platforms such as Taobao.com to target the domestic market. However, most of the platform operators are in fact online transaction facilitators without engaging in real distribution businesses. They charge suppliers membership fees for listing on their websites and do not involve in the real businesses.

Despite rapid growth in recent years, online distribution in China is not without its challenges. Many are still reluctant to place huge orders online, worrying about fraudulent activities and credit defaults.
Challenges

Fierce competition

China’s distribution sector is highly fragmented. There are countless numbers of small-sized players; most of which are with rudimentary infrastructure. Competition is intense; those who cannot offer higher value-added services to clients often have to resort to price cuts and thereby eroding their profitability. Besides, business costs such as labor, energy, raw materials and logistics costs have also been rising rapidly over the past years. Indeed, many players have razor-thin margin and this further reduces their incentives to invest in upgrading.

Disintermediation

Disintermediation refers to the removal of intermediaries in a supply chain, i.e., the cutting out of the middlemen. Indeed, in order to streamline their supply chains, some big-name retailers such as Wal-Mart have set up their own sourcing department in China to source directly from manufacturers. They source mainly daily necessities, consumer durables and foodstuff. In recent years, direct purchase of fresh agriculture produce is becoming more popular as well. On the other hand, some established suppliers such as Haier have also set up their own retail outlets to reduce their reliance on retailers. Disintermediation threatens the survival of distributors, especially those traditional players serving solely as a middleman between manufacturers and retailers without offering many value-added services.

The rapid development of e-commerce is posing the same threat to distributors. E-commerce now offers consumers more product choices and the opportunity to save time and money. Take China’s apparel market as an example. Today, the rising popularity of online players such as VANCL (凡客诚品), MasaMaso (玛萨·玛索), Vsnoon (维思诺), Moonbas (夢芭莎), 9 Dadao (第九大道), M18 (麥考林) and James King is bringing new pressures to distributors and retailers.
**Renowned brands are less willing to grant national distributorship rights to distributors**

Foreign brand owners were willing to grant national distributorship rights (often times exclusive) to distributors in China when China represented just a small sales share of many international brands years ago. These distributors often enjoyed lucrative profits.

However, as China becomes a growingly important market, many brand owners are much more willing to have their own sales and distribution arm for a better grip of the market. Besides, many brands also see granting non-exclusive distributorship rights as a way to foster competition and expand distribution network. All in all, it is growingly difficult for distributors to assume significant national roles in China nowadays, especially for better-known brands.

**Industry malpractices**

Malpractices are commonplace in China. For instance, price differentiation of the same product in different regions could lead to arbitrage opportunities (for example, distributors sell the products outside designated regions); this affects brand owners’ pricing strategy and obfuscates market information. To ensure distributors selling only within their designated territories, some brand owners or manufacturers use markings or stamps to trace products flowing out of each designated territory. Counterfeiting is another problem due to poor enforcement of piracy law and disrespect of intellectual-property rights among the public. The problem is particularly serious in some wholesale markets. In some cases, those counterfeit products may also pose serious safety and health risks to the public.
Inconsistent commercial regulations

Besides, practitioners have also expressed their concern over inconsistent commercial regulations and different interpretations and enforcement of the regulations across the country. In some cases, entrance fees and promotion expenses that are legitimate in some cities may be considered as bribery in others. Distributors should be well aware of China’s commercial regulations and communicate with relevant officials to avoid misunderstanding.

Strained relationship among players along the supply chain

There is a significant shift in power in China’s retail supply chains. Retail chain operators in China have been expanding rapidly which gives them more bargaining power over their distributors. By contrast, the majority of distributors in China remain fairly small in size with narrow product lines and are serving in limited localities.

Gaining the upper hand in the retail supply chain, retail chain operators are placing more stringent requirements upon their distributors. For instance, to reduce inventory costs, many retailers now request suppliers to deliver the products in smaller batches at a higher frequency which leads to higher inventory risks for distributors.

Moreover, many retailers introduce cumbersome charges to suppliers as well as extending payment period frequently. It may cost brand owners million dollars for just entering a few big cities such as Beijing, Shanghai, Chengdu and Guangzhou. The mistrust between retailers and distributors has affected supply chain efficiency and information sharing among the supply chain partners.
Cost increases

In our interviews with some of the largest Chinese distributors earlier, they expressed that climbing costs is their key concern. Distribution sector in China is labor-intensive; and labor cost in the country is climbing very fast, especially in big cities such as Beijing and Shanghai. Some distributors said that high logistics costs in China, particularly transportation and warehousing costs, are also severely impacting their businesses. Nowadays, over 70% of the world’s toll roads are in China3. To reduce heavy toll charges, overloaded trucks are a common sight in China.

Furthermore, government’s initiative to alleviate traffic congestion also poses another challenge to distributors. For instance, the Beijing government has imposed restrictions on car use; car owners in Beijing are prohibited from driving on roads on specific days each week depending on the last digit of the number plates. This may lead to underutilization of trucks for distribution companies and create inefficiencies.

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3 It is reported that there are approximately 140,000 kilometers of toll roads in the world; of which, 100,000 kilometers are located in China.
Latest Developments

*Distribution still plays an important role; players though have to constantly reinvent themselves under huge competitive pressure*

Rapid developments of retail chains are putting tremendous pressure on the distribution sector in China. Since retailers start dealing directly with key suppliers and expanding online sales, disintermediation has become a hot topic. Nonetheless, we believe the demise of distributors in China is off the mark – firstly, despite rapid growth of chain operation in the past decade, China’s retail market is still highly fragmented with the Top 100 retailers achieving just 9.1% of the market share in 2011, according to the China Chain Store and Franchise Association. Secondly, the vast geographical span of China offers huge development room for distributors, especially in some inner regions and the rural hinterland. Besides, as brands rush selling in China, many do not have the know-how and still need a distribution partner. Moreover, as brand principals seek to manage their fixed costs, there is still huge room for distributors to grow.

However, it is true to say that the traditional middlemen’s “buy and sell” model is under a great deal of pressure as competition intensifies. To survive, distributors must constantly reinvent themselves and expand their business offerings such as market analysis, inventory management and goods tracking.
**Retailer-supplier relationship is beginning to get real attention**

The relationship between retailers and suppliers in China remains strained. Big-scale retailers charging suppliers numerous types of fees and extending payment terms to get extra working capital are pretty common.

Having said that, a growing number of retailers has realized that retailer-supplier collaboration is conducive to achieving sustainable growth. Recent examples include Carrefour, which has partnered with Deutsche Bank to launch a trial supportive financing plan for small- and medium-sized suppliers in Jiangsu province. Suppliers can apply for loans based on the value of Carrefour receipts held; Carrefour hopes that this will help the company improve relationship with quality suppliers in China.

**Government steps up its efforts to improve the business environment of distribution sector in China**

The government has been working on a number of fronts to facilitate the healthy development of the distribution sector. Exhibit 3 shows a slew of measures announced recently.
## Exhibit 3: Major Government Policies related to Distribution Sector

<table>
<thead>
<tr>
<th>Date</th>
<th>Name of Guiding Opinion</th>
<th>Launched by</th>
<th>Details</th>
</tr>
</thead>
</table>
| August 2011 | Opinions of the General Office of the State Council on the Policy of Accelerating the   | The State Council      | Premier Wen Jiabao highlighted eight measures to promote a healthy development of the logistics industry in the committee meeting of the State Council in June 2011:  
• Reduce tax burden of logistics enterprises  
• Enhance policy support on land use in favour of logistics industry  
• Promote a better operational environment for trucking services  
• Improve the management of logistics enterprises  
• Encourage integration of logistics facilities and resources  
• Promote the innovation and application of logistics technology  
• Strengthen financial support for logistics industry  
• Support the development of agricultural products logistics  
The State Council promulgated The Opinions in August 2011. On top of the eight measures mentioned, an additional measure was:  
• Enhance the coordination among stakeholders within the logistics industry |
| October 2011| Opinions on Expanding Consumption during the 12th Five-Year Plan Period<sup>4</sup>     | MOFCOM, MOF, PBC       | The government set the following targets during the 12<sup>th</sup> FYP period:  
• Total retail sales of consumer goods to reach 32 trillion yuan, with an annual growth rate of 15%  
• Retail sales of online retailing to reach 2 trillion yuan, with an annual growth rate of 30%  
• Consumption to reach 35 trillion yuan, with an annual growth rate of 13%  
• Consumption rate to reach 50%  
Major tasks include:  
• Facilitate rural distribution  
• Promote non-store retailing  
• Promote credit card consumption  
• Encourage multi-format retailing  
• Support direct sourcing  
• Promote “green” consumption and to safeguard consumption safety |
| January 2012| Guiding Opinions on Promoting the Healthy Development of Commercial Franchising during  | MOFCOM                 | The government set the following targets during the 12<sup>th</sup> FYP period:  
• Increase the number of franchisees and the scale of franchise operations  
• Improve the industry standard  
• Support the development of large franchise businesses  
Major tasks include:  
• Revise and improve the Regulations for the Administration on Commercial Franchising《商業特許經營管理條例》  
• Support the use of business information systems |
| August 2012 | Opinions of the State Council on Further Reformation of the Distribution Sector and    | The State Council      | The Opinions aim at establishing a modern distribution system, reducing the ratio of total logistics cost to GDP, enhancing the competence of large-sized distribution enterprises, adopting modern information technology, and improving the market environment, etc. Major tasks include:  
• Strengthen the distribution network such as the urban-rural transportation, in-town delivery, etc.  
• Improve supply chain efficiency  
• Improve logistics facilities, e.g. large-sized distribution centers, agricultural cold chain facilities, etc.  
• Enhance the level of informatization in the distribution sector, e.g. adopting Internet of things, cloud computing, global positioning system, e-barcode, etc. |

MOFCOM: Ministry of Commerce; MOF: Ministry of Finance; PBC: People’s Bank of China  

Source: Government websites:  
4 http://www.gov.cn/zwgk/2011-08/19/content_1928314.htm  
5 http://scyxs.mofcom.gov.cn/aarticle/zcfb/201110/201111007798680.html  
6 http://www.mofcom.gov.cn/aarticle/b/d/201201/20120107921658.html;  
7 http://www.gov.cn/zwgk/2012-08/07/content_2199496.htm
Foreign participation expects to climb

Foreign participation has increased significantly since the sector was opened to foreign investors in 2004. Eyeing the huge potential of China’s expanding consumer market, many foreign distributors have viewed China as one of their top investment destinations. Many foreign distributors win business from overseas brand owners since overseas consumer brands are rushing to establish a presence in China. With competitive operational ability, foreign distributors are exerting huge pressure on their Chinese counterparts.

Currently, many international retailers have established strong presence across different provinces; servicing these stores (at store level) is indeed a big human resource challenge. Many times, only the brand owner or national distributor with sound management experience and extensive local distribution network is able to handle. Domestic regional distributors are less capable of providing such support.

Many brand owners have chosen 3rd and 4th tier cities as expansion targets

Today, more and more brand owners and retailers are attracted by the booming consumer market in China’s 3rd and 4th tier cities. Indeed, retail sales growth in China’s lower-tier cities has been more resilient in 2011. The rural market is not to be ignored either. The government has launched a series of initiatives such as “household appliances to the countryside” in an effort to boost rural consumption. Looking ahead, inland regions and the rural market are expected to continue better growth momentum. Distributors are responding to these changes. Nonetheless, expansion into these regions is costly for many distributors and does not guarantee immediate returns in the short run.
An increasing number of China’s export-oriented enterprises embark on domestic sales; distributors help channel their products into the domestic market

Many export-oriented enterprises start engaging in both domestic and foreign trade amid the global downturn. However, selling in China is no easy task; many export-oriented enterprises face a number of challenges such as high distribution costs, lack of price competitiveness, complicated tax system and existence of various forms of tax and administration fees.

Distributors with better capital strength and local distribution networks can help the export-oriented enterprises expand domestic sales. They can serve as a match-maker between manufacturers and retailers and provide services ranging from logistics, consultancy to capital financing.
**A distribution challenge – China’s export-oriented enterprises embarking on domestic sales**

Many retailers in the United States and Europe have suffered from softening retail sales and tightening credit lines since 2008. Whereas many retailers in China are fortunate enough to witness strong market resilience. China’s ever-expanding domestic market is gaining increasing attention from many of the export-oriented manufacturers in China. More and more manufacturing enterprises now employ a twin-pronged strategy or so-called walking on two legs, by engaging in both domestic and foreign trade sectors.

Having said that, “selling to the source” is no easy task. Many export-oriented enterprises lack the experience, know-how, and resources to tap the domestic potential. Selling to the source is particularly difficult for traditional processing trade factories (TFPs), as most of them have been engaging chiefly in original equipment manufacturing (OEM) activities, earning a razor-thin margin. Many have little, if not no experience in design, product development, branding, selling and marketing.

Indeed, there are huge differences between domestic and foreign trade engagements in terms of method of payment, mode of operation, business registration, applicable regulations, and so on. The table below summarizes the major differences. Foreign orders are typically larger in size with product specifications provided by clients. Payments are better secured and TFPs are exempt from paying value-added tax (VAT) and tariffs. This explains why some exporters still adopt a wait-and-watch approach in tapping the domestic market potential.

### Domestic trade vs. foreign trade

<table>
<thead>
<tr>
<th></th>
<th>Domestic trade</th>
<th>Foreign trade</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Order volume</strong></td>
<td>Smaller order volume, but orders are generally placed in a more frequent manner.</td>
<td>Larger order volume.</td>
</tr>
<tr>
<td><strong>Method of payment</strong></td>
<td>Case by case for each manufacturer. Usually late payments by clients.</td>
<td>Use the letter of credit, which is internationally accepted. Buyers usually pay a deposit in advance and pay in full upon delivery of products.</td>
</tr>
<tr>
<td><strong>Operation</strong></td>
<td>Buyers require the manufacturers to produce the products first and then determine the order volume after examining the products. It increases risks such as excessive inventory to the manufacturers.</td>
<td>Buyers provide the manufacturers with designs and other technical requirements when placing orders.</td>
</tr>
<tr>
<td><strong>Marketing &amp; after-sale services</strong></td>
<td>Buyers require the manufacturers to work together for better sales performance by asking them to take part in promotion and advertising, which involves manpower and financial resources.</td>
<td>Manufacturers are not involved in aspects such as marketing and after-sale services.</td>
</tr>
</tbody>
</table>

*Source: Li & Fung Research Centre*
More diversified distribution models

Today, China’s distribution models are more diversified with the emergence of multi-channel retailing and distribution. Many retailers have embarked on multi-channel strategy to lower operation costs and to achieve wider customer reach. Online retailing, telephone retailing, television retailing and catalogues sales are becoming increasingly popular.

For example, some traditional wholesalers such as Yiwu wholesale market in Zhejiang have established online trading platforms. Merchandisers can now conduct business negotiations and transactions online.
Implications for Investors

More challenging environment
- As China is moving to becoming a more consumption-led economy and that many foreign brands flock to enter the market, there is huge development room for the distribution sector.
- Distributors can still play an important role in future due to the vast geographical span and yet not fully-developed infrastructure in China. Indeed, distributors provide a distribution network which would be costly for brand owners or manufacturers to achieve otherwise.
- However, margin squeeze and consolidation among the players are expected. Distributors should increase service offerings and provide more value-added services in response to the increasingly demanding manufacturers as well as retailers.

Increasing cost of doing business in China
- Industry players will continue to experience mounting cost pressure as operational costs are trending upward. In our interviews with distributors, even some large distributors admitted the climbing costs have severely impacted their businesses.
- Rising rental costs, labor costs and heavy toll charges are just some cases in point. Other measures such as limiting vehicles use in some cities also lead to operation inefficiencies for some players.
- Investors should also be aware of other expenditures incurred in running businesses in China. A typical example is the contribution to social insurance schemes. All enterprises in China are required to participate in social insurance schemes and pay social insurance premiums.

Adoption of combination of distribution models
- To tap the China market, enterprises should consider adopting a combination of distribution models.
- Directly-owned operations ensure better control over brand image, pricing strategy, etc; while distributors provide an extensive network at a lower cost in a shorter period of time.
- New distribution channels particularly the online channel are becoming popular. For instance, the online channel is increasingly favored by apparel distributors and retailers. However, online channel might not be attractive for other product categories like confectionery.

Developing the business in a more sustainable manner
- Since brand owners or manufacturers will rely less on distributors once they become more established, distributors should from time to time look for new brands which needs expertise and established infrastructure to help distribute their products in China.
- Meanwhile, in order to develop a more sustainable partnership with brand owners or manufacturers, distributors should consider cooperating with them by forming joint ventures, if not acquiring the brands.
- Distribution channels are largely dominated by retail chains such as hypermarkets or professional stores in China, distributors could consider establishing or acquiring a retail network to ensure their control over distribution channels.
Part II

- In this section, we will have a closer look at the product distribution of three industries, namely apparel, confectionery and beauty and personal care.
- Information is collected from public sources as well as interviews with academia and industry practitioners.
Key Insights

- The retail market size of apparel in China was 1,547.1 billion yuan in 2011, representing a yoy growth rate of 14.0%. The 2011-2016 CAGR is expected to be 9.3%.

- Brand owners and manufacturers continue to adopt a combination of directly-operated stores and franchise stores.

- Gradually, brand owners and manufacturers will prefer managing their stores directly at strategic or profitable locations while leaving other locations to distributors or franchisees.

- It is expected that the more high-end the brands are, the more likely they will directly control all stores.

- Online retailing is clearly on the rise. Though not many online apparel players are making money, most of them bet on a future trend that more consumers will shop online while the offline store acts as a showroom.
Distribution model

- Exhibit 4 shows the major distribution models for apparel in China and the characteristics of each of these models.
- A majority of brand owners and manufacturers adopt a combination of both direct-operated and franchise stores. Very often, they manage the stores in key cities directly while franchising other stores in other cities. It is also observed that a considerable number of brand owners and manufacturers have opened their online shops.

Exhibit 4: Major Distribution Models for Apparel in China and their Characteristics

<table>
<thead>
<tr>
<th>Model I</th>
<th>Model II</th>
<th>Model III</th>
<th>Model IV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brand owners, Manufacturers</td>
<td>Agents</td>
<td>Distributors, Wholesalers, Sub-distributors</td>
<td>Retailers</td>
</tr>
<tr>
<td>Brands with the following characteristics tend to hire agents to distribute their products:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- with smaller turnover; or</td>
<td></td>
<td></td>
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<tr>
<td>- which do not want to invest heavily at initial stage; or</td>
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<td></td>
<td></td>
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<tr>
<td>- which have zero knowledge of China market; or</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- which have no connections of distributors in China.</td>
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<tr>
<td>Model I tends to fade out in the near future. When brands grow in size and become more established in China, they choose to approach distributors directly (Model II) or manage their stores directly (Model III).</td>
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<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Brand owners, Manufacturers</th>
<th>Distributors, Wholesalers, Sub-distributors</th>
<th>Retailers</th>
<th>Consumers</th>
</tr>
</thead>
<tbody>
<tr>
<td>A majority of apparel brand owners or manufacturers expand their distribution network by authorizing franchisees to distribute products for them, primarily due to the vast geographical span of China.</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Brand owners, Manufacturers</th>
<th>Retailers</th>
<th>Consumers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Some brand owners tend to sell their products without the help of distributors. They prefer setting up their own direct-operated stores. Very often, they open these stores at strategic and profitable locations.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct-operated stores are more efficient when comparing with franchise stores. Normally, the average sales per store of the direct-operated stores is higher than that of the franchise stores.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct-operated stores are also managed in a more effective manner than franchise stores in terms of visual merchandizing, image control, price control, etc.</td>
<td></td>
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</tr>
<tr>
<td>Generally, the more high-end the brands are, the more likely it will directly control the stores.</td>
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<td></td>
</tr>
<tr>
<td>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.</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Brand owners, Manufacturers</th>
<th>Consumers</th>
</tr>
</thead>
<tbody>
<tr>
<td>A typical example of Model IV is online retailing.</td>
<td></td>
</tr>
<tr>
<td>Online retailing is clearly on the rise and becomes an important distribution channel for apparel. Online retailing is especially popular among young customers.</td>
<td></td>
</tr>
<tr>
<td>Many renowned brands such as Uniqlo have also gone online. Not many of them are making money but they see online retailing as an important channel for brand building and promotion.</td>
<td></td>
</tr>
</tbody>
</table>

Source: Li & Fung Research Centre

---

8 In apparel sector, many brand owners authorize franchisees (distributors) to open franchise stores to sell their products.
Distribution landscape

Market share by distribution channels

- Exhibits 5 & 6 show the market share (retail sales) by various distribution channels for apparel in China for the past five years.
- Specialist retailers and department stores have been the two major distribution channels in China for the past five years, taking up more than two-thirds of the apparel distribution in China.
- In 2011, specialist retailers’ market share was 39.3%, up by 4.4 percentage points when compared to 2007.

- Department stores’ market share was 37.5% in 2011, rose from 34.0% in 2007.
- Grocery retailers’ market share was 17.3% in 2011, compared with 15.9% in 2007.
- Online retailing is obviously a rising star – It accounted for 1.7% of the market share in 2011, spiked sharply from only 0.2% five years ago.

Exhibit 5: Market Share (Retail Sales) by Distribution Channels for Apparel in China, 2007-2011

<table>
<thead>
<tr>
<th>Sales of Apparel by Distribution Channel (%)</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Store-Based Retailing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grocery Retailers</td>
<td>15.9</td>
<td>17.0</td>
<td>17.0</td>
<td>17.2</td>
<td>17.3</td>
</tr>
<tr>
<td>Non-Grocery Retailers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Department Stores</td>
<td>34.0</td>
<td>36.0</td>
<td>36.2</td>
<td>36.9</td>
<td>37.5</td>
</tr>
<tr>
<td>- Specialist Retailers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Clothing and Footwear Specialist Retailers</td>
<td>23.4</td>
<td>25.1</td>
<td>25.7</td>
<td>26.3</td>
<td>27.6</td>
</tr>
<tr>
<td>- Leisure and Personal Goods Specialist Retailers</td>
<td>11.5</td>
<td>11.6</td>
<td>11.7</td>
<td>11.7</td>
<td>11.7</td>
</tr>
<tr>
<td>- Other Non-Grocery Retailers</td>
<td>15.1</td>
<td>10.1</td>
<td>9.2</td>
<td>7.3</td>
<td>4.2</td>
</tr>
<tr>
<td>Non-Store Retailing</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
<td>0.6</td>
<td>1.7</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Euromonitor International
Exhibit 6: Market Share (Retail Sales) by Distribution Channels for Apparel in China, 2007 & 2011

2007

15.9% Grocery Retailers
34.0% Department Stores
34.9% Specialist Retailers
15.1% Other Non-Grocery Retailers
0.2% Non-Store Retailing

2011

17.3% Grocery Retailers
37.5% Department Stores
39.3% Specialist Retailers
4.2% Other Non-Grocery Retailers
1.7% Non-Store Retailing

Source: Euromonitor International
Characteristics of various distribution channels for apparel

- When selecting an appropriate distribution channel for its products, a brand owner or manufacturer should consider various factors such as market positioning of their products, slotting fees of different distribution channels, etc.

- Different segments of the apparel sector distribute via different channels as they have distinct features and different customer groups.

Exhibit 7 shows the case for a mid-end apparel manufacturer. Normally, such manufacturer prefers distributing their products via established chained grocery retailers, department stores/shopping malls and online shops. On the other hand, a luxury apparel brand usually prefers selling in department stores or shopping malls; selling through grocery retailers seems unlikely.

Exhibit 7: Characteristics of Distribution Channels for Mid-end Apparel in China

<table>
<thead>
<tr>
<th></th>
<th>Grocery Retailer*</th>
<th>Department Store/Shopping Mall</th>
<th>Online Shop</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market Segment</strong></td>
<td>Low to mid-end</td>
<td>Mass; mid to high-end</td>
<td>Low to high-end</td>
</tr>
<tr>
<td><strong>Cost (incl. listing fees, slotting fees, etc.)</strong></td>
<td>High</td>
<td>High</td>
<td>Relatively low if operating via established platforms; High if self-operating</td>
</tr>
<tr>
<td><strong>Number of Retail Outlets</strong></td>
<td>Small</td>
<td>Small</td>
<td>–</td>
</tr>
<tr>
<td><strong>Turnover</strong></td>
<td>Low</td>
<td>High</td>
<td>Varies</td>
</tr>
<tr>
<td><strong>Delivery to Distribution Centers</strong></td>
<td>Yes</td>
<td>No</td>
<td>Yes if operating via established platforms; No if self-operating</td>
</tr>
</tbody>
</table>

* Grocery retailer in this exhibit refers to large chained hypermarkets and supermarkets only

Source: Li & Fung Research Centre
Wholesale Markets – for unbranded apparel products

- As mentioned in Part I, wholesale markets have been playing a significant role in channeling products of the country’s countless number of small-and-medium-sized manufacturers into the hands of urban and rural consumers.

- The apparel wholesale markets offer a wide variety of low to mid-end unbranded apparel products. Price ranges from a few dozen yuan to more than a hundred yuan.

- According to the Statistical Yearbook of China Commodity Exchange Market, there were 344 textile and apparel commodity exchange markets with an annual turnover of exceeding 100 million yuan in China in 2010. The number of stores reached 416,058; and the total turnover amounted to 396.1 billion yuan.

- Renowned apparel wholesale markets include China Light Textile City in Xiaoxing (紹興中國輕紡城), China Zhili Children’s Wear Market (中國織里童裝市場), Hangzhou Sijiqing Apparel Market (杭州四季青服裝市場), Guangzhou Baima Clothing Market (廣州白馬服裝市場) and China Leather City in Haining (海寧中國皮革城).

- In general, major wholesale markets in key cities distribute products to wholesale markets in their adjacent cities. For instance, wholesalers in major cities in Shandong province also source from the Luokou Clothing Wholesale Market (濼口服裝批發市場) in the capital city, Jinan.

- It is widely believed that wholesale markets would continue to be an important player in unbranded apparel distribution in China.

Source: Li & Fung Research Centre
Estimated Cost Structure of Apparel Distribution in China

- Similar to the characteristics of distribution channels, the cost structure also varies a lot depending on the type of apparel, market positioning of the brand, etc. An industry average may not be meaningful. Exhibit 8 below presents an estimated cost structure of the mid-end kids wear distribution in China.

Exhibit 8: Estimated Cost Structure of Mid-end Kids Wear Distribution in China

Source: Li & Fung Research Centre
Key Insights

- The retail market size of confectionery in China was estimated to reach 72.4 billion yuan in 2011, with a yoy growth rate of 9.4%. The 2011-2016 CAGR is forecast to be 3.8%.

- Margin squeeze and consolidation among the players are expected. Distributors will increase service offerings and provide more value-added services in response to the increasingly demanding manufacturers as well as retailers.

- Brand owners and manufacturers continue to adopt a combination of distribution models - deal directly with retailers only for key accounts of Modern Trade Channels in key cities; for Traditional Trade Channels or lower-tier cities, they tend to distribute their products via distributors.

- Online retailing has yet been an attractive channel for confectionery due to its low margin and highly-industrialized nature. Rather, retailers such as supermarkets sell confectionery as part of their wide range of merchandizes available online.

- On average, the distributors of FMCG enjoy only a margin of about 1.5-2% in Greater China. Due to the thin margin, an economy of scale is the key to success.
Distribution model

- Exhibit 9 shows the major distribution models for confectionery in China and the characteristics of each of these models.
- Most brand owners and manufacturers adopt a combination of Models II & III. Currently, they prefer dealing directly with retailers only for key accounts of Modern Trade Channels in key cities, while distributing their products to Traditional Trade Channels or lower-tier cities via distributors.

Exhibit 9: Major Distribution Models for Confectionery and their Characteristics

<table>
<thead>
<tr>
<th>Model</th>
<th>Brand owners, Manufacturers</th>
<th>Agents</th>
<th>Distributors, Wholesalers, Sub-distributors</th>
<th>Retailers</th>
<th>Consumers</th>
</tr>
</thead>
</table>
| I     | Brands with the following characteristics tend to hire agents to distribute their products  
|       | • with smaller turnover; or  
|       | • which do not want to invest heavily at initial stage; or  
|       | • which have zero knowledge of China market; or  
|       | • which have no connections of distributors in China.  
|       | However, Model I tend to fade out in the near future. When brands grow in size and become more established in China, they choose to approach distributors directly (Model II). |
| II    | A majority of confectionery brand owners or manufacturers adopt Model II; this is particularly true for those who have manufacturing facilities or OEM in China.  
|       | China is a vast country; many confectionery brand owners prefer hiring “executors” to provide warehousing and logistics services which may imply significant investment otherwise. Brand owners also tend to rely on local wholesalers to collect payment. |
| III   | Some confectionery brand owners or manufacturers start dealing with retailers directly.  
|       | Model III is gaining share with the expansion of Modern Trade Channels in lower-tier cities. |
| IV    | A typical example of Model IV is online retailing.  
|       | It is rare for confectionery brand owners to establish their own online shops due to its low margin and highly-industrialized nature. Rather, retailers such as supermarkets sell confectionery as part of their wide range of merchandizes available online. |

Source: Li & Fung Research Centre
Distribution landscape

*Market share by distribution channels*

- Exhibit 10 shows the market share (retail sales) by distribution channels for confectionery in China in 2010.
- Hypermarkets and supermarkets was the largest distribution channel for confectionery in China in 2010, accounting for more than half of the market share.
- The second largest channel was small grocery retailers including convenience stores and small grocers, recording a market share of 32.7% in 2010.
- The performance of online retailing was not as impressive as we observed in other industries, accounting for only 0.1% of market share in 2010.

**Exhibit 10: Market Share (Retail Sales) by Distribution Channels for Confectionery in China, 2010**

<table>
<thead>
<tr>
<th>Sales of Confectionery by Distribution Channel (%)</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Store-Based Retailing</td>
<td>97.5</td>
</tr>
<tr>
<td>Grocery Retailers</td>
<td>94.8</td>
</tr>
<tr>
<td>Supermarkets/Hypermarkets</td>
<td>53.9</td>
</tr>
<tr>
<td>Discounters</td>
<td>0.2</td>
</tr>
<tr>
<td>Small Grocery Retailers</td>
<td>32.7</td>
</tr>
<tr>
<td>Confectionery Specialists</td>
<td>2.8</td>
</tr>
<tr>
<td>Other Grocery Retailers</td>
<td>5.2</td>
</tr>
<tr>
<td>Non-Grocery Retailers</td>
<td>2.6</td>
</tr>
<tr>
<td>Non-Store Retailing (incl Vending &amp; Internet Retailing)</td>
<td>2.5</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: Euromonitor International*
**Characteristics of Distribution Channels for Confectionery**

- When selecting an appropriate distribution channel for its products, a brand owner or manufacturer has to consider various factors such as market positioning of their products, slotting fees of different distribution channels, etc. Exhibit 11 summarizes the characteristics of the major distribution channels for confectionery in China.

### Exhibit 11: Characteristics of Distribution Channels for Confectionery in China

<table>
<thead>
<tr>
<th></th>
<th>Grocery Retailer*</th>
<th>Convenience Store</th>
<th>Specialist Retailer**</th>
<th>Department Store</th>
<th>Online Shop</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market Segment</strong></td>
<td>Low to mid-end</td>
<td>Low to mid-end</td>
<td>Mid to high-end</td>
<td>Mass; mid to high-end</td>
<td>Low to high-end</td>
</tr>
<tr>
<td><strong>Cost (incl. listing fees, slotting fees, etc.)</strong></td>
<td>High</td>
<td>High</td>
<td>Highest</td>
<td>Relatively Low</td>
<td>Relatively low</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>if operating via established platforms; High if self-operating</td>
</tr>
<tr>
<td><strong>Number of Retail Outlets</strong></td>
<td>Fair</td>
<td>Largest</td>
<td>Large</td>
<td>Small</td>
<td>-</td>
</tr>
<tr>
<td><strong>Turnover</strong></td>
<td>High</td>
<td>Low</td>
<td>High</td>
<td>Highest per store</td>
<td>Varies</td>
</tr>
<tr>
<td><strong>Delivery to Distribution Centers</strong></td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes if operating via established platforms; No if self-operating</td>
</tr>
<tr>
<td><strong>Others</strong></td>
<td>-</td>
<td>-</td>
<td>Good store execution</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

* Grocery retailer in this exhibit refers to large chained hypermarkets and supermarkets only

** Examples include chained professional stores.

*Source: Li & Fung Research Centre*
Estimated Cost Structure of Confectionery Distribution in China

- Exhibit 12 demonstrates the estimated cost structure of confectionery distribution in China.
- On average, the distributors of FMCG enjoy only a margin of about 1.5-2% in Greater China. Due to the thin margin, an economy of scale is the key to success.

Exhibit 12: Estimated Cost Structure of Confectionery Distribution in China

Source: Li & Fung Research Centre
Beauty and Personal Care

Key Insights

- The retail market size of beauty and personal care in China was 181.6 billion yuan in 2011, recording a yoy growth rate of 12.4%. The industry is projected to grow at a CAGR of 8.1% over the next five years (2011-2016).

- Margin squeeze and consolidation among the players are expected. Distributors will increase service offerings and provide more value-added services in response to the increasingly demanding manufacturers as well as retailers.

- Brand owners and manufacturers continue to adopt a combination of distribution models - deal directly with retailers only for key accounts of Modern Trade Channels in key cities; for Traditional Trade Channels or lower-tier cities, they tend to distribute their products via distributors.

- Online retailing is an effective sales channel for many low-priced or innovative personal care products as online customers are usually young and willing to try out new things. However, it may not be the case for branded color cosmetics. Most branded color cosmetics tend not to offer discounts online, fearing that this may upset the sales of the offline stores. Hence, online channel is more for brand building and promotion for color cosmetics at the moment.

- Enterprises are required to register their beauty and personal care products before launching in China. Generally, it will take around 6-12 months. In some cases, it might even take up to a few years.
Distribution model

- Exhibit 13 shows the major distribution models for beauty and personal care products in China and the characteristics of each of these models.
- Most beauty and personal care brand owners and manufacturers adopt a combination of Models II & III. For instance, for personal care products (e.g. Olay), brands sell directly to Modern Trade Channels in key cities; for Traditional Trade Channels or lower-tier cities, they tend to distribute their products via distributors. Some brand owners and manufacturers start to sell via a combination of Models II, III & IV (online shops).

Exhibit 13: Major Distribution Models for Beauty and Personal Care in China and their Characteristics

Model I
- Brands with the following characteristics tend to hire agents to distribute their products
  - with smaller turnover; or
  - which do not want to invest heavily at initial stage; or
  - which have zero knowledge of China market; or
  - which have no connections of distributors in China.
- However, Model I tend to fade out in the near future. When brands grow in size and become more established in China, they tend to approach distributors directly (Model II).

Model II
- A majority of beauty and personal care brand owners or manufacturers adopt Model II; this is particularly true for those who have manufacturing facilities or OEM in China.
- China is a vast country; brand owners prefer hiring “executors” to provide warehousing and logistics services which may imply significant investment otherwise. Brand owners also tend to rely on local wholesalers to collect payment.

Model III
- Some brand owners or manufacturers start dealing with retailers directly.
- Model III is gaining share with the expansion of Modern Trade Channels in lower-tier cities.

Model IV
- Typical examples of Model IV include online retailing, direct selling, etc.
- Eyeing the huge potential of China’s online market, many brand owners and manufacturers now place more emphasis on the online channel. Apart from being a source of revenue, online retailing becomes an important channel for brand building and promotion for beauty and personal care products.
- Beauty and personal care is one of the few product categories where direct selling accounts for a significant share of the distribution.
- Model IV is gaining importance, particularly in the beauty and personal care sector.

Source: Li & Fung Research Centre
Distribution landscape

*Market share by distribution channels*

- Exhibits 14-15 show the market share (retail sales) by distribution channels for beauty and personal care in China for the past five years.
- Grocery retailers and department stores have been the two major distribution channels in China for the past five years, taking up about two-thirds of the beauty and personal care distribution in China.
- In 2011, grocery retailers’ market share was 37.6%, down by 2.5 percentage points when compared to 2007.
- Department stores’ market share was 28.7% in 2011, decreased from 33.2% in 2007.
- By contrast, specialist retailers’ market share rose by 2 percentage points to 13.9% in 2011.
- Online retailing is gaining popularity – It accounted for 5.0% of the market share in 2011, surged from only 0.8% five years ago.

**Exhibit 14: Market Share (Retail Sales) by Distribution Channels for Beauty and Personal Care in China, 2007-2011**

<table>
<thead>
<tr>
<th>Sales of Beauty and Personal Care by Distribution Channel (%)</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Store-Based Retailing</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grocery Retailers</td>
<td>40.1</td>
<td>39.8</td>
<td>39.7</td>
<td>39.0</td>
<td>37.6</td>
</tr>
<tr>
<td>Non-Grocery Retailers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Department Stores</td>
<td>33.2</td>
<td>33.1</td>
<td>32.8</td>
<td>30.3</td>
<td>28.7</td>
</tr>
<tr>
<td>- Health and Beauty Retailers</td>
<td>11.9</td>
<td>12.6</td>
<td>13.0</td>
<td>13.5</td>
<td>13.9</td>
</tr>
<tr>
<td>• Beauty specialist retailers</td>
<td>4.8</td>
<td>5.4</td>
<td>5.7</td>
<td>6.1</td>
<td>6.4</td>
</tr>
<tr>
<td>• Chemists/ Pharmacies</td>
<td>1.4</td>
<td>1.3</td>
<td>1.4</td>
<td>1.5</td>
<td>1.5</td>
</tr>
<tr>
<td>• Parapharmacies/ Drugstores</td>
<td>5.5</td>
<td>5.7</td>
<td>5.7</td>
<td>5.8</td>
<td>5.9</td>
</tr>
<tr>
<td>• Other Health and Beauty Retailers</td>
<td>0.2</td>
<td>0.2</td>
<td>0.1</td>
<td>0.1</td>
<td>0.2</td>
</tr>
<tr>
<td>- Other Non-Grocery Retailers</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.2</td>
</tr>
<tr>
<td><strong>Non-Store Retailing</strong></td>
<td>14.6</td>
<td>14.4</td>
<td>14.4</td>
<td>17.0</td>
<td>19.6</td>
</tr>
<tr>
<td>Direct Selling</td>
<td>13.0</td>
<td>12.8</td>
<td>12.7</td>
<td>13.1</td>
<td>13.9</td>
</tr>
<tr>
<td>Internet Retailing</td>
<td>0.8</td>
<td>0.8</td>
<td>0.9</td>
<td>3.1</td>
<td>5.0</td>
</tr>
<tr>
<td>Other Non-Store Retailing</td>
<td>0.9</td>
<td>0.8</td>
<td>0.8</td>
<td>0.8</td>
<td>0.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: Euromonitor International*
Exhibit 15: Market Share (Retail Sales) by Distribution Channels for Beauty and Personal Care in China, 2007 & 2011

2007
- 40.1% Grocery Retailers
- 33.2% Department Stores
- 11.9% Specialist Retailers
- 0.1% Other Non-Grocery Retailers
- 13.0% Direct Selling
- 0.8% Internet Retailing
- 1.0% Non-Store Retailing

2011
- 37.6% Grocery Retailers
- 28.7% Department Stores
- 13.9% Specialist Retailers
- 0.2% Other Non-Grocery Retailers
- 13.9% Direct Selling
- 5.0% Internet Retailing
- 0.8% Non-Store Retailing

Source: Euromonitor International
**Characteristics of various distribution channels for Beauty and Personal Care**

- When selecting an appropriate distribution channel for its products, a brand owner or manufacturer has to consider various factors such as market positioning of their products, slotting fees of different distribution channels, etc. Exhibit 16 summarizes the characteristics of the major distribution channels for beauty and personal care products in China.

**Exhibit 16: Characteristics of Distribution Channels for Beauty and Personal Care in China**

<table>
<thead>
<tr>
<th>Market Segment</th>
<th>Grocery Retailer*</th>
<th>Convenience Store**</th>
<th>Specialist Retailer***</th>
<th>Department Store</th>
<th>Online Shop</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mass</td>
<td>Mass</td>
<td>Mid to high-end</td>
<td>Mass; Premium or relatively high-end</td>
<td>From premium to mass</td>
</tr>
<tr>
<td>Cost (incl. listing fees, slotting fees, etc.)</td>
<td>High</td>
<td>High</td>
<td>Highest</td>
<td>Lower</td>
<td>Relatively low if operating via established platforms; High if self-operating</td>
</tr>
<tr>
<td>Number of Retail Outlets</td>
<td>Fair</td>
<td>Large</td>
<td>Largest</td>
<td>Smaller</td>
<td>-</td>
</tr>
<tr>
<td>Turnover</td>
<td>Higher turnover especially for mass products such as shampoo</td>
<td>Lower</td>
<td>Higher turnover especially for skin care products such as facial cream</td>
<td>Highest per store</td>
<td>Varies</td>
</tr>
<tr>
<td>Delivery to Distribution Centers</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes if operating via established platforms; No if self-operating</td>
</tr>
<tr>
<td>Others</td>
<td>-</td>
<td>-</td>
<td>Good store execution</td>
<td>For color cosmetics, usually sell on consignment basis</td>
<td>-</td>
</tr>
</tbody>
</table>

* Grocery retailer in this exhibit refers to large chained hypermarkets and supermarkets only

** Only applicable to certain categories including lip moisturizer, travel packs, etc.

*** Examples include chained professional stores

Source: Li & Fung Research Centre
Estimated Cost Structure of Beauty and Personal Care Distribution in China

- Exhibits 17 & 18 demonstrate the estimated cost structure of color cosmetics and personal care distribution in China.
- On average, the distributors of FMCG (e.g. shampoo) enjoy only a thin margin of about 1.5-2% in China. By contrast, distributors of branded color cosmetics enjoy a higher margin, especially those who sell to department stores.

Exhibit 17: Estimated Cost Structure of Color Cosmetics Distribution in China

Exhibit 18: Estimated Cost Structure of Personal Care Distribution in China
For more information

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