

China Apparel Market Series

Issue 1

The year in review: a brief account of the industry for the COVID year



China's apparel industry has taken a hard hit from the COVID-19 pandemic, which forced brands and retailers to temporarily shut down many of their offline stores in the country, causing a slump in apparel sales. Yet despite the short-term disruptions caused by COVID-19, the apparel market has started recovering its growth momentum since 3Q20, soon after the country emerged from the pandemic. This is largely due to the government's rigorous measures to curb the virus, combined with a stimulus package to revive the economy which has successfully boosted consumer confidence and encouraged spending, contributing to a quick bounce back in the country's apparel sales. Throughout the pandemic, we have seen the biggest sub-sector growth in sportswear. We expect that the overall health and wellness trend, likely spurred by increased attention to personal health due to the pandemic, will continue to boost sportswear growth throughout 2020 and 2021. Furthermore, by integrating offline resources and online channels, several key sportswear brands have emerged as the success stories of COVID-19.

Various brand successes (and failures) in the face of the pandemic have underlined the significance of digital transformation in the retail sector. More than ever, e-commerce is an increasingly significant key revenue stream, and brands that have successfully implemented their digital strategies for the COVID-19 market will continue to thrive in the new landscape. We expect a continuous upsurge in online sales and marketing through social platforms such as Douyin (for video content) and Wechat (through its in-platform apps). Furthermore, as offline stores have reopened with a new awareness of digital strategy, we also expect further developments in omni-channel integration and a combination of experiential shopping with digital technologies.

Helen Chin

Vice President

E: helenchin@fung1937.com**Brigitte Ng**

Research Analyst

Fung Business Intelligence

1/F LiFung Tower

888 Cheung Sha Wan Road

Kowloon, Hong Kong

T: (852) 2300 2470

F: (852) 2635 1598

E: fbicgroup@fung1937.comW: <http://www.fbicgroup.com>

Growth turns negative due to COVID-19

China's apparel market was worth 2,185 billion yuan in 2019, up 5.2% yoy, continuing a steady growth momentum at a CAGR of 6.1% for 2014-2019 (Exhibit 1). However, the COVID-19 outbreak has struck a blow to the apparel market. During the outbreak, which began in late 2019, many apparel retailers temporarily shuttered their stores or reduced their operating hours for months due to mandated lockdown and social distancing measures. While brands and retailers with a relatively mature online presence were able to mitigate the ensuing sales falloff as consumers were forced to stay indoors and go online, many bricks-and-mortar players that relied heavily on offline sales were hit hard as a result of disrupted marketing campaigns and enforced store closures.

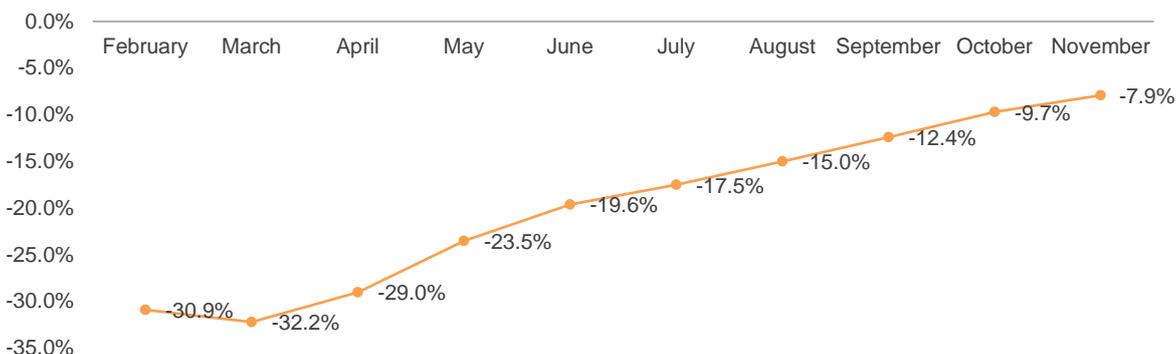
According to China's National Bureau of Statistics, retail sales growth of apparel and footwear for January through November 2020 declined by 7.9% yoy (Exhibit 2). Though the figures have kept improving since April, we still expect the apparel market to post a mid-single-digit negative growth in total sales for 2020, adjust downward from prior estimates of around 3% yoy sales growth, in light of the previous coronavirus-induced slump.

Exhibit 1: Apparel sales in China, 2014-2019



Source: Euromonitor International, compiled by Fung Business Intelligence

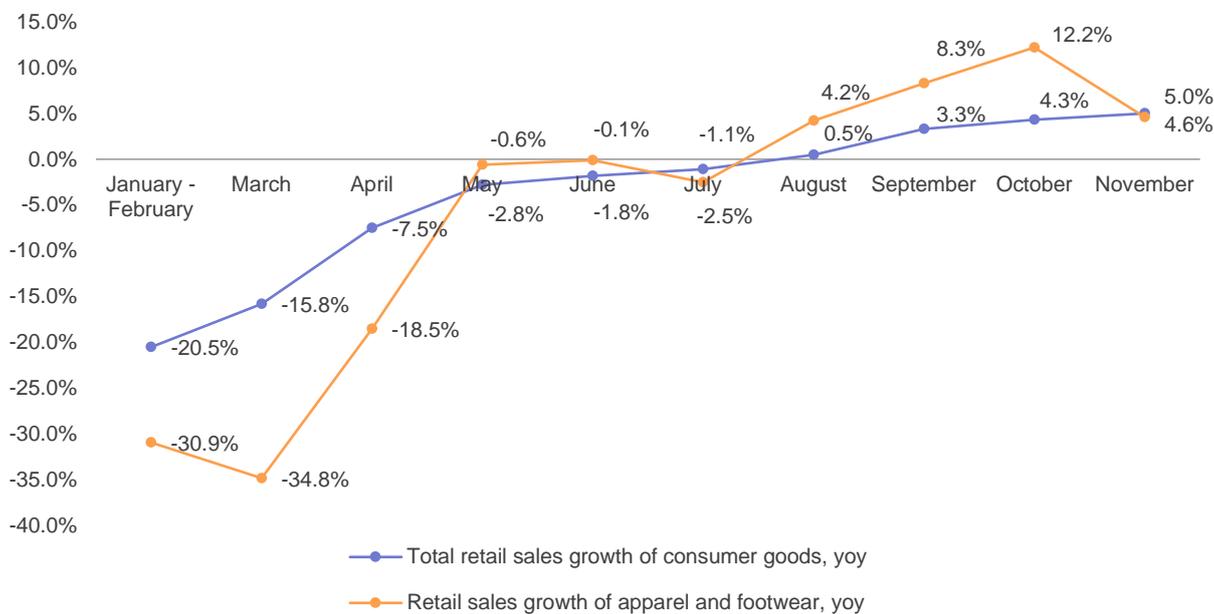
Exhibit 2: Cumulative retail sales growth (year-to-date) of apparel and footwear, January - November 2020



Source: National Bureau of Statistics China, compiled by Fung Business Intelligence

Nevertheless, with COVID-19 largely under control and the central government’s recent stimulus measures, which included handing out billions of yuan worth of consumption vouchers across the country to spur consumer spending and in-store shopping, Chinese consumers began to show higher confidence and spending intent in 3Q20. In August, the country’s total retail sales of consumer goods moved back into growth territory for the first time this year, rising 0.5% yoy, while retail sales of apparel and footwear items also delivered its first positive growth in 2020, gaining 4.2% yoy in the same month. Fueled by consumers’ pent-up demand following months of lockdown, retail spending continued to pick up in September and October, with sales growth of apparel and footwear items jumping 8.3% yoy and 12.2% yoy, respectively (Exhibit 3).

Exhibit 3: Total retail sales growth of consumer goods vs retail sales growth of apparel and footwear, January - November 2020



Source: National Bureau of Statistics China, compiled by Fung Business Intelligence

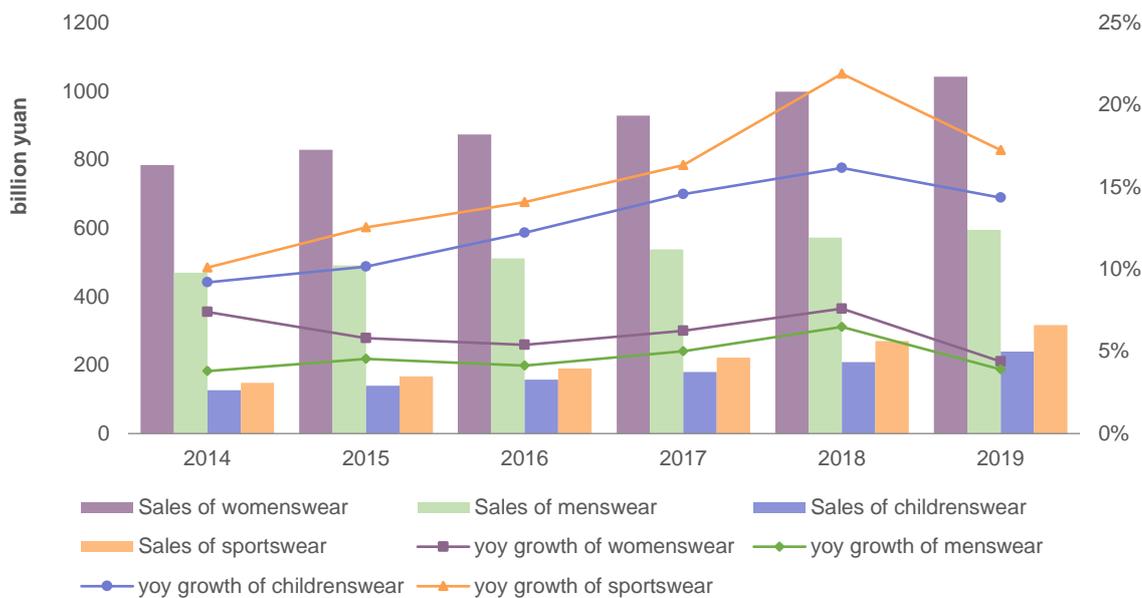
Major sub-sectors experience slower growth in 2019 and likely to show negative growth this year

In 2019, all the four major sub-sectors in China’s apparel market registered slower sales growth versus 2018 due to overall macroeconomic uncertainty.

By category, womenswear remained the largest sub-sector of China’s apparel market in terms of sales in 2019, while both sportswear and childrenswear continued to deliver double-digit yoy sales growth during the year, outpacing that of womenswear and menswear (Exhibit 4).

Buffeted by the COVID-19 headwinds, the major sub-sectors, especially womenswear and menswear, are likely to show negative growth in total sales for 2020.

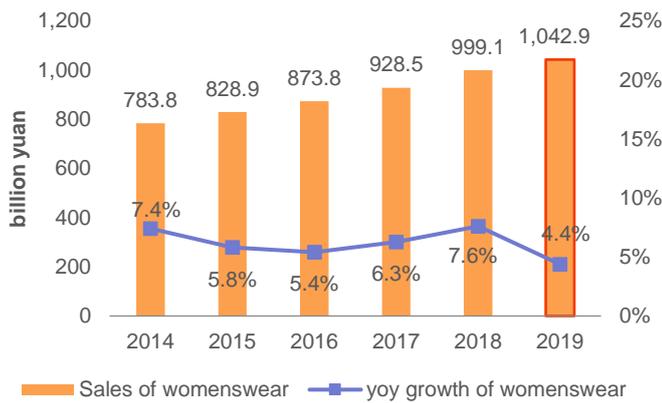
Exhibit 4: Sales of key sub-sectors, 2014-2019



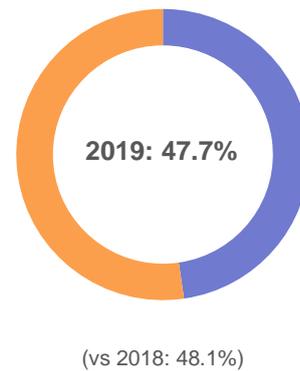
Source: Euromonitor International, compiled by Fung Business Intelligence

Overall market uncertainty and growing saturation have dampened the growth of womenswear. Sales growth of the sector weakened to 4.4% yoy in 2019, falling from 7.6% yoy in 2018 and below the total apparel sales growth of 5.2% in 2019. Womenswear accounted for 47.7% of China’s total apparel sales in 2019, slightly down from 48.1% in 2018 (Exhibit 5).

Exhibit 5: Sales of womenswear, 2014-2019



Share of womenswear over total apparel sales



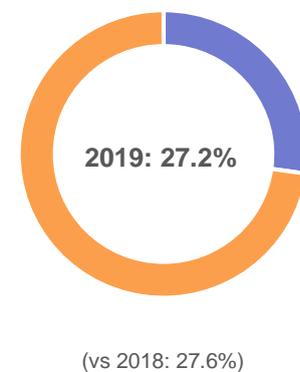
Source: National Bureau of Statistics China, compiled by Fung Business Intelligence

Menswear has the second largest market share in China’s apparel market, just behind womenswear. Akin to the womenswear sector, menswear sector has also become increasingly saturated, with sales growth decelerating to 3.9% yoy in 2019, down from 6.5% in 2018. The sector took up 27.2% of total apparel sales in 2019, inching down from 27.6% in 2018 (Exhibit 6).

Exhibit 6: Sales of menswear, 2014-2019



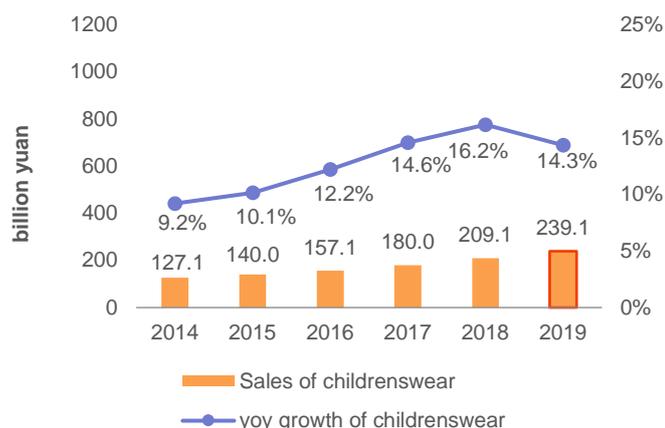
Share of menswear over total apparel sales



Source: National Bureau of Statistics China, compiled by Fung Business Intelligence

Outperforming womenswear and menswear, childrenswear posted its fifth consecutive year of double-digit growth in 2019, up 14.3% yoy, driven by the increase in per capita spending on childrenswear. Though China’s birth rate continued to fall in 2019, the new generation of parents show greater willingness to spend on their children, with many of them willing to pay extra for safe and quality products for their children, underpinning the robust growth of the childrenswear sector (Exhibit 7).

Exhibit 7: Sales of childrenswear, 2014-2019



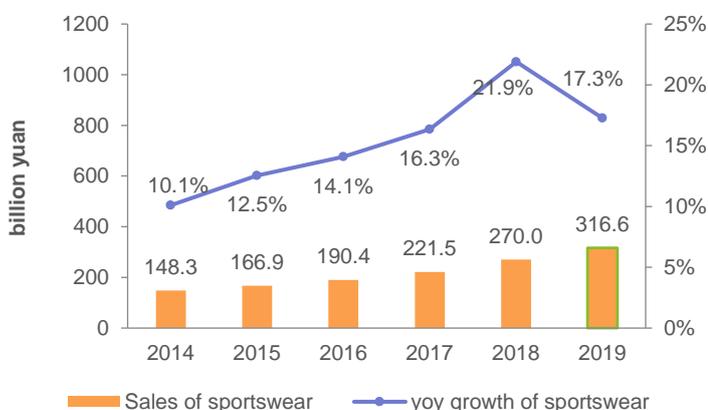
Share of childrenswear over total apparel sales



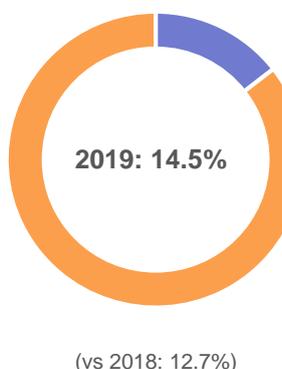
Source: National Bureau of Statistics China, compiled by Fung Business Intelligence

Sportswear continued to deliver the strongest sale growth among the four major sub-sectors, keeping up with a double-digit sales growth of 17.3% yoy in 2019. With Chinese consumers, especially the younger generation, becoming significantly more health-conscious and exercising more frequently to bolster health during the pandemic, we remain optimistic about the growth potential of sportswear and expect the sector will maintain a relatively strong growth momentum over the next couple of years (Exhibit 8).

Exhibit 8: Sales of sportswear, 2014-2019



Share of sportswear over total apparel sales



Source: National Bureau of Statistics China, compiled by Fung Business Intelligence

Internet retailing to see explosive growth on COVID-19-spurred online shopping spree

Apparel sales at department stores have been contracting over the years amid intensifying market competition and challenges from e-commerce players (Exhibit 9). Considering that online shopping has become the new normal since the onset of COVID-19 and many consumers will retain their online shopping routines even after the pandemic, we believe Internet retailing will see a bumper growth in 2020 and become a major distribution channel for apparel and footwear moving forward. More brick-and-mortar retailers are expected to double down on their online presence and digital marketing to capitalize on the online shopping trend. The growing shift towards online shopping is set to further accelerate digital transformation among apparel players, prompting brands and retailers to rethink their digital strategies in order to stay relevant and competitive in the market.

Exhibit 9: Market share by distribution channel for apparel and footwear in China, 2014-2019

	2014	2015	2016	2017	2018	2019
Store-based retailing	87.6	81.8	76.6	72.3	68.8	65.7
Grocery retailers	4.5	3.7	3.0	2.3	1.8	1.4
Non-grocery retailers	44.5	42.5	40.9	39.6	38.7	38.0
Clothing and footwear specialist retailers	22.0	21.5	21.0	20.8	20.8	20.7
Leisure and personal goods specialist retailers	11.4	10.9	11.1	11.3	11.7	12.2
Other non-grocery retailers	11.1	10.0	8.8	7.4	6.2	5.1
Mixed retailers	38.6	35.6	32.7	30.4	28.3	26.3
Department stores	38.6	35.6	32.7	30.4	28.3	26.3
Non-store retailing	12.4	18.2	23.4	27.7	31.2	34.3
Home shopping	0.1	0.1	0.1	<0.1	0.1	<0.1
Internet retailing	12.3	18.1	23.3	27.7	31.1	34.3
Total	100	100	100	100	100	100

Source: National Bureau of Statistics China, compiled by Fung Business Intelligence

To offset the in-store sales falloff and cash in on the COVID-19-spurred online shopping spree, many brands and retailers have shifted their sales online and adopted innovative digital marketing approaches such as leveraging online livestreaming, social media platforms, and private chat groups to keep customers engaged and market their products and services. As a case in point, Chinese apparel brand d'zzit and its sister brand DAZZLE have added a new marketing function to their WeChat Mini Programs amid the outbreak of COVID-19. This new function enables the brands to leverage product marketing events, WeChat Private Groups, WeChat Moments, forwarded Mini Program codes, livestreaming broadcasts, etc., to sell their products directly on their WeChat Mini Programs. Data shows that sales of DAZZLE and d'zzit topped 4 million yuan on the day the new function was launched.

Throughout the pandemic, more apparel players have set up accounts on Douyin, one of the most popular online video platforms in China, to keep their customers engaged and interested in their products. Douyin published the “White Papers on Douyin Accounts Opened by Apparel Companies 2020” in May. Their data shows that since late March 2019, the number of Douyin accounts set up by apparel firms has increased by 5.36 times, with the clickthrough rate up by 1.96 times, the number of videos posted on the platform up by 5.18 times, interactions between users (likes, comments and views) up by 1.84 times, and the number of followers up by 3.13 times. The report also indicated that most of the apparel companies launching on Douyin are from Guangdong, Jiangsu and Zhejiang.

Sportswear players dominate China’s Top 10 apparel brands

In 2019, 70% of the brands that made the Top 10 list were sportswear brands, including international players Adidas, Nike, Skechers, and Fila, as well as domestic players Anta, Li Ning and Xtep. With more people leaning toward healthier lifestyles and starting a fitness routine amid the COVID-19 pandemic, we expect sportswear players will continue to lead the Top 10 list this year and next year and to see incremental demand among Chinese consumers. We also foresee that more non-sports brands will expand into the sportswear sector to capitalize on the increasing demand for workout and athletic clothes in the country.

Exhibit 10: Market share of Top 10 apparel brands in China, 2019

Rank	Brand	Market share	yoy change (ppt)	Major category
1	Adidas	2.2%	up 0.3	Sportswear
2	Nike	2.1%	up 0.2	Sportswear
3	Uniqlo	1.2%	up 0.2	Womenswear, Menswear, Childrenswear
4	HLA	1.1%	unchanged	Menswear
5	Anta	1.1%	up 0.1	Sportswear
6	Skechers	0.8%	up 0.2	Sportswear
7	Li Ning	0.7%	up 0.1	Sportswear
8	Balabala	0.7%	up 0.2	Childrenswear
9	Fila	0.6%	up 0.2	Sportswear
10	Xtep	0.6%	up 0.1	Sportswear

Source: Euromonitor International, compiled by Fung Business Intelligence

Most brands showed global negative growth in the first half of 2020 due to the significant impact of the pandemic. Nike announced a 0.6% sales decrease yoy this past quarter (June to August 2020), and Skechers saw a 3.9% decrease yoy in its Q3 performance. However, the China market is showing strong signs of recovery, a fact that is reflected in the sales figures. Contrary to the global trend, Nike's China sales increased by 6% this past quarter. Lululemon performed well in China even in 2Q20, with a 30% yoy increase in total sales. Globally, by 3Q20 the company saw an international sales increase of 45%, and in China it was over 100%.

Despite the pandemic, many major sportswear brands saw remarkable growth in their online sales this year, further cementing e-commerce as the future of apparel retail. Despite overall negative growth, Nike's online sales grew by 82% yoy this past quarter, and Lululemon saw an extraordinary 136% increase in e-commerce sales in China in 2Q20. Furthermore, on Singles Day (11/11) this year in China, Adidas broke 100 million yuan in sales within the first minute. Over the course of the day, Li Ning's official flagship Tmall store earned 770 million yuan and Anta reached total sales of 2.84 billion yuan. Singles Day, one of the biggest shopping events of the year, was seen by many as a definitive sign that China's retail industry is back on its feet.

Note that many brands have been shifting towards online sales before the pandemic began. For example, Nike has actively developed its digital touchpoints apart from online sales. Its membership program and exercise apps have ensured long-term success and brand loyalty that go beyond its products, and its efforts have paid off. Since the COVID-19 outbreak the company has received 30% of its sales from e-commerce, a target that they had set out to achieve in 2023. Furthermore, by equipping its offline locations to help fill online orders – a process that began before the pandemic hit – it has set itself up for success in both the online and offline markets. Earlier this year, Lululemon acquired MIRROR – a smart home gym in the shape of a mirror that offers virtual fitness classes with personalization options. According to their 3Q20 earnings call, MIRROR alone is expected to generate over USD \$150 million in revenue this year.

Our Take

China's apparel industry has taken a hard hit from the COVID-19 pandemic, which forced brands and retailers to temporarily shut down many of their offline stores in the country, causing a slump in apparel sales. Yet despite the short-term disruptions caused by COVID-19, the apparel market has started recovering its growth momentum since 3Q20, soon after the country emerged from the pandemic. This is largely due to the government's rigorous measures to curb the virus, combined with a stimulus package to revive the economy which has successfully boosted consumer confidence and encouraged spending, contributing to a quick bounce back in the country's apparel sales. Throughout the pandemic, we have seen the biggest sub-sector growth in sportswear. We expect that the overall health and wellness trend, likely spurred by increased attention to personal health due to the pandemic, will continue to boost sportswear growth throughout 2020 and 2021. Furthermore, by integrating offline resources and online channels, several key sportswear brands have emerged as the success stories of COVID-19.

Various brand successes (and failures) in the face of the pandemic have underlined the significance of digital transformation in the retail sector. More than ever, e-commerce is an increasingly significant key revenue stream, and brands that have successfully implemented their digital strategies for the COVID-19 market will continue to thrive in the new landscape. We expect a continuous upsurge in online sales and marketing through social platforms such as Douyin (for video content) and Wechat (through its in-platform apps). Furthermore, as offline stores have reopened with a new awareness of digital strategy, we also expect further developments in omni-channel integration and a combination of experiential shopping with digital technologies.

Fung Business Intelligence

Fung Business Intelligence collects, analyses and interprets global market data on sourcing, supply chains, distribution, retail and technology.

Headquartered in Hong Kong, it leverages unique relationships and information networks to monitor, research and report on these global issues with a particular focus on business trends and developments in China. Fung Business Intelligence makes its data, impartial analysis and specialist knowledge available to businesses, scholars and governments through regular research reports and business publications.

As the knowledge bank and think tank for the Fung Group, a Hong Kong-based multinational corporation, Fung Business Intelligence also provides expertise, advice and consulting services to the Group and its business partners on issues related to doing business in China, ranging from market entry and company structure, to tax, licensing and other regulatory matters.

Fung Business Intelligence was established in the year 2000.

Fung Group

Fung Holdings (1937) Limited, a privately-held business entity headquartered in Hong Kong, is the major shareholder of the Fung Group of companies, whose core businesses operate across the entire global supply chain for consumer goods including trading, logistics, distribution and retail. The Fung Group comprises over 30,000 people working in more than 40 economies worldwide. We have a rich history and heritage in export trading and global supply chain management that dates back to 1906 and traces the story of how Hong Kong and the Pearl River Delta emerged as one of the world's foremost manufacturing and trading regions. We are focused on both creating the Supply Chain of the Future to help brands and retailers navigate the digital economy as well as creating new opportunities, product categories and market expansion for brands on a global scale.

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