OTRO 東方旅遊零售觀察

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Contents

1 Focus of the Month

1.1 New Actions on China Duty Free Policy

Since the implementation of the Notice About The Duty Free Shopping Policy of Hainan Offshore Tourists, the duty free shopping quota has been raised from US$4,377 to US$14,590 per person per year, and seven categories of tablets, mobile phones, game consoles, electronic peripherals (earphones, etc.), wine, honey and tea have been added. Meanwhile, the restriction on the number of items to be purchased has been removed, only maintaining the per-time-purchase quantity of cosmetics (30 pieces), mobile phones (4 pieces) and alcoholic goods (1500ml). After the implementation of the new policy, the growth rate of offshore duty free is fine, and the policy has achieved good results. Meanwhile, the Hainan provincial government announced in Auguest, that two local businesses had been granted duty free licenses, and Sanya plans to add an airport duty free shop and two downtown duty free shops by the end of the year, introducing moderate duty free competition to the island.

1.1.1 Impacts of the New Offshore Duty Free Policy in Hainan

Since the implementation of the new duty free policy, the duty free sales in Hainan exceeded RMB5 billion (US$730 million), from July 1st to August 18th, a growth of 2.5 times year-on-year and an average daily sales of over RMB100 million (US$14.6 million). The number of shoppers reached 740,000, an increase of 70% year-on-year. The unit price of customers is RMB6,757 (US$986), increasing 106% year-on-year, and the number of items sold reached 4.58 million, having increased 1.5 times year-on-year.

The detailed features of the new policy are listed as follows.

Feature 1: The postal tax adjustment has resulted in explosive growth in sales of expensive goods. This policy adjustment directly cancels the 8,000 yuan (US$1168) postal tax limit for a single product, which means that the tax exemption ceiling for a single product can reach RMB100,000 (US$14,601). Under the original policy, most luxury goods exceeding RMB8,000(US$1168) are subject to 50% postal tax, and CDFG had to pay part of the tax to sell these products, which not only undermined its price advantages, but also reduced its profit margins. After the adjustment of postal tax policy, some luxury watches, jewelry, bags and clothes gain advantages in price. It is expected that sale scaling up reduces procurement cost and accelerates the update of the products list, producing a virtuous circle.

Table 1-1: The postal tax rate table before adjustment

Tax No.	Item Name	Tax Rate (%)
1	Books, newspapers, publications, educational film and television materials; computer, video camcorders, digital cameras and other information technology products; food, beverages; gold and silver; furniture; toys, games, festivals or other entertainment products; medicines	13
2	Sports goods (excluding golf and golf equipment), fishing supplies; textiles and their finished products; TV cameras and other electrical appliances; bicycles; other commodities not included in tax items 1, 3	20
3	Tobacco, wine; precious jewelry and jewellery jade; golf and golf equipment; high-end watches; high-end cosmetics	50

Source: Ministry of Finance, China Merchants Securities

Feature 2: The consumption limitation in number of items was adjusted, and cosmetics consumption doubled year-on-year. Before the adjustment, the policy pose more restrictions on the number of items purchased. This policy adjustment removed the restriction on the number of items purchased, and only limited the single purchase quantity of cosmetics (30 pieces), mobile phones (4 pieces) and alcohol products (1500ml). Among them, the limit on cosmetics has been increased from the original 12 per visit to 30 per visit, so that the cosmetics purchased by female tourists can not only meet their daily needs, but also be given as gifts to relatives and friends. From July 1st to August 18th, the total number of duty free purchases increased by 1.5 times year-on-year. In particular, the number of single purchases of cosmetics, which are popular with consumers, was relaxed to 30, and the number of purchases increased 1.8 times year-on-year, which quadrupled the sales of this category; the number of jewelry purchases also increased by 1.5 times.

Table 1-2: Comparison of shopping quantity limits before and after the adjustment

	Quantity	Item
Before	12 pcs	Cosmetics, Candy
	8 pcs	Perfume, Diapers, Household Hardware, Health Food, Royal Jelly Preparations
	6 pcs	Jewelry, Watches, Clothing and Apparel, Small Leather Goods, Sporting Goods, Toys, Coffee, Pens, Ginseng Products, Cereals, Olive oil
	4 pcs	Handicrafts, Glasses, Scarves, Neckties, Woolen Fabrics, Cotton Fabrics, Shoes and Hats, Belts, Bags, Beauty equipment, Health care equipment, Tableware and kitchen supplies, Milk powder, Ceramics, Glass products, Clocks, Home medical equipment
	2 pcs	Household air purifier
After	30 pcs	Cosmetic
	4 pcs	Mobile Phone
	1500ml	Liquor

Source: General Administration of Customs

Feature 3: New product categoriess are introduced, yet the introduction of more brands will still take time. After the policy adjustment, the types of offshore duty free commodities increased from 38 to 45, and 7 categories including tablets, mobile phones, game consoles, electronic peripherals (headphones, etc.), wine, honey and tea were added. 90% of the consumers visiting the duty free shops in Sanya are tourists, of which more than 60% are family customers aged between 24 and 45, and 60%-70% are women. The newly added electronics and alcohol are all large-value consumer goods ,which can hopefully attract male consumers. The two new categories of electronics and wine sales in July were close to RMB100 million (US$14.6 million), accounting for 3.2% of the total duty free sales. Among them, the most popular portable electronic products such as mobile phones, wine and tablets accounted for the new categories accounted for about 95% of total sales. Considering the current supply issues of the new product categories, the sales proportion of the new categories still has room for improvement.

1.1.2 Limited Competition Introduced in Sanya

On August 19, the Hainan Provincec Government stated that two Hainan enterprises (Hainan Tourism Investment Duty Free Co., Ltd., a wholly-owned subsidiary of Hainan Tourism Investment Development Co., Ltd., and Hainan Development and Trade Co., Ltd., a wholly-owned subsidiary of Hainan Provincial Development Holdings Co., Ltd.) have been approved for offshore duty free operation, and that it is reported to the Ministry of Finance and other departments for the record. At the same time, Hainan will strive to establish 3 new duty free shops in Sanya within this year, including the Phoenix Airport shop and 2 downtown shops. The specific locations and partners of the new duty free shops will be selected by companies with offshore duty free business qualifications in accordance with the market, but meet the requirements of investment amount, sales volume, area, decoration standards, etc. must be met, and that it opens by the end of this year must be guaranteed.

Chen Xi, director of the Hainan Provincial Department of Commerce, stated that in accordance with the requirements of the Ministry of Finance and other national authorities and the provincial party committee and government's work arrangements for determining the operating entities of offshore duty free shops, the Hainan Provincial Department of Commerce and the Department of Finance jointly formulated a competitive negotiation plan for the establishment of downtown duty free shops in Sanya, in accordance with relevant laws and regulations. An operating entity from outside the province is to be selected from several, using competitive negotiation methods, depending on whether their have rich duty free operating experience, stable international brand cooperation resources, and strong investment capabilities, integrity and law-abiding operation standards.

The business entity must comply with the relevant provisions of the "Interim Measures for the Administration of Tourist Duty Free Shopping on Hainan Islands" and have the duty free operating qualifications. The following conditions must be met:

(1) Establish an independent corporation in Hainan within one month after being determined as the operating entity;

(2) The registered capital should be at least RMB500 million (US$73 million);

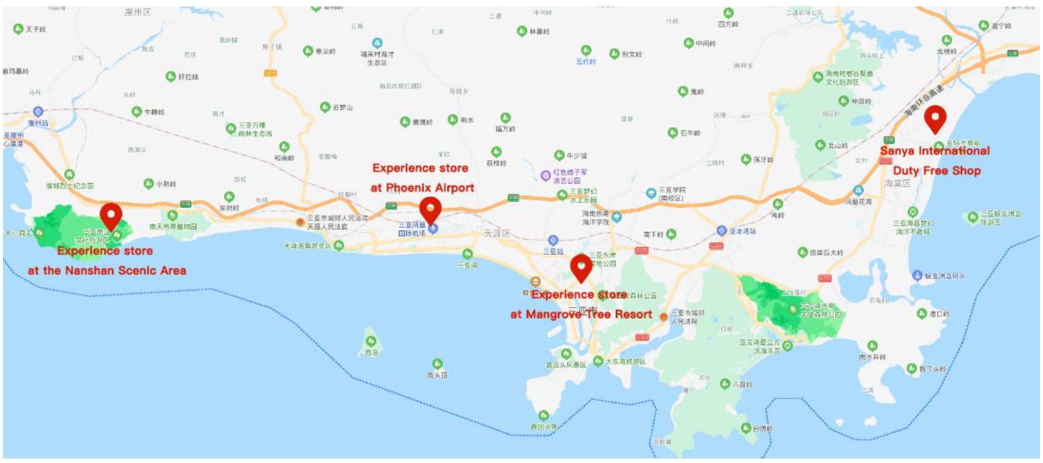
(3) With the capability of sustainable development, stable procurement channels for international brands, and the capability of achieving the international synchronization of brand, variety, and price;

(4) The location of the site of the shop should meet the requirements for resource conservation, environmental protection, orderly competition, and easy for supervision, with convenient transportation and complete supporting facilities. An effective lease agreement with the lessor of the site should be signed for more than 2 years, and the operating area is not less than 20,000 square meters;

(5) Possess a warehouse for duty free goods that meets the requirements of customs supervision, with computer management systems and data transmission capabilities;

(6) Finish the construction of the duty free shop and start operating before November 28th, 2020.

Figure 1-1: Distribution of Duty free shops in Sanya



Source: Baidu Map, Field Research

Since the implementation of the new policy, the offshore sales has explosively increased, but some issues remain, for example, limited number of brands, high price of some goods and long waiting time in some shops. At present, Hainan offshore duty free is generally in short supply, and the Hainan government is planning to add one airport duty free shop and two downtown ones to ease the current demand pressure. Meanwhile, new offshore duty free operation entities, including enterprises in and outside the province, are to be introduced, to build a market in Sanya with limited competition, and to provide clients with better service , more products to choose from, and more competitive prices.

1.1.3 The First Downtown Duty Free Shop in the Middle of China May Settle in Wuhan

On July 27th, WPSD (Wuhan Port and Shipping Development Group, Co., Ltd.) signed a Memorandum of Intent for Strategic Cooperation with China Duty Free Group of China Tourism Group, intending to open up the first CDF downtown duty free shop in the Yangtze River Shipping Center. The duty free shop to be established in Wuhan will be the sixth downtown duty free shop in China, with an expected larger scale and more categories than the other existing shops. For now, the five downtown duty free shops operated by CDFG are located in Beijing, Shanghai, Qingdao, Xiamen and Dalian, respectively.

1.1.4 "Validity Period" Extended at CSDF Shops

The CSDF Downtown Duty Free shop has recently relaxed the shopping threshold substantially for duty free consumption. The original shopping standards, that customers need immigration records to Mainland China within 180 days to be allowed for duty free shopping, has been adjusted to that travellers who returned to Mainland China from August 1st 2019 to June 1st 2020 and have unused immigration records can shop before December 31st this year. According to the related policies, customers are allowed to consume duty free products for up to RMB5000(US$729.5) with each immigration record.

1.2 New Actions on Korean Duty Free Policy

1.2.1 The Problem in Addition of Duty Free Shop in Jeju

On 13th August, the Korean Customs Service announced that two more downtown duty free shops are expected to be approved, one each in Seoul and Jeju. The specific plan will be announced at the end of August, and the final franchiser will be determined early next year. It is predicted that Shinsegae Duty Free and Hyundai Duty Free will participate in the bidding for the franchise in Jej. However, this move was unanimously opposed by small business operators on Jeju Island, believing that the newly established large-scale duty free shops will intensify competition in the duty free industry, and the interests of small business operators will suffer. Whether the plan can be announced at the end of August as planned is still uncertain.

1.2.2 The Rent Adjustment at Incheon Airport

On August 27, the Ministry of Land, Infrastructure, Transport and Tourism of South Korea issued a support plan for the aviation industry, including adjustments to the rental mode of airport duty free shops. The support plan stipulates that by the end of December 2021, all the duty free shops at Incheon Airport will apply a sale-linked rent system, in stead of the old fixed rent, that is, the rent will depend on the sales of the duty free shop and the specific point-up system. This policy will expire as soon as the number of passengers recovers to 80% of the pre-pandemic situation.

Compared with the fixed rent reduction policy, the support plan will further alleviate the survival pressure of the airport duty free shops. Applying the fixed rent reduction policy (which was applied from March to August, reducing 50% of the rent for large and medium-sized duty free shops, and 75% for small and self-employed businesses), the duty free shops in Incheon Airport still pays over KRW40 billion (US$33.68 million) every month for the empty shops in the airport. Take Lotte as an example, the duty free shop in Incheon Airport still has to pay a monthly rent of KRW9.7 billion (approximately US$8.17 million) after 50% reduction; the duty free shops pay a monthly rent of KRW3 billion (approximately US$2.53 million) at Gimpo and Gimhae Airports, even though they are currently closed. After the implementation of this support plan, Lotte hardly needs to pay any rent under the current sales situation.

1.2.3 HDC Shilla Regains the Franchise for a Duty Free Shop in Seoul

On August 20th, the Korean Customs Service released information, approving the renewal of HDC Shilla franchise. HDC Shilla was jointly established by Hotel Shilla and Hyundai Industrial Development in 2015, with 50% of the shares held by each party, and the senior executives of both parties jointly act as legal representatives. The duty free shop is named Shilla Ipark and is located in Ipark Mall at Longshan Station, with a business area of approximately 16,500 square meters. In addition, in December 2019, HDC and Mirea Asset signed a share sale and purchase agreement SPA, planning to jointly acquire 76.5% of shares of Asiana Airlines, of which HDC will hold 31.05%.

1.2.4 The Self-Rescue Plan of the Korean Airline

After the pandemic, Korean Airline continued to work hard to improve its revenue structure through measures such as staff salary rebates, a 70% staff suspension system, and expansion of cargo business. As a part of the self-rescue plan, Korean Air sold the onboard catering and onboard duty free business to private equity fund Hahn&company at KRW990 billion (approximately US$836 million). The transfer agreement was signed on August 25th. Hahn & company will operate this business through the newly established company, to ensure stable supply and service quality, Korean Airline will hold 20% of the share of the newly established company.

1.2.5 Hyundai Duty Free Expands Against the Trend in the Pandemic

As a late-entering duty free group, Hyundai Duty Free chose to expand its business scale to catch up with the top duty free shops during the pandemic. According to recent information, Hyundai Duty Free participated in the bid for duty free shops in Jeju City announced at the end of August, and actively prepared the bid for the duty free operation right of Incheon Airport DF2 (for perfume and cosmetics). In Feburary, Hyundai Dongdaemun 2nd shop opened up despite of the pandemic; Incheon Airport DF7 (for fashion and other products) will open up in September. Experts inferred a large rental pressure of these shops in the airports, but if Hyundai Duty Free wins the bid for the core area DF2, a positive effect can be expected on the introduction of the three major brands, namely, Louis Vuitton, Chanel and Hermes. Whether Hyundai Duty Free can lay a solid foundation in this expansion and become the fourth largest duty free shop in South Korea will be indicated at the beginning of the second half of this year.

2 Data Tracking

2.1 Duty Free: Offshore duty free sales continue to increase in Hainan, Korean duty free slowly recovers

Offshore duty free sales continue to increase in Hainan

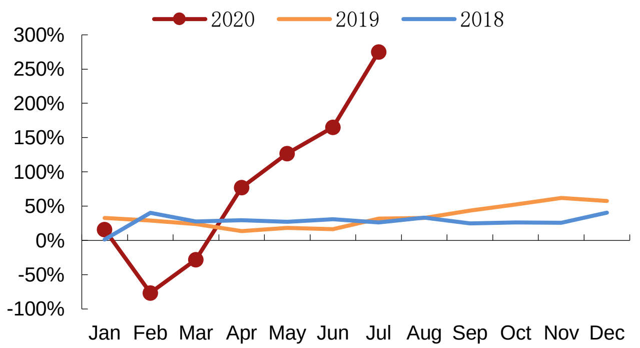
With the gradual recovery of the domestic pandemic, the decline in the number of tourist arrivals in Hainan is smoothing. In July, Department of Tourism, Culture, Radio, Television and Sports of Hainan Province reported a YOY decrease of 10.1% in the number of tourist arrivals in Hainan (YOY decrease in June is 13.74%). Among them, Sanya dropped 2.7% YOY (YOY decrease in June is 17%); Haikou dropped 7.7% YOY (YOY decrease in June is 42.94%).

Since the implementation of the offshore duty free policy, the YOY growth rate of offshore duty free sales of Sanya in first half July exceeded 200%. In July, the duty free sales of Hainan reached US$363.5 million, with a YOY growth rate 240%; the total shopping is 281,000, a YOY growth rate 87%; the unit price of single client increased 82%, reaching US$1,148.22. Among them, shops in Sanya contributed US$296.61 million to the total sales, increasing 275% YOY, and the unit price per client reached approximately US$1,454.

From July 1st to August 18th, the sales of the four offshore duty free shops in Hainan exceeded US$727 million, increasing 2.5 times YOY, with an average daily sales exceeding US$14.54 million; the number of customers reached 740,000, an increase of 70% year-on-year; with 4.58 million items sold, increasing 1.5 times YOY.

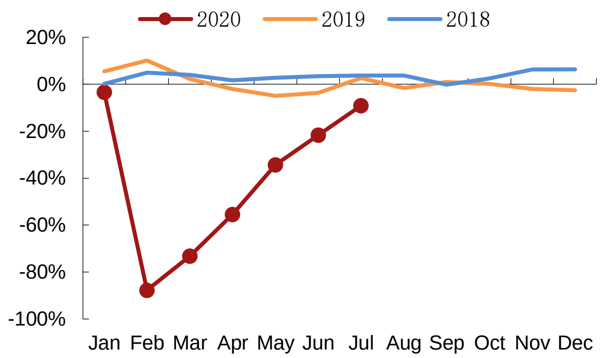
In July, the number of passengers of Sanya Phoenix Airport was 1.3796 million, decreasing 9.18% YOY; of which, the outbound passengers were 667,600, a YOY decrease of 11.40%, and the offshore duty free passenger flow gradually recovered (Figure 2-1). Looking from January to July, the number of passengers of Sanya Phoenix Airport was 6.7818 million, decreasing 43.14% YOY; of which, the outbound passengers were 3.6256, a YOY decrease of 40.14% (Figure 2-2).

Figure 2-1: Monthly YOY growth in sales of duty free goods in Hainan Islands



Source : Ministry of Commerce

Figure 2-2: Monthly YOY growth rate of passenger of Sanya Phoenix Airport

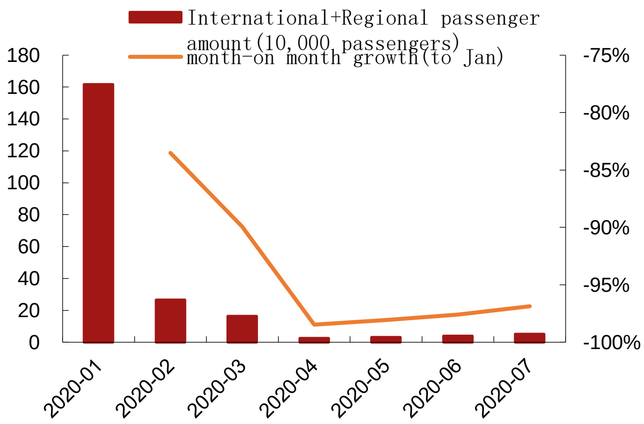


Source: Sanya City Statistics Bureau

International passenger flow continue to decrease, affecting duty free sales

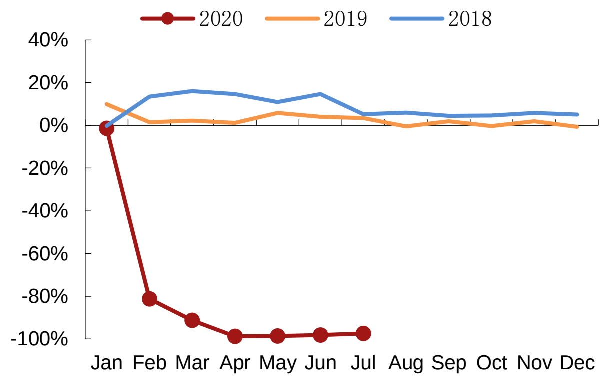
In July, the international pandemic continued to spread, and international flights and passenger flow decreased significantly. The international passenger flow of Baiyun Airport in April, May, June and July dropped by 98.5%, 98.1%, 97.6% and 96.7%, respectively, compared to January, and the airport's duty free income fell as well. The international passenger flow of Pudong Airport in April, May, June and July dropped by 98.8%, 98.6%, 98.2% and 97.5% YOY, respectively. Sunrise Shanghai and Sunrise Beijing are currently selling their inventories in the form of overseas shopping through Sunrise App. In July, the home-delivery revenue of Sunrise Shanghai and Beijing exceeded US$145 million.

Figure 2-3: International + Regional passenger flow trend of Baiyun Airport



Source：Company Statement

Figure 2-4: International + Regional passenger flow trend of Shanghai Airport

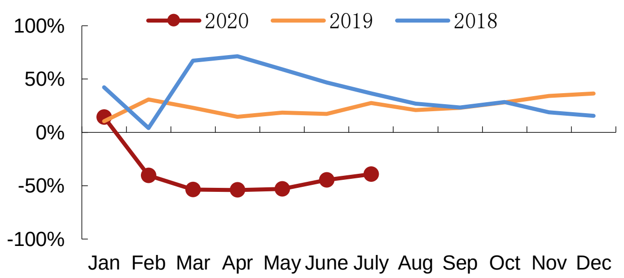


Source：Company Statement

Korean duty free slowly recovers

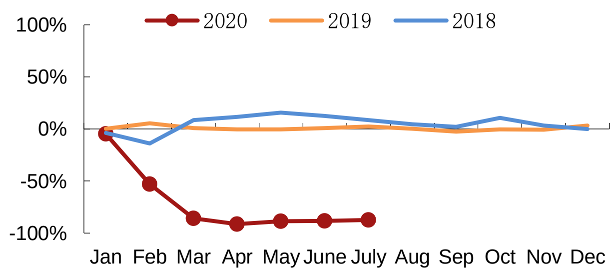
In July, the actual sales of the South Korean duty free industry is US$1.044 billion, a YOY decrease of 39.1%, which was an improvement from the previous month (-44.6%), mainly contributed by foreign consumers. Korean duty free shopping totaled 517,000, a YOY decrease of 87.4%, which was equivalent to the previous month (-88.4%) . Among them, the south korean residents' duty free shopping was US$41 million, a YOY decrease of 86.2%, which was indifferent compared to last month; sales contributed by foreign tourists totaled US$1 billion, a YOY decrease of 29.2%, an improvement from the previous month (-35.2%).

Figure 2-5: YOY growth in duty free sales in South Korea



Source：KDFA

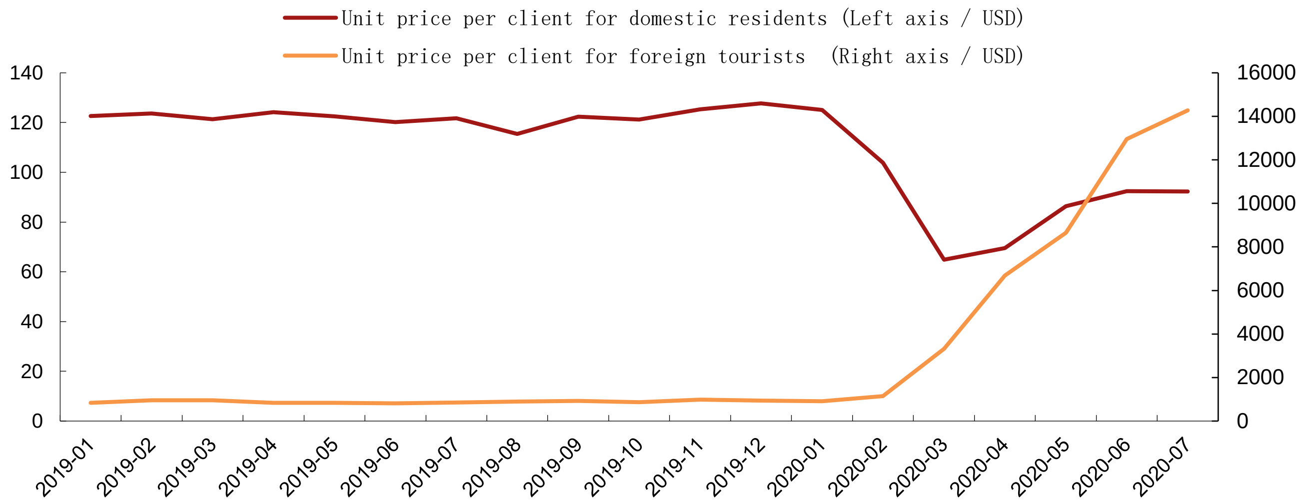
Figure 2-6: YOY growth rate of duty free shopping in South Korea



Source：KDFA

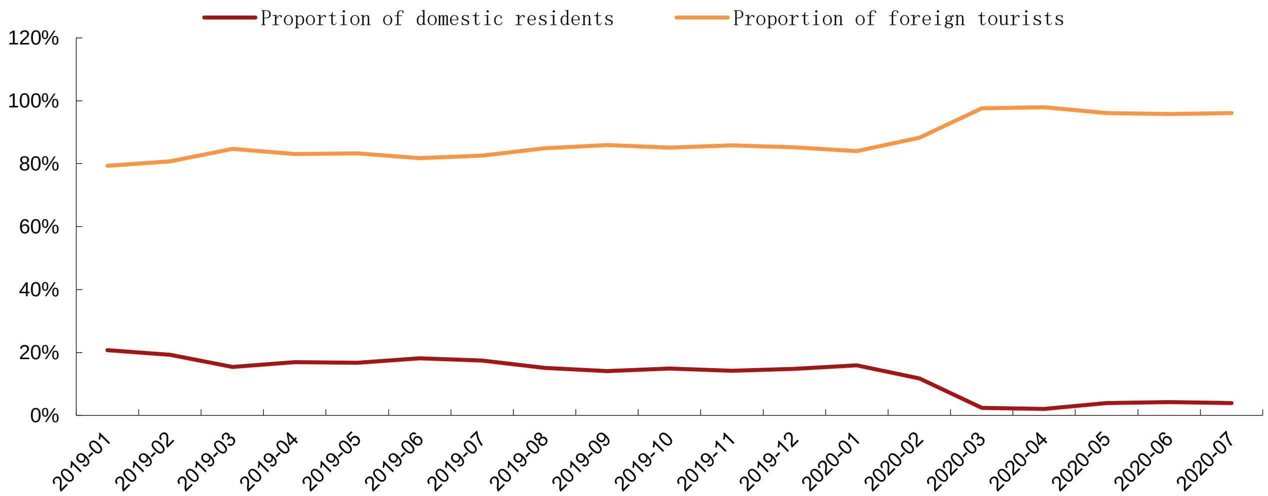
In terms of unit price, in July, the unit price per client of Korean duty fee was US$2,019, a YOY increase of 384%. Among them, the unit price per client of domestic residents was US$92, a YOY decrease of 24.2%; the unit price per client of foreign tourists was US$14,275, a YOY increase of 1575%. In addition, foreign tourists accounted for 96% of the shopping amount, which means that most of the current duty free sales in South Korea are contributed by foreign tourists.

Figure 2-7: Duty free shopping unit price per client for Korean residents and foreign tourists



Source: KDFA

Figure 2-8: Proportion of duty free shopping amount for Korean residents and foreign tourists

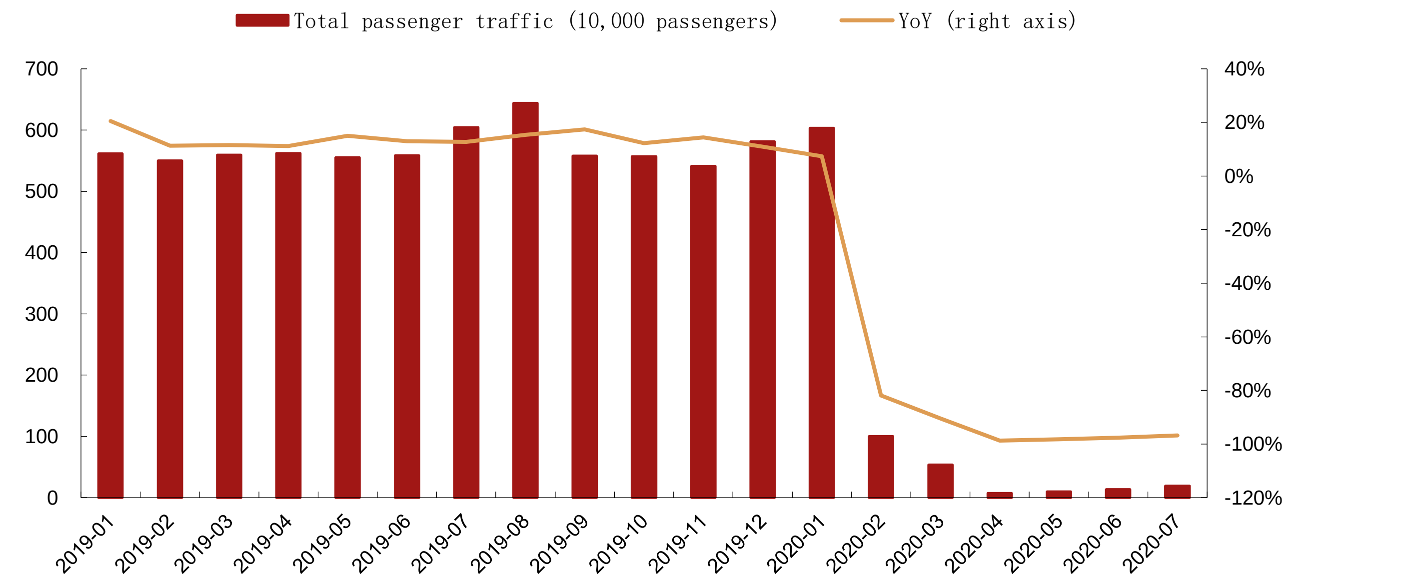


Source: KDFA

2.2 Flight: Passenger traffic sharply dropped, with no sign of recovery

The passenger traffic of the six major airlines dropped sharply in July. In July, the six major airlines carried 192,000 passengers on international routes, a decrease of 96.8% YOY. In July, the international pandemic continued to spread, a large number of flights were grounded, and passenger flow (the passenger flow fell by 97.6% in June) remained low. From January to July, the six major airlines carried a total of 8.057 million passengers on international routes, a YOY decrease of 79.6%.

Figure 2-9: Summary and growth rate of monthly passenger traffic on international routes of the six major airlines



Note: The six major airlines refer to Air China, China Eastern Airlines, China Southern Airlines, Hainan Airlines, Spring and Autumn and Jixiang.
Source: Airline company statement

Due to the pandemic, the number of departures and arrivals of international flights dropped sharply in July YOY, with no sign of recovery. The number of departures from Beijing decreased by 99.04% and the number of arrivals decreased by 96.60% YOY; the number of departures from Shanghai decreased by 98.10% and the number of arrivals decreased by 96.01% YOY; the number of departures from Guangzhou decreased by 98.20% and the number of arrivals decreased by 95.67% YOY.

From the data of domestic airlines, compared with previous years, the number of international flights carried by airlines in June has dropped significantly. Among them, the passenger volume of Air China's international routes decreased by 97.37% YOY; China Eastern Airlines decreased by 98.00% YOY; China Southern Airlines decreased by 97.58% YOY; Hainan Airlines decreased by 98.90% YOY; Jixiang decreased by 96.39% YOY.

2.3 Destination: International passenger flow continues to be sluggish due to the impact of the pandemic at home and abroad

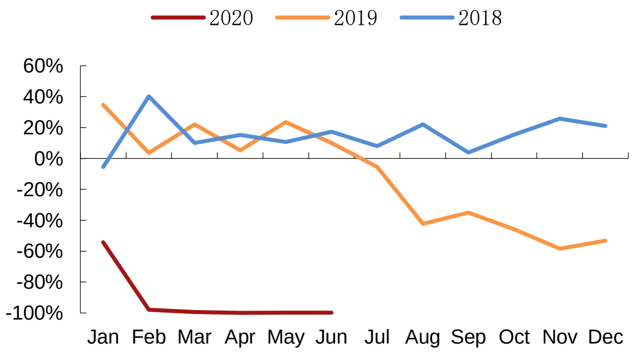
Affected by the pandemic, the outbound passenger flow from mainland China is basically zero, and the same is true for mainland China to Hong Kong, Macao and Taiwan. In June 2020, affected by the pandemic, the passenger flow from mainland China to Hong Kong dropped by 99.93% YOY; the passenger flow from mainland China to Macau dropped by 99.00% YOY, and the passenger flow from mainland China to Taiwan dropped by 99.82% YOY; Under the influence of the pandemic, passenger flow on Japanese routes decreased by 99.97% YOY; Korean routes decreased by 99.98%; Thai routes decreased by 100%, and in July Vietnamese routes decreased by 98.28%.

The specific data are as follows:

In June, Hong Kong received 6,700 mainland tourists, a YOY decrease of 99.83%. From January to June, Hong Kong received a total of 2.68 million mainland tourists, a YOY decrease of 90.28%.

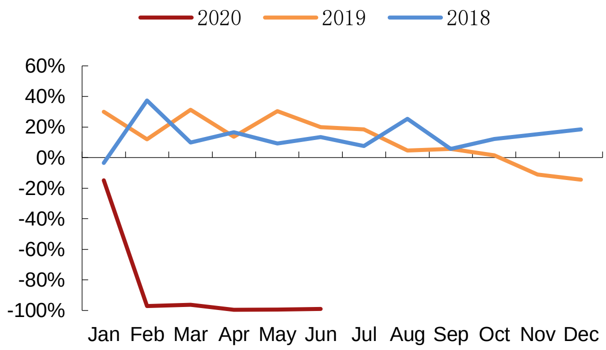
In June, Macau received 21,000 tourists from mainland China, a YOY decrease of 99.00%. From January to May, Macau received a total of 2.3395 million mainland tourists, a YOY decrease of 83.66%.

Figure 2-10: Monthly YOY growth in the number of tourists from Mainland China to HongKong



Source: HKTB PartnerNet

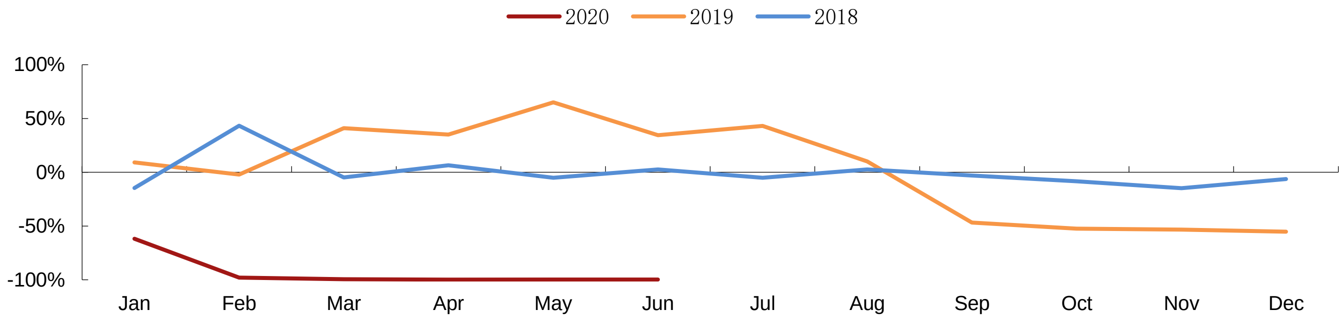
Figure 2-11: Monthly YOY growth in the number of tourists from Mainland China to Macao



Source: Macao Tourism Data Website

In June, Taiwan, China received 800 mainland tourists, a YOY decrease of 99.71%. From January to June, Taiwan received a total of 99,900 mainland tourists, a YOY decrease of 94%.

Figure 2-12: Monthly YOY growth in the number of tourists from Mainland China to Taiwan, China

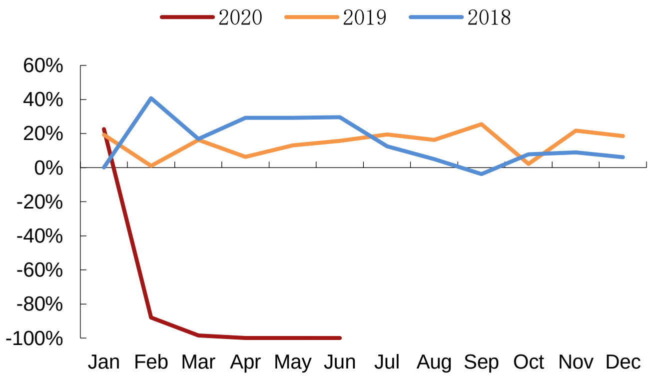


Source: Tourism Bureau,MOTC

In June, Japan received 300 Chinese tourists, a YOY decrease of 99.97%. From January to June, Japan received a total of 1.0229 million Chinese tourists, a YOY decrease of 77.43% YOY.

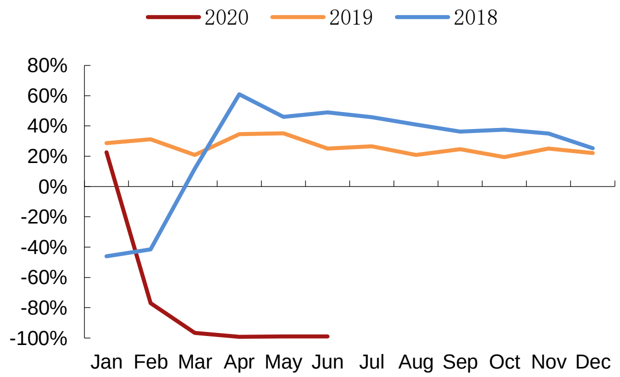
In June, South Korea received 5,100 Chinese tourists, a YOY decrease of 98.94%. From January to June, South Korea received a total of 616,500 Chinese tourists, a YOY decrease of 78%.

Figure 2-13: Monthly YOY growth in the number of tourists from Mainland China to Japan



Source: Japan National Tourism Organization

Figure 2-14: Monthly YOY growth in the number of tourists from Mainland China to South Korea

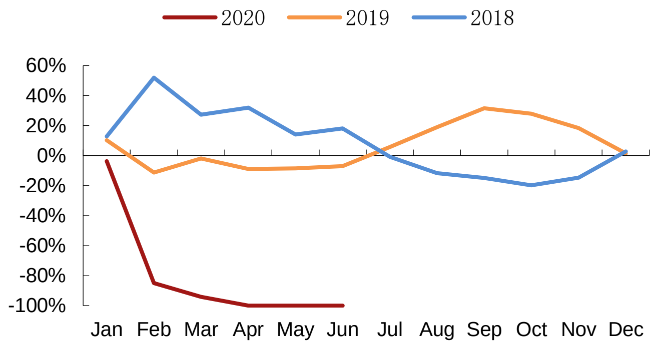


Source: Korea Tourism Organization

In June, Thailand received none Chinese tourists, a YOY decrease of 100%. From January to June, Thailand received a total of 1,247,600 Chinese tourists, a YOY decrease of 77.92%.

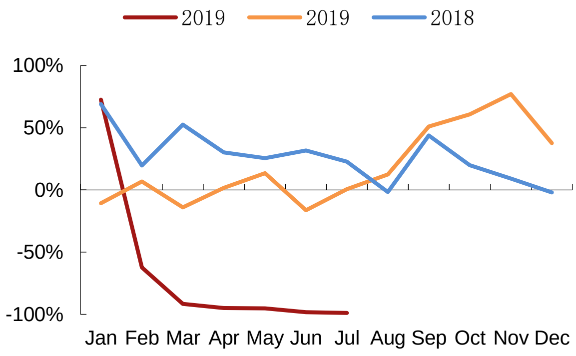
In July, Vietnam received 7,000 Chinese tourists, a YOY decrease of 98.28%. From January to July, Vietnam received a total of 926,400 Chinese tourists, a YOY decrease of 67.95%.

Figure 2-15: Monthly YOY growth in the number of tourists from Mainland China to Thailand



Source: Statistics Thailand

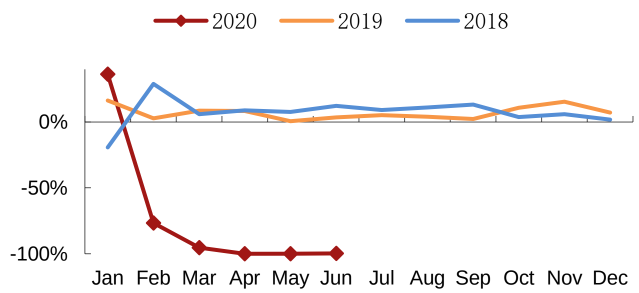
Fogure 2-16: Monthly YOY growth in the number of tourists from Mainland China to Vietnam



Source: General Statistics Office of Vietnam

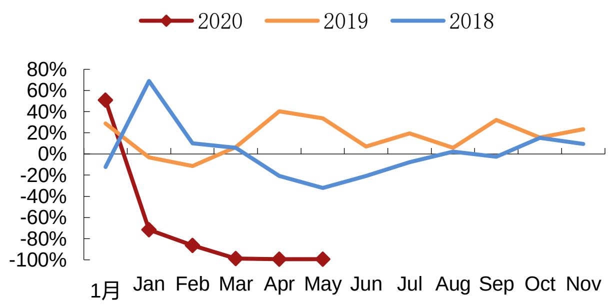
In June, Austria received 200 Chinese tourists, a YOY decrease of 99.81%. From January to June, Austria received a total of 69,700 Chinese tourists, a YOY decrease of 84.28%.In June, Finland received 1,900 Chinese tourists, a YOY decrease of 99.26%. From January to June, Finland received a total of 412,400 Chinese tourists, a YOY decrease of 61.95%.

Figure 2-17: Monthly YOY growth in the number of tourists from Mainland China to Austria



Note: The growth rate reached 96% in January 2017. Source: Statistics Austria

Figure 2-18: Monthly YOY growth in the number of tourists from Mainland China to Finland

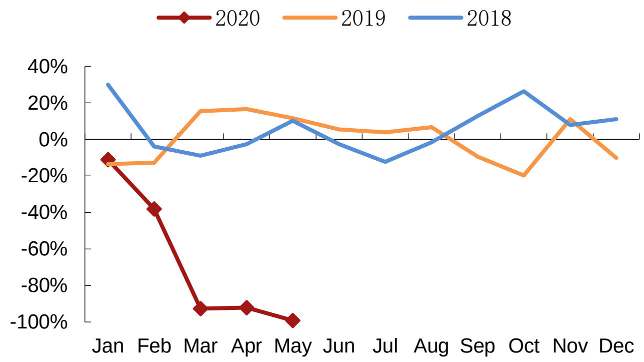


Note: The growth rate reached 181% in January 2017. Source: Statistics Finland

In May, accommodation facilities in Poland received 1,500 Chinese tourists, a YOY decrease of 99.18%.

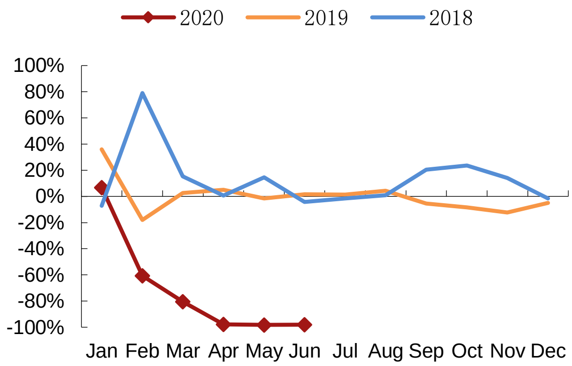
In June, Canada received 1,600 Chinese tourists, a YOY decrease of 97.97%.

Figure 2-19: The number of Polish accommodation facilities receiving Chinese tourists increases monthly YOY



Source: Polish Statistics Office

Figure 2-20: Monthly YOY growth in the number of tourists from Mainland China to Canada

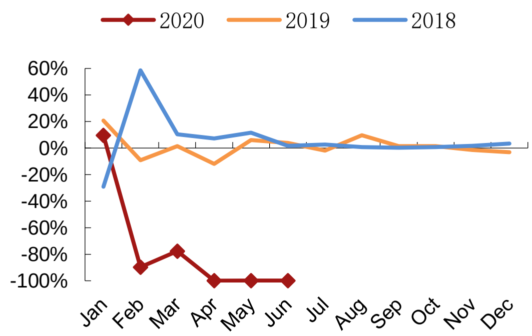


Source: Statistics Canada

In June, Australia's national accommodation facilities received 200 Chinese tourists, a YOY decrease of 99.78%.

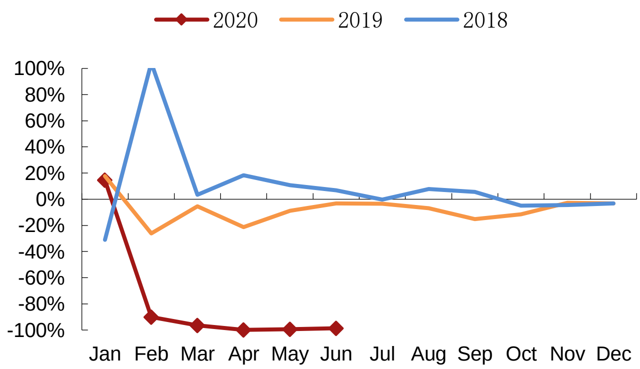
In June, New Zealand received 200 Chinese tourists, a YOY decrease of 99.69%.

Figure 2-21: Monthly YOY growth in the number of tourists from mainland China to Australia



Source: Statistics Australia

Figure 2-22: Monthly YOY growth in the number of tourists from mainland China to New Zealand



Source: Statistics New Zealand

3 Consumer Trends

3.1 Popularity of the Duty Free Shops

Affected by the pandemic, the focus of the travel retail consumers is further tilting towards the domestic market, with Jessica users' five favorite duty free shops being domestic duty free shops. We rank the popularity of duty free shops based on the data collected with Jessica's Secret App and show the results in Table 3-1.

Table 3-1: Search rankings of popular duty free shops

Name	July-20	Jun-20	May-20	Apr-20	Mar-20	Feb-20
Sunrise Shanghai	1	1	1	1	1	1
CDFG Sanya	2	2	2	2	4	5
CDGF Haikou	3	4	5	3	7	9
CDFG Guangzhou	4	6	11	10	13	10
Sunrise Beijing	5	3	3	4	9	6
Lotte Seoul	6	5	6	6	10	3
King Power	7	9	8	8	3	2
Heathrow	8	14	16	39	14	15
DFS Hong Kong	9	7	4	5	5	7
Shinsegae Myeong Dong	10	11	9	12	15	34
KIX	11	8	7	7	6	4
Shilla Seoul	13	12	12	11	8	8
Everrich	14	10	10	9	12	50
CDFG Hangzhou	16	15	14	23	37	40
CDFG Xian	18	17	18	14	24	26
Hong Kong Airport	28	21	20	25	23	26
Ishop Changi	23	31	22	32	20	33

Source: Jessica's Secret

As shown in the table, Sunrise Shanghai and CDFG Sanya occupied the first and second places of Jessica's search ranking of July, like they did for the last three months. Thanks to the continued favorable duty free policy in Hainan, CDFG Haikou manage to take the third place in July. Notable is the significant rise in the ranking of CDFG Guangzhou in the recent two months. Compared to the beginning of this year, CDFG Hangzhou and CDFG Xian have also become more popular among the Jessica users. In contrast, DFS Hong Kong and Hong Kong Airport Duty free Shop became less favored by the Jessica users in July.

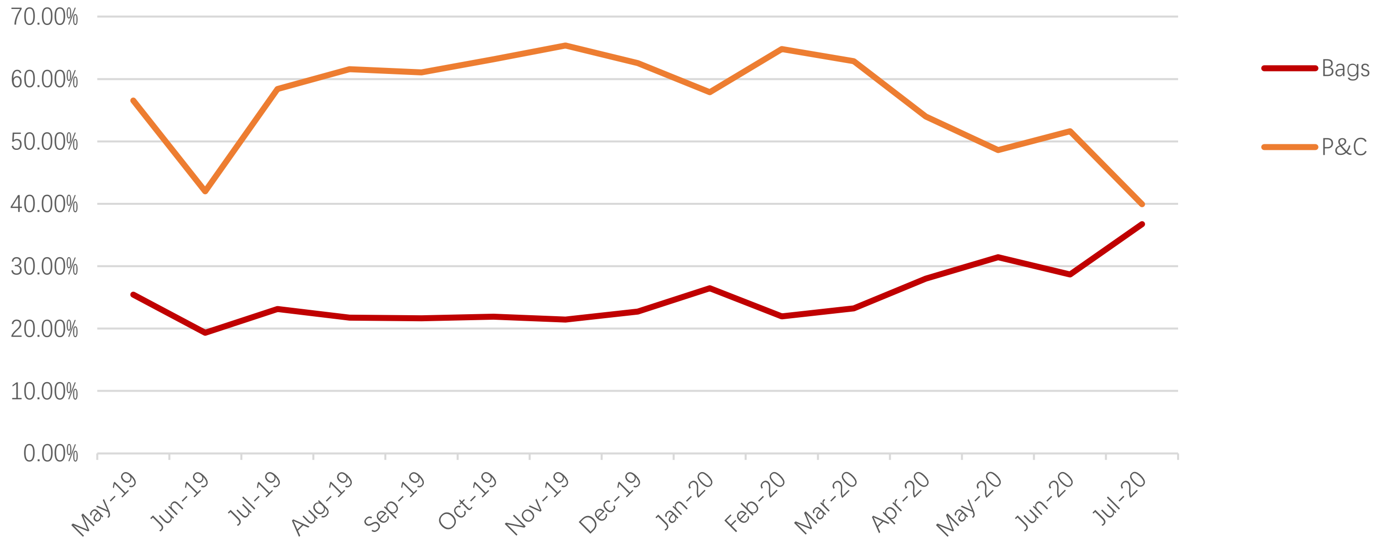
In July, the rankings of the listed duty free shops in Korea sank synchronously by one place. KIX ranked 11th in July, after continuously sinking for the last six months. The ranking of King Power rebounded slightly in July after sinking in the previous months. Other foreign duty free shops with risen rankings in July are Heathrow and Ishop Changi.

3.2 Popularity of Products, by Category

We observe comparative popularity of different categories of products by looking at their search rates by Jessica's users. As shown in Figure 3-1, the search rate for P&C dropped by over 10% in July, in comparison to that of June. In the meantime, the search rate for bags rose by approximately 10%, reaching 36.74% in July, almost equaling that for P&C (39.93%).

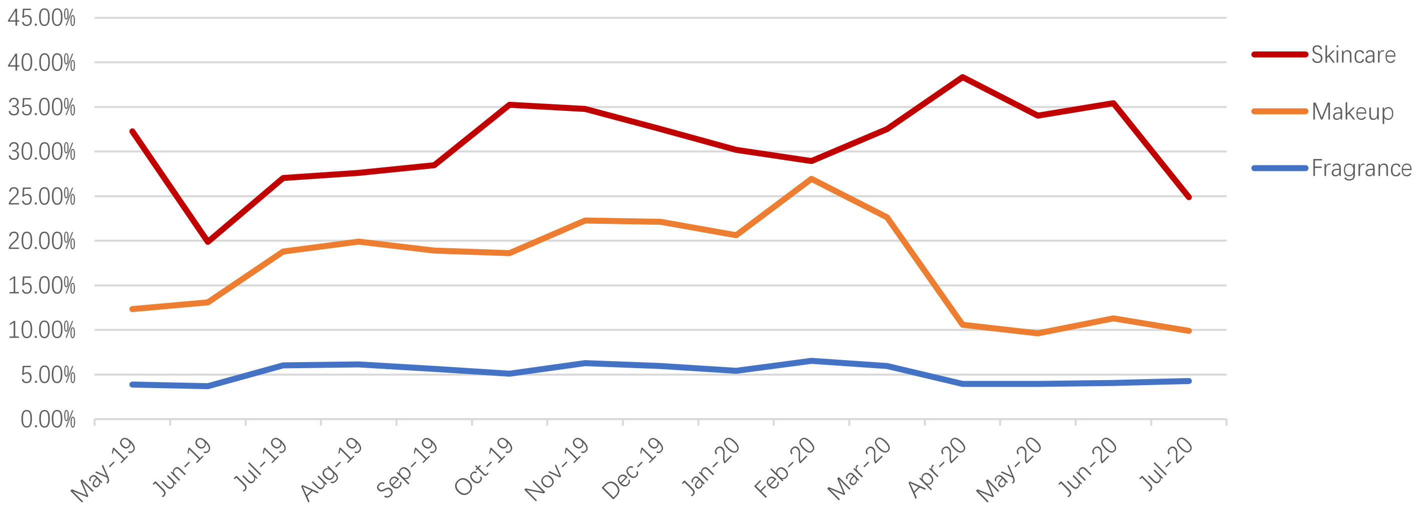
Breaking the P&C category down into skincare, makeup and fragrances, we show their click rates in Figure 3-2. It can be inferred that the dramatic fall of the search rate for P&C mainly resulted from the drop in that for its subcategory skincare. As for makeup and fragrance, the search rates changed only slightly compared to those of June.

Figure 3-1: Historical search rates of the P&C products and bags



Source: Jessica' s Secret

Figure 3-2: Historical search rates of skincare, makeup products and fragrances



Source: Jessica' s Secret

3.3 Popularity of Some Products, by Subcategory

We observe the relative popularity some products by ranking their searches by the Jessica users. The rankings are shown for the top 10 popular products in July, for the subcategories of P&C and bags in the tables below. As shown in the tables, the search rankings of items change only to a small extent in general.

In category skincare, the top 7 items searched in July were all ranked in the top 10 last month. CPB Correcting Cream Veil, Chanel La Mousse Anti-Pollution Cleansing Cream-To-Foam and La Mer Moisturizing Cream, which ranked 8, 9 and 10 respectively in July, ranked 14, 22 and 27 in the last month, respectively (Table 3-2). Worth mentioning is that, the search ranking of the new Estee Lauder Advanced Night Repair Synchronized Multi-Recovery Complex rapidly rose and occupied the fourth of the weekly skincare search ranking, after being launched on Jessica's Secret App on July 31st. It then maintained the fourth place in the real time skincare search ranking(data last monitored at 27th Aug).

Table 3-2: Top 10 popular skincare products

Name	Ranking July	Ranking June	Change
Estee Lauder Advanced Night Repair Synchronized Recovery Complex II	1	1	0
La Mer The Treatment Lotion	2	3	↑up,1
Estee Lauder Advanced Advanced Night Repair Synchronized Recovery Complex II Duo	3	2	↓down,1
Lancome Advanced Genifique Duo	4	5	↑up,1
Clarins Double Serum Complete Age Control Concentrate Duo	5	6	↑up,1
SK-II Facial Treatment Essence	6	9	↑up,3
Estee Lauder Advanced Night Repair Eye Supercharged-Complex Duo	7	4	↓down,3
CPB Correcting Cream Veil	8	14	↑up,6
Chanel La Mousse Anti-Pollution Cleansing Cream-To-Foam	9	22	↑up,13
La Mer Moisturizing Cream	10	27	↑up,17

Source: Jessica’s Secret

For makeup products, most items ranked top 10 in July ranked in the top 15 last month, except for *Giorgio Armani Lip Maestro Xmas 405*, which ranked 2nd in July, ranked 34th in June (Table 3-3).

Table 3-3: Top 10 popular makeup products

Name	Ranking July	Ranking June	Change
Giorgio Armani Lip Maestro Lip Stain 405	1	1	0
Giorgio Armani Lip Maestro Xmas 405	2	34	↑up,32
YSL Rouge Pur Couture the Slim Matte Lipstick 21 Rouge	3	2	↓down,1
Tom Ford Paradox Lip Color 80	4	3	↓down,1
Giorgio Armani To Go Cushion Foundation 02	5	4	↓down,1
Giorgio Armani Power Fabric Foundation #2	6	11	↑up,5
Givenchy Prisme Libre Edition Couture 01 Mousseline	7	6	↓down,1
Nars Light Reflecting Pressed Powder	8	14	↑up,6
Tom Ford Eye Color Quad Honeymoon	9	8	↓down,1
Giorgio Armani Designer Lift Foundation 03	10	5	↓down,5

Source: Jessica’s Secret

Compared with the previous month, the most popular three fragrances have swapped positions in rankings this month. In addition, Serge Lutens La fille de Berlin rose from the 27th last month to the 9th in July. The other items that were shortlisted in the top 10 of July ranked in the top 15 in June.

Table 3-4: Top 10 popular fragrances

Name	Ranking July	Ranking June	Change
YSL Black Opium Eau de Parfum	1	2	↑up,1
Byredo Rose of No Man's Land Eau de Parfum	2	3	↑up,1
Jo Malone London Wild Bluebell Cologne	3	1	↓down,2
Bvlgari Pour Homme Eau De Toilette Spray	4	6	↑up,2
Chanel Chance Eau Tendre Eau De Toilette Spray	5	15	↑up,10
Tom Ford Oud Wood EDPS	6	7	↑up,1
Chanel Bleu de Chanel Eau de Toilette Spray	7	4	↓down,3
Chanel Bleu de Chanel Eau de Parfum Spray	8	11	↑up,3
Serge Lutens La fille de Berlin	9	27	↑up,18
Chanel Eau De Parfum Spray	10	12	↑up,2

Source: Jessica' s Secret

Compared with other categories, the search ranking of bags is strongly stable (Table 3-5). Each of the top ten items searched this month had a place in the top ten list last month, with only some of their positions swapped,.

Table 3-5: Top 10 popular bags, July 2020

Name	Ranking July	Ranking June	Change
LV NeoNoe Rose Poudre	1	1	0
LV Mini Dauphine	2	3	↑up,1
LV Multi Pochette Accessoires Digital Exclusive Prelaunch Kaki	3	2	↓down,1
LV Pochette Accessoires	4	5	↑up,1
Gucci GG Marmont small matelasse shoulder bag black leather	5	4	↓down,1
LV Nano Noe	6	7	↑up,1
Gucci Online Exclusive Preview 1955 Horsebit Bag	7	6	↓down,1
Chanel Lambskin Gold-Tone Metal Black Mini Flap Bag	8	10	↑up,2
LV Nano Speedy	9	9	0
Dior Book Tote Dior Oblique Bag	10	8	↓down,2

Source: Jessica' s Secret

4 Pricing and Promotion

4.1 Price Indexes of the Duty Free Stores

In this part, we compare prices between duty free stores based on Jessica’s Simple Index (JSI)[1]. We show the JSI for the main duty free stores on 27th of August in Table 4-1. Comparing the price indexes of the representative duty free shops on 27th of August to those on 22nd of June (which we show in the last report), only slight changes are discovered. As shown in the table, Lotte, Shilla and Shinesegae price their general products lower than the other duty free shops observed, having the JSI of 76, 78 and 76, respectively, equaling their JSIs on 22nd of June. Then come JSIs of King Power, Sunrise Shanghai and CDFG Guangzhou, which are 85, 91 and 99, respectively, slightly lowered compared to last month. The rest of the listed stores possess no competitive advantage in pricing, having the optimal price levels above the market duty free average.

Table 4-1: Price indexes for the representative duty free stores

Retailer	JSI	Top 50 Index, Retail	Top 50 Index, Optimal
Sunrise Shanghai	91	86	84
CDFG Sanya	101	91	96
CDFG Guangzhou	99	90	94
DFS Hong Kong	116	106	111
Lotte Seoul	76	101	70
Shilla Seoul	78	102	71
Shinsegae Myeong Dong	76	100	74
King Power	85	98	73
KIX	105	102	101
Changi Airport	100	96	101

Source: Jessica’s Secret, 2020/08/27

To identify the pricing strategies in different duty free shops, we compare their Top(50) Index[2] using their retail prices and

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[1] Earlier this year, Jessica’s Secrets established its price comparing system, Jessica’s Simple Index (JSI). JSI calculates the general price level of a specific store by comparing the prices of the common products that it sells to the world’s average prices of those products. For purposes of comparison, a virtual store, Jessica Standard Store, was established, containing all the common duty free products being sold in duty free shops all over the world. The price of a specific product in the Jessica Standard Store in defined by its average price in different duty free stores over the world, at the time spot of interest. JSI of a specific target store is calculated as follows:

$$\text{JSI} = \frac{\text{Sum of the optimal prices of the } \textbf{shared products} \text{ in the target store}}{\text{Sum of the optimal prices of the } \textbf{shared products} \text{ in the Jessica Standard Store}} \text{ x } 100$$

The “shared products” refers to all the products being sold in the target store, which are included in the Jessica Standard Store at the same time. As for the optimal prices used in calculating JSI (in both the target store and the Jessica Standard Store), we take into consideration of all promotions, including all obtainable discounts, coupons, membership points, cashback and gifts. It is straightforward, that the greater the value of JSI, the higher the general price level of a specific store is, and vice versa.

[2] Observing the actual prices in the common duty free shops, we find that, some duty free shops attract customers by lowering the prices of popular products. In order to identify this strategy, we selected 50 P&C products which are most popular among Chinese consumers according to the Jessica Index, and calculated the price indexes of specific duty free shops containing these popular products only. This

optimal prices, respectively. The results are shown in Table 4-1. It can be inferred that the duty free retailers in China Mainland induce consumption by setting lower prices for popular products. The Top(50) Index for Sunrise Shanghai, CDFG Sanya and CDFG Guangzhou are significantly lower than their own JSI as well as the market average (which is 100 by definition), as are some other Chinese duty free stores not shown in the Table, like Sunrise Beijing and CDFG Haikou. In comparison, South Korean duty free shops attract customers through cashback, which can be identified by comparing the retail price indexes and the optimal price indexes of the Lotte, Shilla and Shinsegae, respectively.

It is Notable that, KIX has an advantage in the availability of popular products, having 38 out of the 50 chosen products available, followed by Sunrise Shanghai and Lotte, having 37. In comparison, only 26 out of 50 show up in the product list of CDFG Guangzhou.

To compare the price levels of popular brands in the duty free shops, Jessica's Secret launched a new price index named Jessica's Brand Simple Index (JBSI), which is calculated as follows (the price used in the calculation refers to the optimal duty free price of the products):

$$\text{JBSI} = \frac{\text{Sum of the prices of the }\textbf{shared products}\text{ of the target brand in the target store}}{\text{Sum of the prices of the }\textbf{shared products}\text{ of the target brand in the Jessica Standard Store}} \text{ x } 100$$

Table 4-2 shows the JBSI for ten popular P&C brands in various duty free stores, and the JSI for each store is listed on the left for comparison.

As shown in the table, the JBSIs for Estee Lauder, Shiseido and Dior of the listed duty free shops are generally lower than the JSIs of the shops, indicating that the retailers focus promoting popular brands. For King Power, none of the listed JBSI is higher than its JSI; as for Sunrise Shanghai, only JBSI for La Mer is slightly higher than JSI. Thanks to cashback in the Korean duty free shops, their JBSIs are lower than the market average, which is 100 by definition. As for CDFG Sanya, whose overall price level is close to the market average, has disadvantage in the prices of Tom Ford, Dior and Armani.

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price index is defined as Top(N) Index, where N refers to the number of products included, and it is calculated as follows: Top(N) Index =

$$\frac{\text{Sum of the prices of the }\textbf{selectd shared products}\text{ in the target store}}{\text{Sum of the prices of the }\textbf{selectd shared products}\text{ in the Jessica Standard Store}} \text{ x } 100$$

Table 4-2: JBSI of popular duty free shops for some P&C Brands

Retailer	JSI	Estee Lauder	Shiseido	SK-II	Lancome	YSL	La Mer	Giorgio Armani	Givenchy	Tom Ford	Dior
Sunrise Shanghai	91	88	85	89	91	88	93	89	83	90	86
CDFG Sanya	101	100	91	95	97	105	103	101	95	103	102
CDFG Guangzhou	99	93	98	97	100	99	93	100	99	107	94
DFS Hong Kong	116	114	110	109	117	116	117	111	118	116	102
Lotte Seoul	76	66	65	75	68	61	71	77	73	86	68
Shilla Seoul	78	69	66	75	70	75	70	79	76	81	70
Shinsegae	76	66	65	77	67	80	70	77	72	86	79
King Power	85	76	70	77	79	82	85	84	80	84	78
KIX	105	94	104	111	101	103	95	99	103	-	-
Ishop Changi	100	101	99	101	97	99	107	102	106	109	-

Source: Jessica’s Secret, 2020/08/25

4.2 Prices for P&C Products in the Duty Free Stores

We compare the prices among the duty free shops of interest by looking at several popular products from each of the three subcategories of P&C. The historical prices are shown for each subcategory, namely, skincare, makeup and fragrances, in Table 4-2, Table 4-3 and Table 4-4, respectively. The prices shown in the tables are the optimal prices, which take into consideration of all promotions, including all obtainable discounts, coupons, membership points and cashback.

Thanks to high cashback in South Korea, the P&C products in the Korean duty free shops have obvious price advantages. The overall actual prices of P&C items in domestic duty free shops are stable. Sunrise Shanghai discounted some Estee Lauder products by approximately 30% from March to May. The prices of Estee Lauder products then rose in June again, as can be seen from Table 4-3. In February, CDFG Sanya and CDFG Guangzhou allowed high discounts for Estee Lauder products. The discount rate was slightly reduced in March, but customers get 25% off for some products by purchasing 3 items or more. This promotion expired at the end of June, and the prices of Estee Lauder products rose in July as shown in the table. In July, King Power issued a large number of coupons, which lowered the prices of P&C products in July. Compared with other duty free shops listed, DFS Hong Kong, KIX and Ishop Changi have no price advantage in the listed products.

Table 4-3: Price fluctuation, skincare (Unit: US$)

Name	Retailer	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20
Estee Lauder Advanced Night Repair Synchronized Recovery Complex II 50ML	Sunrise Shanghai	89.38	88.72	75.77	70.01	69.95	82.35	83.33
	CDFG Sanya	92.99	55.38	67.85	67.85	67.85	68.35	92.23
	CDFG Guangzhou	90.83	54.09	65.22	65.22	65.22	65.71	88.65
	DFS Hong Kong	106.79	107.10	107.10	107.10	107.09	107.09	107.10
	Lotte Seoul	69.30	69.30	69.30	69.30	69.30	70.56	70.56
	Shilla Seoul	69.44	69.44	69.44	70.56	70.56	70.56	70.56
	King Power	85.20	84.15	83.21	79.42	72.50	74.79	73.41
	KIX							
	Ishop Changi	102.36	99.89	99.66	97.43	98.47	99.55	104.86
Estee Lauder	Sunrise Shanghai	101.21	100.45	85.69	79.17	79.11	90.32	91.40

Advanced Night Repair Duo	CDFG Sanya	98.03	58.38	71.53	71.53	71.53	72.06	97.23
	CDFG Guangzhou	100.92	60.10	74.16	74.16	74.16	74.71	100.81
	DFS Hong Kong	114.51	100.42	114.22	114.84	114.83	114.83	114.84
	Lotte Seoul	79.38	79.38	79.38	79.38	79.38	79.38	79.38
	Shilla Seoul	78.12	78.12	78.12	79.38	79.38	79.38	79.38
	King Power	91.64	93.37	92.33	88.12	89.53	92.35	91.70
	KIX	91.16	90.71	92.15	92.49	92.94	93.01	95.01
	Ishop Changi	106.85	104.28	104.03	101.71	102.79	104.23	105.52
Lancome Advanced Genifique Duo	Sunrise Shanghai	239.75	237.96	238.20	220.91	219.25	220.89	214.01
	CDFG Sanya	266.71	264.72	264.98	261.44	259.48	261.41	264.53
	CDFG Guangzhou	295.54	293.34	264.60	264.97	262.98	264.94	268.10
	DFS Hong Kong	259.91	260.05	260.16	260.62	361.26	361.28	361.29
	Lotte Seoul	207.90	207.90	207.90	207.90	207.90	207.90	207.90
	Shilla Seoul	204.60	204.60	204.60	207.90	207.90	207.90	207.90
	King Power	257.77	262.62	259.71	247.87	251.84	259.76	257.92
	KIX	284.46	283.04	287.55	288.60	290.01	292.16	299.11
	Ishop Changi	284.45	222.08	276.94	270.76	273.64	277.48	280.89
Shiseido Ultimune Power Infusing Concentrate Serum 50ML	Sunrise Shanghai	86.36	85.71	85.80	79.57	78.97	79.56	80.51
	CDFG Sanya	103.37	102.60	102.70	95.81	95.09	95.80	96.95
	CDFG Guangzhou	97.31	96.59	93.14	93.27	92.57	93.26	94.37
	DFS Hong Kong	110.65	110.72	110.37	110.97	110.96	110.96	110.97
	Lotte Seoul	70.40	70.40	70.40	70.40	70.40	70.40	70.40
	Shilla Seoul	70.40	70.40	70.40	70.40	70.40	70.40	70.40
	King Power	74.18	69.19	60.37	60.23	61.20	63.12	55.32
	KIX	96.23	95.75	97.27	97.63	98.10	98.17	100.29
	Ishop Changi						100.64	100.89
SK-II Facial Treatment Essence Duo Set (2 x 230ml)	Sunrise Shanghai	274.49	272.45	272.72	252.93	251.03	252.90	255.91
	CDFG Sanya	295.46	294.48	294.78	290.83	288.65	290.80	294.27
	CDFG Guangzhou	285.45	255.85	278.72	279.10	277.01	279.07	282.40
	DFS Hong Kong	348.05	348.24	347.16	349.03	349.00	349.02	355.74
	Lotte Seoul	223.38	223.38	223.38	223.38	223.38	223.38	223.38
	Shilla Seoul	220.32	220.32	220.32	223.38	223.38	223.38	223.38
	King Power	211.15	229.91	227.36	229.04	220.47	227.40	189.80
	KIX	315.69	314.11	319.12	320.29	321.85	322.08	329.02
	Ishop Changi	305.38	295.79	266.94	261.81	270.01	270.01	307.96

Source：Jessica’s Secret

Table 4-4: Price fluctuation, makeup (Unit: US$)

Name	Retailer	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20
Giorgio Armani To Go Cushion Foundation 02	Sunrise Shanghai	64.15	63.68	63.74	59.11	58.67	59.11	59.81
	CDFG Sanya	67.76	67.25	67.32	66.42	65.92	66.41	67.20
	CDFG Guangzhou	66.89	66.39	66.46	65.71	65.22	65.71	66.49
	DFS Hong Kong	75.91	75.96	75.72	76.13	76.12	76.13	76.13
	Lotte Seoul	47.52	47.52	46.20	47.52	47.52	47.52	56.43
	Shilla Seoul	46.86	46.86	46.86	40.26	40.26	46.20	46.20
	King Power	56.28	61.28	58.40	59.72	60.68	56.77	52.24
	KIX	69.72	69.20	70.30	70.68	70.96	70.96	73.47
	Ishop Changi	69.27	67.10	67.30	66.01	68.06	69.01	69.86
Giorgio Armani Lip Maestro Lip Stain 405	Sunrise Shanghai	28.83	28.62	28.65	26.57	26.37	26.56	26.88
	CDFG Sanya	32.73	32.48	32.51	32.08	31.84	32.08	32.46
	CDFG Guangzhou	32.44	32.20	32.23	31.80	31.56	31.79	32.17
	DFS Hong Kong	28.31	28.32	28.33	28.39	36.77	36.77	36.77
	Lotte Seoul	25.20	25.20	25.20	25.20	25.20	25.20	25.20
	Shilla Seoul	24.85	24.85	24.85	21.35	21.35	24.50	24.50
	King Power	28.55	28.78	28.46	28.05	28.50	29.39	22.08
	KIX	34.86	34.60	35.15	35.34	35.48	35.57	36.26
	Ishop Changi	34.78	34.02	34.15	33.50	34.52	35.01	35.44
Givenchy Prisme Libre Edition Couture 01 Mousseline Pastel 1	Sunrise Shanghai				44.66	44.62	44.65	42.47
	CDFG Sanya	52.62	52.23	52.28	51.58	51.19	51.58	52.19
	CDFG Guangzhou							
	DFS Hong Kong	65.62	65.66	65.45	65.81	65.80	65.80	65.81
	Lotte Seoul	41.58	41.58	41.58	41.58	41.58	41.58	41.58
	Shilla Seoul	40.95	40.95	40.95	41.58	41.58	41.58	41.58
	King Power	59.63	59.18	60.13	60.45	60.69	60.84	62.02
	KIX	44.66	44.66	44.66	44.66	44.62	44.65	42.47
	Ishop Changi	57.48	56.09	59.55	58.22	58.84	59.66	60.40
YSL Fusion Ink Cushion	Sunrise Shanghai	49.59	49.22	49.27	45.70	45.35	45.69	46.24
	CDFG Sanya	55.50	55.09	55.15	54.41	54.00	53.69	54.34

Foundation 20	CDFG Guangzhou	54.78	54.37	54.43	54.41	54.00	54.40	55.05
	DFS Hong Kong	50.82	50.85	50.87	50.96	61.93	61.93	61.94
	Lotte Seoul	33.60	33.60	33.60	37.80	37.80	37.80	37.80
	Shilla Seoul	41.18	41.18	41.18	36.54	36.54	36.54	36.54
	King Power			69.99	56.03	50.49	52.43	51.46
	KIX	61.47	61.00	61.98	62.31	62.56	62.56	64.88
	Ishop Changi	56.52	55.16	55.03	53.80	54.37	55.14	55.81
YSL Rouge Volupte Shine	Sunrise Shanghai	30.42	30.19	30.22	28.03	19.48	28.03	28.36
	CDFG Sanya	33.45	33.20	33.23	32.79	32.54	32.78	33.17
	CDFG Guangzhou	33.16	32.91	31.05	31.09	30.86	31.09	31.46
	DFS Hong Kong	30.88	30.85	30.91	30.97	38.06	38.06	38.06
	Lotte Seoul	18.48	18.48	18.48	22.05	22.05	22.05	22.05
	Shilla Seoul	23.43	23.43	23.43	20.79	20.79	20.79	20.79
	King Power	30.27	28.23	24.64	25.38	25.79	26.60	26.11
	KIX	33.94	33.69	34.23	34.41	34.55	34.63	35.30
	Ishop Changi	32.13	32.03	31.35	30.58	30.91	31.34	31.73

Source：Jessica’ s Secret

Table 4-5: Price fluctuation, fragrances (Unit: US$)

Name	Retailer	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20
Jo Malone London English Pear & Freesia Cologne 100ML	Sunrise Shanghai	119.80	118.91	101.50	93.75	99.16	110.38	111.69
	CDFG Sanya	126.15	125.21	112.80	111.29	92.04	92.73	125.11
	CDFG Guangzhou	129.75	128.78	128.91	127.19	94.67	95.38	128.69
	DFS Hong Kong							141.93
	Lotte Seoul	84.32	84.32	84.32	84.32	84.32	84.32	84.32
	Shilla Seoul	81.13	81.13	81.13	93.10	95.20	95.20	92.48
	King Power	105.95	103.14	96.00	95.40	93.09	96.01	98.13
	KIX							
	Ishop Changi							135.49
Jo Malone London Wild Bluebell Cologne 30ML	Sunrise Shanghai	64.44	63.96	54.49	50.33	53.36	59.37	60.08
	CDFG Sanya	68.48	67.97	61.23	60.41	49.97	50.34	67.92
	CDFG Guangzhou	66.32	65.82	65.89	65.01	48.39	48.75	65.77
	DFS Hong Kong							77.41
	Lotte Seoul	42.16	42.16	42.16	42.16	42.16	42.16	42.16
	Shilla Seoul	40.26	40.26	40.26	46.20	47.60	47.60	46.24
	King Power	52.98	51.57	48.00	47.70	46.54	48.01	44.18
	KIX							
	Ishop Changi						68.00	68.18

Tom Ford Fabulous EDPS 50ML	Sunrise Shanghai	272.19	270.16	270.43	213.07	212.92	250.77	253.76
	CDFG Sanya	292.51	290.33	251.06	251.40	197.66	199.13	268.67
	CDFG Guangzhou	266.71	264.72	264.98	261.44	194.61	196.06	264.53
	DFS Hong Kong							309.66
	Lotte Seoul	203.77	200.90	203.77	200.90	200.90	200.90	200.90
	Shilla Seoul	177.94	177.94	177.94	203.77	203.77	203.77	177.94
	King Power	220.41	264.33	230.64	230.10	233.79	241.15	236.70
	KIX							
	Ishop Changi						278.92	279.62
YSL Black Opium EDP 50ML	Sunrise Shanghai	90.39	89.72	89.81	83.29	82.67	83.28	84.27
	CDFG Sanya	106.25	105.46	105.56	104.15	103.37	104.14	105.38
	CDFG Guangzhou	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	DFS Hong Kong	119.66	119.73	119.36	120.00	119.99	120.00	120.00
	Lotte Seoul	96.90	98.80	98.80	65.52	65.52	65.52	65.52
	Shilla Seoul	72.42	72.42	72.42	64.26	64.26	64.26	64.26
	King Power	81.97	83.51	82.58	78.82	80.08	82.60	81.07
	KIX	99.08	98.33	99.90	100.44	100.84	100.84	107.81
	Ishop Changi	104.42	101.19	101.45	99.50	102.58	104.02	105.30
YSL Mon Paris EDPS 50ML	Sunrise Shanghai	96.02	95.30	95.39	88.47	87.81	88.46	89.52
	CDFG Sanya	106.54	105.74	105.85	104.43	103.65	104.42	105.67
	CDFG Guangzhou	108.13	107.32	107.43	110.93	110.10	110.92	112.25
	DFS Hong Kong	119.66	119.73	119.36	120.00	119.99	120.00	120.00
	Lotte Seoul	66.78	66.78	66.78	66.78	66.78	66.78	66.78
	Shilla Seoul	74.55	74.55	74.55	66.15	66.15	66.15	66.78
	King Power							105.35
	KIX	94.53	93.82	95.31	95.83	96.21	96.21	99.19
	Ishop Changi	97.20	96.91	94.71	92.52	93.51	94.82	95.98

Source：Jessica’s Secret

4.3 Promotions of the Duty Free Stores

According to the market information collected by Jessica’s Secret App, promotions in duty free shops mainly include cashback, “buy any N save x%”, “buy any N get 1 free”, and “buy any 2 get 50% on the second”. Jessica’s Secret is collecting information on promotions in different shops and converges the information into discounts.

Take Sunrise Shanghai as an example, its main promotion in July include cashback and “buy any N save x%” for designated products. The number of products covered exceeds 3,000. Among them, products covered by cashback exceed 200. With “buy any N save x%”, consumers get x% off when purchasing N items in a designated group (N lies between 1 and 3, and x depends on the designated group). We show the promotion information and number of discounted items for different P&C brands in Sunrise Shanghai in Table 4-6, where the information on promotion is converted into ranges of discount rates.

In terms of discount rates, lowest discounts are seen for Guerlain, Tom Ford and HR, with the lowest discount 50%. From the perspective of number of items discounted, Dior’s promotion covers the maximum number of products; Givenchy second, covering a total of 144 products; the number of products discounted by other brands does not exceed 50.

Table 4-6: Discounts for some P&C products in Sunrise Shanghai, July 2020

Brand	Number of discounted items	Discount
Dior	389	20%~30%
Givenchy	144	10%~30%
Shiseido	42	10%~30%
Nars	38	10%~30%
Guerlain	35	15%~50%
YSL	28	10%~35%
Tom Ford	25	15%~50%
Jo Malone London	21	10%~15%
Lancome	10	5%~40%
HR	3	10%~50%
Clarins	2	20%
La Mer	1	10%

Source: Jessica' s Secret App

We show the main promotions of King Power in July in the tables below. As shown in Table 4-7, King Power offers "buy N and save x%" for designated products, which is similar to the promotion in Sunrise Shanghai. In addition, consumers get discounts for some products when they consume up to a certain amount. Notably, there are overlaps in the products covered in Table 4-7 and Table 4-8, for which the discounts are stackable, resulting in a lowest final discount of 40%.

Table 4-7: Discounts for some P&C products in King Power, July 2020

Brand	Number of discounted items	Discount
Anessa	116	10%~15%
Sulwhasoo	34	10%~15%
Dior	34	10%
Biotherm	31	20%
Shiseido	26	10%~15%
The Body Shop	19	10%~20%
YSL	10	30%
D&G	8	10%~15%

Source: Jessica' s Secret App

Table 4-8: Discounts and correspondent amount of consumption required in King Power, July 2020

Consumption required (US$)	Number of discounted items	Discount
254	10941	15%
	587	10%
	1980	5%
381	10941	20%
	587	15%
	163	12%
	1749	10%
1907	167	30%
	18	25%
	582	20%
	223	12%

Source: Jessica’s Secret App

Except for discounts provided by the retailers, there are stackable discounts offered by third parties. For example, third-party coupons can be used in Sunrise Shanghai to get 5% off as well as 1% cashback; in King Power 2% off and 5% cashback and in KIX 5% off and 2% cashback (the above mentioned discounts and cashback are valid simultaneously).

5 Interviews with Japanese Purchasing Agents

In the last report, we explored the duty free shopping environment in South Korea through interviews with Korean purchasing agents. In this issue, we will focus on Japan, another major destination for purchasing agents in Asia. To this end, we visited two representative Japanese purchasing agents.

Carol: The Japanese purchasing service industry is deteriorating

The first interviewee, Carol (alias), is a full-time housewife. Her personal income is mainly from her purchasing agent, and she earns an annual income of about US$28,940. Carol lives in Japan. She spends about JPY1.5 million (approximately US$14,100) on purchasing products for her Chinese customers every month. Most of her purchases are products from Japanese local brands, under the categories P&C, baby products and medicines. Mostly, Carol visits the Japanese department stores, such as Takashimaya Department Store, Matsuzakaya Department Store and Mitsukoshi Department Store. The products are shipped back to China by mail or brought back in person by Carol herself, as she visits China over ten times every year.

In addition to purchasing in Japan, Carol occasionally travels to South Korea. She said that the price of goods in Japan has no competitive advantage over South Korea, with the exception of those sold in Japan only. It is understood that the prices of European and American products are very high in Japan, left with no profit margin for purchasing agents. Even the Japanese brands (Suqqu, Fancl, etc.) are priced lower in the Korean duty free shops, once launched, than in local Japanese shops. For example, the actual price of a 230ml package of a very popular Japanese skincare product in Japanese shopping malls is US$217 (that is, about US$94.34 per 100ml); while in Korean duty free shops, packages of 330ml for the same product is available for US$144.7 (about US$43.41 per 100ml), which is even lower than half of the price in Japan. As for the Japanese duty free shops, they price the European and American products lower than the shopping malls, but are still not competitive with Korean duty free shops.

Despite lack of competitiveness in price, the Japanese purchasing agents survive because they have access to some Japanese products which are not supplied to the foreign duty free shops, especially the South Korean ones. These products usually have some loyal customers, and are thus difficult to be replaced by competing products.

Compared with South Korea, Japan offers much smaller discounts. Carol introduced us to the four main ways to achieve the optimal prices when shopping in Japan.

(1) Cashback groups. In contract to the high overall cashback in Korea, the Japanese shops deliver much lower cashback rates. Carol explained that, in Nagoya where she lives, the cashback rate offered by any shop hardly exceeds 3.5%, and even a 3.5% cashback is very difficult for consumers to obtain. Consumers need to purchase more in a designated store to get higher cashback rate, yet there is a single product purchase restriction in the store (for example, each person are restricted to purchase 3 pieces only of each certain product), making it difficult for consumers to spend enough on the desired products to obtain high cashback rates. Although Takashimaya Department Store and Lotte Duty Free in big cities like Tokyo offer higher cashback, the cashback rate hardly exceeds 10%, which isn’ t competitive compared to the duty free shops in South Korea, who could offer a cashback of up to 50%.

(2) Tax refund. Many stores in Japan have launched a tax cashback and an additional 5% discount for foreign consumers. The consumption tax rate in Japan is 8%, so that the consumers get a final discount of approximately 13%.

(3) Point cards. Consumers with department store credit cards earn points proportional to their consumption amount. These points can be directly regarded as equivalent currency for consumption (that is, 1 point is regarded as 1 yen). When a consumer spends a certain amount each year, his or her points earned for the whole year will be doubled. Carol said that consumers usually earn 7% of their consumption amount. Carol’ s annual consumption amount always meets the requirement for double points, she actually earns points as 14% of her total consumption. When the points earned are used for consumption, it is equivalent to a discount of about 12%.

(4) Gifts. In addition to the promotions of the shopping malls, brands also launch activities to promote consumption. For example, some brands offer gifts for their member consumers, when they shop to a certain amount. These gifts are often not expensive in terms of money, but are specifically designed to be commemorative and not for sale.

On the implementation of the offshore duty free policy in Hainan, Carol believes that her purchasing business will not be affected in any way. Carol believes that the attractiveness of offshore duty free is mainly in the European and American products it sells, while many products that she purchases for her customers are sold only in Japan.

Nevertheless, the current situation is not optimistic for Japanese purchasing agents. Starting from April last year, the number of orders for Japanese purchasing agents has gradually decreased. Carol speculates the following reasons for the decrease in her orders.

(1) Domestic cross-border e-commerce platforms have squeezed a part of the market.

(2) Offline competitors, such as Mingtong Mall, has somehow obtained access to some Japanese products not sold in the duty free shops, and possess a price advantage over Japanese purchasing agents.

(3) Some Japanese products are launched in Korean duty free shops, with a lower price than in Japan, which also squeezes a portion of the market.

David: Japanese prices are very stable, and the products are of trusted quality

Our second respondent David (alias), aged 30, is a full-time Japanese purchasing agent. David’s annual income in previous years was about US$150,000, with a gross profit of 15% to 20%, but due to the pandemic, his annual income in 2020 is expected to shrink significantly.

The products purchased by David are mainly mid-to-high-end skincare products of local Japanese brands, where the purchasing agents possess price advantage. David mainly chooses the Japanese department stores for purchasing, such as Isetan and Loft. The purchased goods are usually directly mailed back to China, and then shipped to customers. David has also dabbled in Korean purchasing agents. He said that his final destination of purchasing was set in Japan because the prices in Japan are very stable and the products have trusted quality. David said that he would not choose to shop in duty free shops in Japan , because the product list of duty free shops in Japan is similar to that of South Korea, but the price is not superior to South Korea.

David’s introduced us his best discounts when shopping in Japan:

(1) Regular discounts. Some department stores offer regular discounts, for example, some offer discounts for shopping on the 15th of each month.

(2) Purchasing Points. The purchasing points David introduced to us are similar to the point cards mentioned by Carol. They can be obtained proportional to the consumption amount and can be directly used as equivalent currency. David said that he can get purchasing points up to 30% of the consumption amount when shopping.

(3) Seasonal promotions. Japanese shopping malls usually launch summer sale or winder sale to clear inventory. Typical activities include discounts and multiple points.

Like Carol, David also believes that the implementation of the offshore duty free policy in Hainan will not have much impact on his purchasing business. David told us, that the high-end Japanese skincare products his customers prefer are not sold in Hainan. Besides, most customers wouldn’t bother visiting Hainan in person.

6 Overview of Duty Free Industry System in Japan and Korea

In our previous issues, we focused on Hainan's duty free policy and analyzed the prospects and policy highlights of China’s duty free industry. Today, we will broaden our horizons and focus on the international market. As early as 2011, the Asia-Pacific market overtook Europe to became the world's largest duty free market, and has remained dominant ever since. In this issue we are going to study the duty free industries of Korea and Japan, which are outstanding performers in the Asia-Pacific market, and introduce their duty free industry’s management systems and market access rules.

6.1 Duty Free Industry in Korea

6.1.1 Business Formats: Authorized Duty Free and Jeju Offshore Duty Free

There are two main types of duty free shops in Korea: authorized duty free shops and designated duty free shops. An authorized duty free shop is a duty free shop in the general sense, i.e., downtown duty free, duty free at departure/arrival, diplomatic duty free, on board duty free, etc. A designated duty free shop is a duty free shop established in Jeju Island according to the *Special Act on the Establishment of Jeju Special Self-Governing Province and Jeju Free International Free City*. Delegated duty free shops in Jeju are similar to the duty free shops in China’ s Hainan Island.

6.1.1.1 Authorized Duty Free: Departure And Downtown Duty Free Shops Taking the Lead

Under Korean law, an authorized duty free shop is a shop that sells goods on the condition that the goods can be taken to a foreign country or used by a person who is exempt from customs duties.[3] Taxes exempted at authorized duty free shops include: customs duty,[4] value-added tax,[5] individual consumption tax,[6] liquor tax,[7] and cigarette consumption tax[8]. Due to the contribution of foreign tourists, the high amount of duty free consumption quota for Korean residents, and the wide range of shopping channels, duty free at departure/arrival has become the main format of Korea’ s duty free industry. Among them, downtown departure duty free shops are the core sales channel due to its convenience.

(1) Downtown Duty Free Shops: Pioneering Pick-up Mode for Duty Free Consumption

Korea established its downtown departure duty free shops in 1979, allowing tourists to consume within the consumption quota in downtown areas and pick up their goods at the port of departure with a departure certificate. Being the first of its kind, the mode of downtown shopping and departure pick-up was designed to facilitate foreign tourists, and to withhold outbound consumptions by local residents.

(2) Other Duty Free Formats

Similar to China, Korea's port duty free shops include both departure and arrival duty free. The Korea Customs Service, the Korean customs authority, has also set up duty free shops at ports’ arrival halls from July 2020. Other types of duty free stores also include diplomatic duty free shops and on-board airplane duty free shops.

6.1.1.2 Jeju Duty Free: State-Owned Offshore Duty Free

Designated duty free shops in Korea refers to offshore duty free shops operated and managed by the Jeju International Free City Development Center (JDC) and Jeju Tourism Organization (JTO) for the purpose of raising funds necessary for developing an international free city. They are under the jurisdiction of Jeju Special Self-governing Province and are designated and publicly

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[3] See *Customs Act*, Article 196(1)

[4] See *Customs Act*, Article 96(1) 1.

[5] See *Value Added Tax Ac*t, Article 27(8).

[6] See *Individual Consumption Tax Act*, Article 31(2)3.

[7] See *Liquor Tax Act*, Article 31(2)3.

[8] See *Local Tax Act* Article 54(2) and *Enforcement Decree of the Local Tax Act* Article 65(2).

announced by the head of Jeju Customs.[9] At present, they are located in the departure area of the domestic airport and sea port in Jeju Special Self-governing Province, or at a place that the head of Jeju Customs has designated.[10]

The offshore duty free policy aims at Korean residents. It is designed to exempt or refund customs duties, value-added tax, individual consumption tax, liquor tax, education tax, special rural development tax, tobacco consumption tax, and local education tax for tourists who purchase goods at designated duty free shops and carry them elsewhere within Korea.

6.1.2 Duty Free Shop Management Based On *Customs Act*

The *Customs Act* is the main law for the duty free management in Korea. For example, according to Article 174 of the *Customs Act*, applications for duty free licences should be filed to the head of customs office in accordance with the specific regulations of the Korea Customs Service. Other related policies and rules are mostly promulgated by the Customs Service. In addition, the *Special Act on the Establishment of Jeju Special Self-governing Province and the Development of Free International City*, which was passed by the Korean National Assembly in 2002, established an offshore duty free system.

6.1.3 Market Access: Business License Needed and Foreign Investment Allowed

Korea's duty free industry adopts a licensing system in which companies operating duty free shops need to apply for a duty free business license in accordance with the *Customs Act* and other laws and regulations. In 2013, the operating period of downtown duty free license was reduced from 10 years to 5 years; in 2015, the renewal procedure of downtown duty free license was changed from automatic renewal to open bidding. Large enterprises and small and medium-sized enterprises bid separately according to their size.

Foreign investment is allowed in Korea's duty free industry. There are a total of 1,145 industries in Korea's standard industrial classification, and 60 industries including public administration, foreign affairs, and national defense are excluded from the scope of permitted foreign investment. The duty free industry is not in the prohibited list. As mentioned before, large enterprises and small and medium-sized enterprises bid for business licenses respectively. It is reported that SMEs with no more than 50% foreign shareholding can obtain a "SME Confirmation Letter" issued by Korea’s Small and Medium Business Administration and participate in bidding.

6.2 Duty Free Industry in Japan

6.2.1 Business Formats of Duty Free Shops

Japan's duty free industry also covers the usual duty free shops at departure and at arrival and downtown duty free shops. Airport duty free shops exempt goods from customs duties, while downtown duty free shops exempt goods from consumption taxes.

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[9] See Article 170.(1).4 (a).A of the *Special Act on the Establishment of Jeju Special Self-governing Province and the Development of Free International City* and Article 27.(1) of the *Enforcement Decree of the Special Act on the Establishment and Management of Jeju Special Self-governing Province and the Development of Free International City*.

[10] See Article 4 of the Special Provisions on Duty Free Shops for Visitors to Jeju Special Self-Governing Province, and Article 2 (2) of the Notice on the Operation of Duty Free Shops Designated for Jeju International Free City.

There is also an offshore duty free policy. In order to revitalize the economy of Okinawa Island, Japan introduced the *Special Measures Law for Development of Okinawa* in 1998.[11] After that, it promulgated a series of measures and introduced the Okinawa Islands offshore duty free policy. Goods sold in offshore duty free shops in Okinawa are exempt from customs duties. Similar to Hainan, Okinawa offshore duty free also has duty free shops in Okinawa City and domestic airport. The goods sold in the downtown store can be picked up at the airport, and goods sold at airport shops can be pick up at site.

6.2.2 Market Access and Foreign Investment Access

The Japanese government does not implement a strict authorization and license system for duty free industry. As long as they meet the relevant basic conditions set by the state, enterprises can file to relevant state departments to review their business and duty free shops can be established after approval.

The duty free industry is not categorized as industries prohibited from foreign investment in Japan. Japan’s newly revised *Foreign Exchange Law* imposes strict restrictions on foreign investment in 12 core industries, including aviation, communications, power, and network security, but does not include duty free industries. The Okinawa offshore duty free shop is operated by a Hong Kong company DFS. The question of whether foreign capital can enter into a country’s duty free industry involves the policy space of the industry, as it involves a country’s waiver of part of its taxing rights. According to Okinawa’s offshore duty free policy, it is the customs duties that are exempted. The tax exemption ratio is relatively small and thus has a relatively small impact on the tax revenue of the Japanese government. Therefore, it is easier for the government to open the market for foreign investment.

6.3 Measures to Develop the Duty Free Industries in Japan and Korea

As the leading countries of the duty free industry in Asia, Japan and Korea have introduced a series of promotion policies and measures over the years, some of which can be matched in our country's latest policies.

6.3.1 Supply Side: Innovating Business Modes and Maintaining Orderly Competition

6.3.1.1 Innovative Business Model

As mentioned above, Korea’s downtown departure duty free shops was the pioneer of the global market and became the main sales channel of the country’s industry. There are similar types of duty free shops in China. For example, China Duty Free Group’s downtown shops in Beijing have pick-up points at the Capital Airport. In February this year, 23 administration and ministries including the Ministry of Commerce, the National Development and Reform Commission and the Ministry of Culture and Tourism jointly issued the *Implementing Opinions on Boosting Consumption, Expanding Scale and Enhancing Quality to Accelerate the Formation of a Stronger Domestic Market* (Fagai Jiuye [2020] No.293)(hereinafter referred to as the “Opinion”). The Opinion mentioned, " perfect the policy of downtown duty free shops ... ... and set up in airport and port departure pick-up points for downtown duty free stores". It is foreseeable that the business model of the downtown departure duty free shop will become more common.

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[11] Now amended as *Act on Special Measures of Promotion and Development of Okinawa.*

6.3.1.2 Active Market Competition

Take Korea as an example. The former duty free license system was relatively loose, with a valid operating period of 10 years and automatic renewal after the license is expired. In 2013, Korea amended the Customs Act to reduce the operating period for downtown duty free licenses from 10 years to 5 years; at the same time, the renewal of licenses was reformed to be subject to open bidding procedures.[12] In addition, in recent years, the Korean Customs Service has relaxed its duty free policy and increased the number of duty free business license. The series of measures have led to intensified competition in the Korean duty free industry.

In addition, in order to prevent large companies from over dominating the market, Korea issued the *Measures for Promoting the Growth of SMEs through Duty Free Industries* in October 2013, and formulated measures to expand the scale of SME duty free shops within five years. Korea has adopted a method of restricting competitive bidding to limit the size and operating mode of bidding companies, stipulating that a certain percentage of licenses should be allocated to SMEs, to give more financial preferential policies to them, and increase the proportion of SME products. It helps to promote healthy competition in the overall industry, and at the same time promote the development of tourism in small and medium cities in Korea.

Korea’s policy of stimulating market competition has also brought about some negative effects, leading to unsettledness and turbulence. Taking the lesson, policy liberalization requires careful consideration. Recently, China's duty free industry has also added several new business licenses. We believe that the duty free industry will steadily open up in the future to ensure orderly competition.

6.3.2 Demand Side: Stimulating consumption

On the demand side of the duty free industry, Korea does not impose quota restrictions on the consumption of foreign tourists. It continuously increases the quota for domestic residents, and has formulated offshore duty free policies to attract domestic consumption. The offshore duty free policy in Jeju is similar to that of Hainan, but currently Hainan shows greater determination to open up, with its consumption quota much higher than that of Jeju islands.

While raising the consumption quota, Korea’s duty free business has also driven the growth of local cosmetics industry. According to reports, domestic perfume and cosmetics products account for about 40% of Korea’s duty free consumption. Relevant departments in China are clearly aware of the role of the duty free industry in supporting and promoting domestic products. The *Opinion* published this Feburary emphasized that, “to set up a certain area of domestic products area in duty free shops, guide related companies to develop high-quality and characteristic domestic products exclusively for duty free channels, and develop duty free shops into an important platform for supporting domestic products, displaying independent brands, and disseminating traditional national culture."

[12] Due to the scandals of corruption in bidding procedure and the changes in the Korean duty free market under the China’s restriction order, the license policy for downtown duty free shops was relaxed again. Each downtown duty free license is valid for 5 years and can be renewed for another 5 years, that is, the operation period of downtown duty free shops is extended to 10 years before bidding process; the SME’s licenses for downtown duty free shops can be renewed twice in a row.

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