State of Ecommerce in China

In association with SAP and hybris software
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1. Introduction

The State of Ecommerce in China report is aimed at organisations who want to understand how the world’s largest ecommerce market is evolving, the players that are dominating the sector and how consumer behaviour and emerging technologies are impacting their strategies.

The report looks at key trends and developments, region-specific issues and their business implications, as well as exploring the opportunities and challenges that companies operating in or planning to enter the Chinese market.

In this report, we explore the current ecommerce landscape, the implications for both domestic and international retailers, and the barriers to successful adoption of various approaches. The report includes insights from key ecommerce executives, as well as daily practitioners, to see where the Chinese online retail ecosystem stands today and where it is going.

The report explores the following key questions:

- What is the current state of ecommerce in China?
- How are domestic and international players approaching ecommerce and how successful are they?
- What is the impact of mobile and social?
- What are the barriers to a successful ecommerce strategy?

Methodology

The methodology involved two main phases:

- Phase 1: desk research to identify relevant issues, examples and trends.
- Phase 2: a series of in-depth interviews with a range of digital marketing and ecommerce practitioners.

Contributors

The report features in-depth opinions from senior leaders in ecommerce from brands and agencies that are based in or have operations in China, including: Uniqlo, L’Oreal, 3M, Goodbaby, LifeStyle Logistics, Web2Asia, Baodao Optical, Bluecom Group, China Eastern Airlines, Noah Wealth Management and Wyeth.
1.1. About Econsultancy

Econsultancy's mission is to help its customers achieve excellence in digital business, marketing and ecommerce through research, training and events.

Founded in 1999, Econsultancy has offices in New York, London and Singapore.

Econsultancy is used by over 600,000 professionals every month. Subscribers get access to research, market data, best practice guides, case studies and elearning – all focused on helping individuals and enterprises get better at digital.

The subscription is supported by digital transformation services including digital capability programmes, training courses, skills assessments and audits. We train and develop thousands of professionals each year as well as running events and networking that bring the Econsultancy community together around the world.

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- **China: Digital Market Landscape Report**

- **Baidu Search Best Practice Guide**
2. Foreword by SAP / hybris software

As part of the “State of Ecommerce” series, we are pleased to present this report from Econsultancy, commissioned by hybris software, an SAP company. This time, we wanted to further understand the state of the world’s largest ecommerce economy – China. By exploring and analysing the trends, challenges, opportunities and developments behind China’s ecommerce industry, we can see the influences that contribute to that country’s success story. With this report, we aim to provide foreign and local brands targeting the China market with an in-depth perspective into the factors driving the ecommerce boom.

The Chinese ecommerce industry is fuelled by a myriad of factors, but much of its explosive growth is attributed to the unique landscape in itself. The market value of ecommerce is largely derived from the weak offline retail sector, and online retail has provided consumers with a much needed alternative way of shopping.

It also comes as no surprise that the ecommerce trends and developments run parallel to the income and technological growth. Chinese consumers’ growing disposable income, in addition to the increasing reliance on mobile devices from the upsurge of mobile and internet penetration, has changed the way they shop, and the medium in China has extended beyond urban shoppers and boosted expenditure in lower-tiered cities.

It has also become clear that businesses can no longer separate online and offline commerce for the most part, as multichannel and omnichannel commerce has gained traction in China’s world of retail. Brands with physical stores are expected to implement multichannel strategies to engage customers, promote and sell products through various channels and allow them to enjoy the full brand experience. Even online companies should consider integrated strategy that spans offline as well, especially given that most sales in China require an offline element to close the deal. Ultimately, it is crucial to treat online-to-offline operations as integral components of a single business model to create the most fulfilling and long-lasting relationships with the customers.

Besides the fact that consumers research before purchase and actively engage in ‘webrooming’ and ‘showrooming’, social media has the greatest influence on purchasing decisions in China than anywhere else in the world. Also knowing the main drivers of consumption are the millennials, successful social commerce strategy would essentially have to revolve around social platforms, namely WeChat, to cater to the needs of this demography.

China’s mobile internet users exceeded PC users two years ago, and we’ve reached the point where mobile commerce is the commercial frontier for all retail brands to conquer – mobile commerce is the way forward. With continuous technology and infrastructure developments to support and resolve the logistical challenges, more and more brands will be able to capture new opportunities, most notably in lower-tiered cities and the newly emerging middle class.

I hope you will enjoy reading this report and recognise, as we do, the potential within the dynamic Chinese ecommerce market in the years to come.

Burghardt Groeber
Vice President – Greater China
hybris software
2.1. About hybris software

hybris software, an SAP Company, helps businesses around the globe sell more goods, services and digital content through every touchpoint, channel and device. hybris delivers OmniCommerce™: state-of-the-art master data management for commerce and unified commerce processes that give a business a single view of its customers, products and orders, and its customers a single view of the business.

hybris’ omnichannel software is built on a single platform, based on open standards, that is agile to support limitless innovation, efficient to drive the best TCO, and scalable and extensible to be the last commerce platform companies will ever need. Both principal industry analyst firms rank hybris as a “leader” and list its commerce platform among the top two or three in the market. The same software is available on-premise, on-demand and managed hosted, giving merchants of all sizes maximum flexibility.

Over 500 companies have chosen hybris, including global B2B sites W.W.Grainger, Rexel, General Electric, Thomson Reuters and 3M as well as consumer brands Toys"R"Us UK, Metro, Bridgestone, Levi’s, Nikon, Galeries Lafayette, Migros, Nespresso and Lufthansa. hybris is the future of commerce™. For more information, visit www.hybris.com.
3. Ecommerce Landscape

China is set to become the world’s largest online retail market, having enjoyed explosive growth in the last few years. The market is mainly powered by China’s 302 million online shoppers (nearly half of internet users, up by nearly 25% year-on-year) who are incidentally the world’s most active online purchasers.

A staggering one in seven Chinese consumers turns to the internet for a purchase every day and more than 60% shop weekly, a ratio that is almost three times higher than the global average, according to PricewaterhouseCoopers. By 2020, McKinsey expects China’s online retail market to be as large as today’s markets in US, Japan, the UK, Germany and France combined.

Such has been the upsurge in online shopping by Chinese consumers that forecasts are being shattered. A national ecommerce study carried out in 2012 by the Tongji University predicted that online retail sales would account for 6.3% of total retail sales in 2015. However, this forecast has now been trumped as it seems the market has already exceeded this level: according to iResearch, online retail transactions accounted for 7.9% of all retail sales in China in 2013.

Why has it come about?

What is startling about the stellar growth in online retail transactions is that it comes amid a Chinese economy which is slowing down. China’s gross domestic product (GDP) slipped in the first quarter of 2014 to its slowest level in 18 months. The 7.5% year-on-year growth in the second quarter was only slightly above the 7.4% level seen in the first quarter. According to the National Bureau of Statistics (NBS), the main reason for this is slower than expected global recovery twinned with domestic structural reforms.

Additionally, retail sales recorded an 11.9% year-over-year growth for August 2014, a slight decrease over the 12.2% year-over-year rise seen in July.

Figure 1: China shows signs of economic weakness

![Early Slide](http://online.wsj.com/news/articles/SB10001424052702303546204579436463256966696)
The growth of the ecommerce market comes against a backdrop of the failings of China’s traditional retail industry. For years, many Chinese department stores leased space to suppliers, which crucially meant they were not gaining experience in consumer marketing and picking up on trends.

**What marketers say**

“We launched the Tmall store four years ago and achieved a total of 50 million yuan in sales last year. Ecommerce is now one of 3M China’s strategic pillars. We are making serious efforts to convert the traditional channels to online channels, because the latter is much more profitable than selling through traditional distributors.”

“We have built the basics now and expect to take the leap very soon. We are also planning to set up mmm.com this year to motivate people to buy online, which will also build loyalty and a better customer experience.”

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3M China

“We have been closely watching the impact brought by the internet to the maternity and baby goods industry and have made bold attempts to catch the trend. In July 2000, we built goodbaby.com, the only online platform of its kind in the industry. The website has invited the famous 1819 parenting experts in China to offer free consultation on childcare and education to the general public.

“Over the past decade, the Goodbaby Scientific Childcare website has won a great reputation and millions of active subscribers, which is not only one of the core assets for Goodbaby, but a valuable resource for the ecommerce platform as well. However, we will still need to do a better job in building up a strong user database as well as data mining.

“Realising that online shopping would become a new business model, since July 2010 we have been gradually developing online channels with flagship stores, franchise stores, boutique stores and authorised distributors’ stores opened on Tmall.com, JD.com and Dangdang.com, and achieved a certain scale within a short period of time.”

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Goodbaby

3.1. **Market value and growth**

China’s ecommerce industry is in a state of boom, fuelled by a myriad of factors, such as government policy, upsurge in mobile and social media usage, and an offline retail sector that continues to show signs of weakness.

In fact, online retail sales in China now trump that of the US, according to the Chinese Ministry of Commerce report published in May this year. The report reveals that $296 billion was spent online in 2013 in China, a surge of 41% on the previous year. By comparison, US online sales in 2013 reached $252 billion, a 17% increase on the previous year.

It would not be overstating it to suggest that China’s flourishing ecommerce industry is a poster boy for the whole Chinese economy. It is growing three times as fast as the rest of the Chinese retail market and now represents around 8% of China’s total retail sales. And what is more, it still offers growth opportunities both for domestic and international brands.
How and why the Chinese ecommerce sector flourished is down to a convergence of forces, underpinned by significant income growth in China in recent years, which itself has been fuelled by 20 years of economic boom. Between 1993 and 2011, China’s economy grew at an annual growth rate of 17%, according to data from the World Bank.

This income growth has opened up its population to increased use of technology, most notably greater use of the internet, which has helped furnish a cultural obsession with purchasing the latest luxury goods and gizmos.

At least 30 million new Chinese consumers are expected to shop online for the first time every year until 2015, according to data from Tongji University. Much of the spending from this 30 million will come from millennials, a generation who are keen to spend on status symbol products and luxury items, as they want to show off their wealth and status to all and sundry.

Chinese millennials – and the rest of the Chinese population – have in effect been crying out for a flourishing ecommerce industry either consciously or sub-consciously for years, before the arrival in 2003 of Alibaba’s Taobao which changed the face of the market forever.

Before then, the Chinese had to make do with offline shopping, arguably one of the worst retail experiences in the world. Battling crowds, traffic, not to mention the smog, is not a comfortable experience, more a chore. So the arrival of Alibaba – firstly with Taobao, then Tmall – was a welcome balm to the Chinese population: the opportunity to buy goods from the comfort of their armchairs.

Figure 2: China online shopping market GMV, 2010-2017

In 2012, the combined transaction volume of its two dominant marketplaces topped one trillion yuan, accounting for more sales than Amazon and eBay combined. Additionally, Alibaba managed to raise $25 billion from its US IPO, ranking as the world’s biggest.

Alibaba and the first ecommerce retailers were also afforded a greater advantage than their peers in other countries: unlike Amazon in the US and ASOS in the UK, Chinese ecommerce competes against a largely weak offline offering. China does not have juggernauts like Tesco in the UK and
Walmart in the US dotted around the country, where a loyal consumer base shop every day. Instead, the offline retail sector is largely fragmented.

So it has been little surprise that Alibaba has been able to leapfrog the offline competition and force its way into the national consciousness. The Chinese population like ecommerce, as they like shopping around for the best deals online.

The rise in ecommerce has also been helped by the government. The government’s 12th Five-Year Plan on ecommerce published by the Ministry of Industry and Information Technology in March 2012 sought to actively encourage ecommerce to help poorer parts of the country flourish. The government has also underscored the importance of ecommerce as an independent platform by setting up its first ecommerce regulation centre.

Such has been the surge in growth that it would be impossible to maintain it over time, so there will be a slowing down over the coming years. The gross market value of China’s ecommerce increased 39% last year to 1.8 trillion yuan ($300 billion), according to iResearch (see Figure 2). The growth is expected to slow down over the course of the next few years and the ecommerce market is estimated to reach 4.45 trillion yuan ($710 billion) in three years.

Yet despite this slowdown in growth, Chinese ecommerce players are introducing new products and services which will likely help offset the slowdown. QR codes and instant messaging payments are proving to be exciting technologies for Chinese ecommerce players to experiment with.

The data in Table 1 captures the growing influence of Chinese ecommerce – the region’s combined ecommerce spending is set to almost double by 2016, with China accounting for over two-thirds of it.

### Table 1: Estimated B2C ecommerce sales by country (billions), 2013-2016

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>$181.62</td>
<td>$274.57</td>
<td>$358.59</td>
<td>$439.72</td>
</tr>
<tr>
<td>Japan</td>
<td>$118.59</td>
<td>$127.06</td>
<td>$135.54</td>
<td>$143.13</td>
</tr>
<tr>
<td>South Korea</td>
<td>$18.52</td>
<td>$20.24</td>
<td>$21.92</td>
<td>$23.71</td>
</tr>
<tr>
<td>India</td>
<td>$16.32</td>
<td>$20.74</td>
<td>$25.65</td>
<td>$30.31</td>
</tr>
</tbody>
</table>


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**A snapshot of China’s retail market**

- China’s total retail sales of consumer goods more than doubled in four years, from 10.8 trillion yuan ($1.7 trillion) in 2008 to 20.7 trillion yuan in 2012 ($3.3 trillion).

  Source: **Fung Group, September 2013**

- On 11 November 2010 (Singles Day), online retail sales in China hit 3 billion yuan, while offline retail sales accounted for 44 billion yuan, a difference of nearly 15 times. In 2013, online sales on this particular day reached a record high of 45 billion yuan, an increase by nearly 80% compared with 2012. Also, it was the first time that online sales exceeded offline sales.

  Source: **sootoo.com, November 2013**

- In 2013, online shopping transactions in China reached 1.84 trillion yuan, an increase of 39% year-on-year, and accounting for 7.9% of the total consumer goods retail amount (up 1.6% over the previous year). Online shopping in China is expected to reach 4 trillion yuan during 2016-2017.

  Source: **iResearch, March 2014**
3.2. Key players

China’s online retail environment is dominated by a few major players who have benefited by first mover advantage while achieving critical mass. Others have found a niche which has helped them steer off competition from new entrants into the market. The rise in online retailing has wreaked havoc in the existing offline retail industry, causing thousands of store closures while prompting offline retailers to hit back with opening up their own online offerings.

One key reason behind the success of a number of Chinese ecommerce retailers is that they have successfully found a niche in the market. This has proved a successful counterpoint to Taobao and Tmall, which have sold almost everything under the sun. For instance, Jindong and Suning have focused on consumer electronics, while Yihaodian has focused on food, alcohol and beverages.

Figure 3: Key ecommerce players in China

<table>
<thead>
<tr>
<th>Horizontal ecommerce platforms</th>
<th>Vertical ecommerce websites</th>
<th>Ecommerce brands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taobao</td>
<td>Electronic products</td>
<td>Xiaomi</td>
</tr>
<tr>
<td></td>
<td>Gome, Suning</td>
<td>Smartisan</td>
</tr>
<tr>
<td></td>
<td>Apparel</td>
<td>Liebo</td>
</tr>
<tr>
<td></td>
<td>vip.com, Vancl</td>
<td>Crucco</td>
</tr>
<tr>
<td>Tmall</td>
<td>Grocery &amp; daily necessity</td>
<td>Three Squirrels</td>
</tr>
<tr>
<td></td>
<td>SF-Best, Yihaodian</td>
<td>Chu Orange</td>
</tr>
<tr>
<td>Jingdong</td>
<td>Cosmetics</td>
<td>AFU</td>
</tr>
<tr>
<td></td>
<td>Jumei, Lefeng</td>
<td>Roseonly</td>
</tr>
<tr>
<td></td>
<td>Books</td>
<td>Tangcha</td>
</tr>
<tr>
<td></td>
<td>Dangdang, Amazon</td>
<td>Duokan</td>
</tr>
<tr>
<td></td>
<td>Offline service</td>
<td>Diaoye Brisket</td>
</tr>
<tr>
<td></td>
<td>Meituan, Nuomi, Dianping</td>
<td>Huangtaiji Pancake</td>
</tr>
</tbody>
</table>

Source: Presentation by Barney Loehnis, Head of Digital Asia Pacific, Ogilvy & Mather, at Econsultancy’s Future of Digital Marketing 2014 event.

In 2011, independent merchants accounted for only 10% of the Chinese ecommerce market, compared to 76% in the US. The vast majority (around 90%) of ecommerce transactions occur on marketplaces. These are platforms similar to eBay or Amazon that allow retailers, manufacturers and individuals to sell products and services online. The prevalence of marketplaces has helped wholesalers and manufacturers to sell directly to consumers, which in turn increased competition and provided more choice.

For independent merchants, particularly international ones that want to reach Chinese consumers, marketplaces enable them to launch quickly, with minimal startup costs, and tap into the massive user bases that these platforms have built over the years.

Historically, few major physical retailers have successfully adopted a multichannel strategy. However, this is set to change as an increasing proportion of retailers are realising the benefits of launching their own ecommerce websites rather than opting to sell via marketplaces. For

http://www.mckinsey.com/insights/asia-pacific/china_e-tailing
example, while the bulk of retailers have joined Tmall and opened shops on the platform, not everyone is convinced. For instance, a total of 19 home furnishing retailers have opted to not join Tmall – a small minority given that more than 30,000 sports retailers have joined.

There is little doubt that the prevalence and growth of online shopping has forced retailers to rethink their strategies in response to the new retail environment. Retailers are being forced to fight back with both defensive and offensive moves, as they look to make themselves fit for purpose in this changing environment.

A handful of players have reacted defensively by closing stores. For instance, domestic apparel players Li Ning, Anta, 361 Degree and Peak suffered declines in sales of between 17% and 29% in 2012. As a result, many decided to close the unprofitable stores and focus on improving their core competences.

Other retailers are choosing different options. For instance, mergers and acquisitions are used by some retailers to expand their market presence. An example of this was the partnership between the state-run China Resources Enterprise (CRE) and Tesco, combining Tesco’s 131 outlets with CRE’s almost 3,000 stores.

What marketers say

“Many brands under the L’Oréal umbrella have now opened their online flagship stores on Tmall.com with two key considerations: firstly, the market on the Taobao system is big enough and secondly, Taobao channels can help L’Oréal penetrate into China’s tier 2 and tier 3 cities.

“Yet with the increasingly fierce competition on Taobao, higher requirements are put on marketing professionalism as well as resource input. So putting daily operations of the Taobao store into the hands of a professional third-party agency has become necessary. Doing so, however, means the loss of effective control over the brand and its users.

“Ecommerce activities purely for the sake of sales can no longer satisfy a brand like us, so we started to deploy a vertical ecommerce strategy. We announced that jumei.com and lefeng.com (two vertical cosmetic-focused ecommerce platforms in China) will be authorised channels to sell our products.

“Instead of each brand independently managing its own official website and the online flagship store at tmall.com, ten brands from L’Oréal entered jumei.com and lefeng.com, including high-end brands such as Helena Rubinstein and Lancôme, making the management of various brands under the L’Oréal umbrella at the group level possible.

“Vertical ecommerce platforms can be regarded as online supermarkets of different types – some for luxury shopping, some for middle-range white-collars and some for the lower-end mass consumption, with distribution strategies that somewhat resonate to the various offline channels. We therefore can lend our rich experiences of offline channel management to the ecommerce world and no longer simply take sales as the only measure of performance.

“Ecommerce now allows us to give comprehensive consideration to factors like user profile, data analysis, resource partnership etc. when making decisions on our ecommerce implementation strategy.”

L’Oréal China
What marketers say

"We have formed a strategic partnership with JD.com at multiple levels for product category integration, branding integration, marketing and membership integration, as well as supplier integration in July 2013. We will launch a production line in a few months that will produce products for JD only to guarantee supply. Supply chain management is critical in online business. Taobao and JD.com combined contribute to 90% of Goodbaby’s total sales.”

Goodbaby

3.2.1. B2C

China’s B2C online retail market is growing faster than the C2C one due to the rapid growth in online stores established by retail brands. Additionally, Chinese shoppers feel they have less to worry about in terms of buying counterfeit goods or receiving poor service from these B2C ecommerce players.

In China, most transactions take place over marketplaces, rather than B2C platforms, making the ecommerce market quite unique. In terms of players, data from EnfoDesk shows that Taobao-owned Tmall is the dominant player, accounting for over half of the market (52%). Tmall serves as a platform for brands to open and operate branded stores, versus other players that provide full-service fulfilment.

Figure 4: China’s B2C market in 2013

<table>
<thead>
<tr>
<th>Platform</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tmall</td>
<td>52.1%</td>
</tr>
<tr>
<td>JD</td>
<td>18.3%</td>
</tr>
<tr>
<td>Tencent B2C</td>
<td>6.4%</td>
</tr>
<tr>
<td>Suning</td>
<td>4.3%</td>
</tr>
<tr>
<td>Amazon China</td>
<td>2.2%</td>
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<tr>
<td>Vipshop</td>
<td>2.2%</td>
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<tr>
<td>Dangdang</td>
<td>1.9%</td>
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<tr>
<td>Gome</td>
<td>1.8%</td>
</tr>
<tr>
<td>Yihaodian</td>
<td>1.5%</td>
</tr>
<tr>
<td>VANCL</td>
<td>0.7%</td>
</tr>
<tr>
<td>Other</td>
<td>8.6%</td>
</tr>
</tbody>
</table>

Source: iResearch, March 2014

The platform has benefited from Alibaba’s over-arching brand and resources which its rivals can’t match. Double 11 (or Singles’ Day, held every year on November 11) is China’s equivalent of Cyber Monday and is also a key factor contributing to Tmall’s performance: in 2013, sales volume reached $4.8 billion.

Second behind Tmall is Jingdong (JD.com, formerly 360Buy), boasting a market share of 18%. Jingdong is particularly well-known for its quick service, helping the company win customers.
None of the other businesses have double-digit market shares, though they are strong in particular areas. For instance, Tencent B2C (including QC Group Buying and Yixun) has a 6.4% market share, boasts a huge amount of traffic, but on the downside it has struggled to convert its traffic into sales. Last year, Tencent streamlined its business by merging its departments so it was no longer overlapping resources.

While lagging behind the Chinese competition, Amazon has been helped by its global brand reputation, but its move into the Chinese market has not been plain sailing. Boasting a market share of only 2.2%, Amazon has struggled to adapt its business to the Chinese market. However, its prices, technology and delivery service have worked in its favour.

Celebrating ten years of operations in China, Amazon has recently entered a strategic partnership with the Shanghai Free Trade Zone (FTZ). As part of the deal, Chinese consumers will be able to directly buy products listed on Amazon’s international websites, while Chinese small and medium-sized businesses are allowed to sell to consumers overseas.

In the direct sales sector, Jingdong ranks first with a market share of 47%, followed by Suning with 11% and Icson with around 6% (see Figure 5).

One recent phenomenon in the sector is represented by flash sales, which typically last for a week. Many brands have mimicked Vip.com, which offers luxury items at discounted prices of up to 70% less than high-end retailers. Dangdang, Tencent B2C and Jingdong have followed suit with similar flash sales.

Figure 5: China’s B2C direct sales market in 2013

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<td>JD</td>
<td>46.5%</td>
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<td>Suning</td>
<td>10.8%</td>
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<td>Icson</td>
<td>5.9%</td>
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<td>5.7%</td>
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<td>Vipshop</td>
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<td>Dangdang</td>
<td>4.8%</td>
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<td>Yihaodian</td>
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<tr>
<td>Other</td>
<td>10.5%</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

Source: iResearch, March 2014
Case Study: Intime Retail Group

Background
Intime operates 36 malls and stores around China and was one of the pioneering Chinese department stores to set up an online store, launching Yitai.com in late 2010. Yitai.com is run by Zhejiang Intime Electronic Commerce Co. Ltd (Intime owns 40% of the company).

Intime adopts a two-pronged approach, with its online offering targeting the mass market and the offline stores targeting mid and high-end consumers. The overlap rate between the two is less than 50%.

The change
In an effort to enhance its ecommerce presence, Intime partnered with Alibaba for the 2013 Singles Day promotion for the first time. Intime launched a campaign allowing customers to pre-order products in Intime’s Tmall store by scanning the product barcodes at its 36 offline locations. Online transactions could therefore be completed before the shopping event started on 11 November. This helped the company reach a record number of sales – six times more than a year ago.

As part of the campaign, Intime also handed out 10,000 coupons which Tmall users could spend in the designated offline stores of Intime.

Going forward
Intime is now set to offer its customers the complete omnichannel experience. It intends to create a unified client database and offer the same merchandise and shopping experience across all channels.

In March 2014, Alibaba Group announced that it would invest approximately $692 million in Intime (for a 9% stake in the company) to develop online-to-offline (O2O) opportunities and access Intime’s offline inventory product database. This will give Tmall the ability to increase its offer of products and use Intime’s physical department stores as fulfilment hubs for online orders.

The deal will also allow users of Alibaba’s e-wallet app (Alipay) to make in-store payments at all Intime stores after tying the app to virtual prepaid cards.

3.2.2. B2B

The B2B sector has always been responsible for a large proportion of the transactions within China’s ecommerce arena. According to a report released by EnfoDesk, the gross market value of China’s B2B market hit 7.1 trillion yuan ($1.16 trillion) in 2013, a surge of almost 20% year-on-year. The total revenue of the B2B sector was 16.98 billion yuan ($2.76 billion), an uplift of 25% year-on-year.

Unlike the fragmented nature of the B2C sector, a large proportion (70%) of the market is controlled by the top nine B2B ecommerce brands.

The sector is again dominated by the Alibaba behemoth, which boasts a market share of 46% and, through its two marketplaces (Taobao for small sellers and Tmall for larger retailers), proved how successful B2B ecommerce players can be. In fact, Alibaba’s significance extends beyond dominance in sales, as it has also brought a cultural change in the Chinese society. Due to the launch of Alibaba, Chinese consumers now turn first to online marketplaces for many of their purchases.

In July 2012, Alibaba Group divided its B2B business into small enterprise business and international business, which are now respectively known as AliExpress and Alibaba International Station Information. Such has been the rapid growth of AliExpress that it now boasts over 60,000 sellers trading about 30 million goods.
Global Sources and HC360, with respective market shares of 8% and 4%, are the second and third most popular B2B ecommerce brands. Like its market share dominance, Alibaba also boasts the most brand influence (53%), ahead of HC360 (16%) and Global Sources (7%).

One key area of growth in B2B ecommerce is cross-border transactions, helped by new government policies. According to the Chinese Ministry of Commerce, there were 200,000 companies engaged in cross-border ecommerce in 2012, including B2B and B2C companies. The cross-border online transaction volume totalled 2 trillion yuan ($326.8 billion) in 2012.3

Chinese merchants selling on eBay are particularly looking to expand their reach, according to an eBay report on cross-border sales from China.4 The US, UK and Australia represent the largest markets for Chinese sellers on eBay, but sales are growing rapidly in other countries as well – Argentina saw a 130% increase in 2013, while sales to Israel and Norway increased by 79% and 69% respectively. In terms of plans for 2014, around half are planning to enter Australia, the US, Russia and the UK.

Another interesting trend highlighted in the report is that an increasing proportion of Chinese merchants on eBay establish their own warehouses overseas, allowing them to directly compete with local merchants by delivering faster and accepting returns more easily.

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3 The Ministry of Commerce of China, via Internet Retailer, October 2013
4 http://www.internetretailer.com/2014/06/24/us-top-market-chinese-companies-selling-ebay
What marketers say

“For some of our international customers in China, the big concern is the imports procedures and problems associated with importing the products and not being able to return them back to their original country. Another concern is the distribution of the products to tier 3 cities and controlling the service level.”

Andre Suguiura, Managing Partner, LifeStyle Logistics (Shanghai)

“2014 is the ecommerce year in China and the rise of cross-border demand. Ecommerce is definitely generating enough volume and we continue to push forward. We are pursuing the new regulations on the free trade zone, the new import laws, the embargoes, everything that will enable us to give more solid cross-border experiences.”

Lac Tran, Head of Digital, Web2Asia

Ecommerce transactions between China and other countries increased by 32% to 2.3 trillion yuan ($375.8 billion) in 2012 and accounted for 9.6% of China’s total international trade, according to iResearch.5 B2B transactions – mostly overseas companies ordering online from Chinese firms – accounted for 95% of that cross-border trade, with Chinese consumers buying from foreign websites accounting for most of the rest.

Xie Chun, an iResearch analyst, said that “the market continues to develop at high speed and will reach 6.5 trillion yuan ($1.1 trillion) by 2016, representing 19% of China’s total import and export volume of China.”

B2B ecommerce businesses are also growing their tentacles, moving into the B2C world as they look to expand their businesses. For instance, Global Sources has had talks with Amazon, Yihaodian, Dangdang and Suning on how they can work together. Meanwhile, B2C companies are now trading on HC360.com, boasting over 100 million yuan in orders.
Meanwhile, DHgate is a business which is making great strides in establishing its mobile business. In October 2012, DHgate.com set up a mobile foreign trade ecommerce desk offering users a sleeker, quicker system. The company says it already has more than 5.5 million buyers across 227 countries, with about half of its online transactions generated by buyers in North America.

Further developments include Toocle developing its own online payment business, investing 100 million yuan in setting up Zhejiang Toocle Technology, while NetEase has similarly set up an online trading and payment platform.

Meanwhile, international B2B players are following varying paths to grow their businesses. As an example, Office Depot and Staples are pursuing two different paths. While both sell primarily on their own independent ecommerce platforms, Office Depot is a pureplay online B2B products and services provider, while Staples, on top of its ecommerce offering, launched a Tmall store in July 2013 to capture small businesses and individual consumer markets. Additionally, Staples has set up retail outlets which offer delivery services within an hour. Staples believes that this joined-up strategy, covering both online and offline channels, will strengthen its overall position.

The B2B sector, powered by the multitude of players cropping up, is outpacing the B2C sector, which is suffering from consumers’ mistrust that the products they are buying could be fake. Issues around poorly made copies of branded products (Shanzhai) represent a big concern among Chinese consumers and a key search query on Baidu for established branded products. In short, consumers feel they have less to worry about buying fake branded goods or poor service quality from B2B.

However, payment issues continue to plague the B2B ecommerce market in China and prevent growth. Few players adopt a streamlined approach to handling B2B transactions so that the necessary data is linked to payments and security continues to be a prime concern. Logistics bottlenecks and lack of long-distance shippers are also seen to hinder the development of the market.

**Recommended reading**

- [Five important ecommerce trends in China during 2014](https://econsultancy.com/blog/64958-five-important-ecommerce-trends-in-china-during-2014)
- [Alibaba: 30+ amazing stats on China’s ecommerce giant](https://econsultancy.com/blog/64830-alibaba-30-amazing-stats-on-china-s-ecommerce-giant)
- [Ecommerce in China: 25+ stats that highlight one big opportunity](https://econsultancy.com/blog/64728-ecommerce-in-china-25-stats-that-highlight-one-big-opportunity)
- [Western brands selling to a China that’s increasingly open](https://econsultancy.com/blog/64618-western-brands-selling-to-a-china-that-s-increasingly-open)
4. Trends and Developments

4.1. Consumer behaviour

It is China’s new middle class – Generation Y or millennials (people born between the mid-1980s and late 1990s) – who are driving consumption. China has around 400 million millennials, who boast larger disposable incomes, are web-savvy and prolific users of the latest technology.

Additionally, according to a survey by the telecommunications company Telefónica and the Financial Times, around 92% of Chinese aged 18-30 own smartphones – this is significantly higher than the global average of 67%.

These millennials also account for more than half of internet users in China, so it is little surprise they are driving China’s ecommerce growth, even as China’s overall economy declines.

<table>
<thead>
<tr>
<th></th>
<th>Brazil</th>
<th>Russia</th>
<th>India</th>
<th>China</th>
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<tbody>
<tr>
<td>Total population</td>
<td>201m</td>
<td>142.5m</td>
<td>1.2bn</td>
<td>1.3bn</td>
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<tr>
<td>Median age of population, in years</td>
<td>30.3</td>
<td>38.8</td>
<td>26.7</td>
<td>36.3</td>
</tr>
<tr>
<td>Millennials as percentage of total population</td>
<td>30%</td>
<td>27%</td>
<td>30%</td>
<td>28%</td>
</tr>
<tr>
<td>Millennials as percentage of total internet users</td>
<td>54%</td>
<td>61%</td>
<td>75%</td>
<td>58%</td>
</tr>
</tbody>
</table>

Source: JWT Intelligence, ‘Meet the BRIC Millennials’

According to McKinsey, China’s newly emerging middle class is divided into two generations, the most striking of which is Generation 2 or G2, whose profile maps quite closely to the Western concept of millennials. In ten years’ time, these consumers’ share of urban demand is expected to more than double, from 15% in 2012. By then, G2 consumers will be almost three times as numerous as the baby-boomer population that has been shaping US consumption.

By 2022, McKinsey estimates that China’s upper middle class – seasoned shoppers who are willing to pay a premium for quality – will account for more than half of urban households and private consumption. In fact, millennials are on their way to becoming China’s mainstream middle class by 2020, accounting for half of city dwellers. Millennials have two key defining traits when it comes to making purchasing decisions: they are emotion-driven and brand conscious.

However, there’s also an uneven distribution of wealth in China, with a wide gap in income between the nation’s top earners and those at the bottom. A 2012 survey found that the households in the top 5% income bracket earned almost a quarter (23%) of China’s total household income, while those in the lowest 5% bracket accounted for just 0.1%.6

Regional differences in online shopping behaviour also increase the complexity in addressing ecommerce challenges in China. As Ogilvy & Mather’s Barney Loehnis so aptly put it: “Brands must decide where to focus. Entering China is like entering 100 markets simultaneously.”

Let’s go into more detail to understand this complex state of affairs:

- **Sustained growth of consumption and shopping frequency.**

  In 2012, Chinese online shoppers’ consumption per capita was 5,203 yuan (about $835), an increase of 25% year-on-year. Over a third (37%) of these shoppers spent 1,001-5,000 yuan online and around 7% spent more than 10,000 yuan.\(^7\)

  According to research conducted by PwC, just under two-thirds (62%) of Chinese online consumers shop at least once a week, far beyond the US average – only 22% of US consumers shop at least once a week online.

- **Top three categories** purchased online are ‘clothing, footwear and accessories’ (82%), ‘daily necessities’ (32%) and ‘computers, digital communications products and accessories’ (30%).\(^7\)

- **Online shoppers’ age** is gradually tilted towards the middle-age group, with over a third (36%) of users aged 31 or above. The highest proportion of shoppers (33%) is 25-30 years old.\(^7\)

- **More middle to high-income earners** are entering the online shopping realm. Almost a third (30%) of online shoppers enjoy a monthly income of 3,001-5,000 yuan, forming the largest segment online, and 13% of online shoppers earn more than 8,000 yuan per month.\(^7\)

- **Women are active online shoppers, outnumbering men.**

  Women account for over half of the online shopping population and the proportion is gradually increasing. Their purchase preferences mainly focus on clothing, cosmetics, home decor, maternal and baby products.\(^7\)

\(^7\) CNNIC, 2012 Online Shopping Market In China Research Report, March 2013
4.2. **Webrooming and showrooming**

As most of the B2C and C2C commerce is driven by the online shopping behaviour of Generation Y or millennial consumers, their attitude towards brands and products helps explain the rise of two key trends in China’s ecommerce sector:

- **Webrooming**: consumers do their research online before going to the retail store to make a purchase.
- **Showrooming**: consumers go to a bricks-and-mortar location to examine the items they’re interested in, then leave the store or go online via mobile devices to do some more research and end up buying those items online, usually at a lower price.

Showrooming is becoming increasingly prevalent as young consumers seek social acceptance and assurance from friends and peers online when it comes to the brands they prefer and products they’re interested in buying. This insight is supported by Edelman’s global millennial study: according to this research, millennial consumers are more likely to trust friends and use social networks or search engines to search for information on brands and products. They are also keen to research brands to make sure the brand values and actions are aligned with their own personal beliefs before making a purchase.

Chinese consumers put more trust in those who are ordinary people just like themselves, rather than in CEOs, government officials, scholars or experts. The degree of trust in ordinary people that Chinese internet users exhibit further improved in 2012, exceeding the global average (71% versus 61% globally).

### What marketers say

“To avoid cannibalism between online and offline channels, and to enhance the competitiveness of our physical stores, Uniqlo has implemented:

a. **Pricing strategy**: we make sure that online and offline prices are the same, so as to protect offline stores from the impact of online channels.

b. **Driving customers to physical stores**: we use a variety of ways, such as providing users with a store locator within our mobile app, and offer specially designed app coupons (e.g. QR code coupons) that can only be scanned at physical stores.

c. **Discount strategy**: we adopted both product differentiation and time differentiation.

Product differentiation means online and offline discounted products are specifically designated and are different in terms of styles. Time differentiation means the limited time for specific discounts, where online and offline discount periods are arranged alternatively, so that users can take alternative visits to purchase both online and offline.

“Our webrooming and showrooming are also enhanced by the implementation of our mobile apps, which are tools to increase our customers’ consumption loyalty at physical stores. They offer discounts with real values online, but are also encouraging customers to enjoy these discounts offline.”

Uniqlo China

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*a abaogao.com*
Here are some key facts which explain Chinese consumers’ typical path to purchase:

- According to Google, 96% of smartphone users search for local information over the phone before taking the following actions:\(^9\)
  - Around three in five will either contact (63%) or visit (61%) the merchant.
  - Two in five (39%) will convey the information to others.
  - Nearly half (46%) will make a purchase (34% of whom buy at the physical stores, while 23% buy online).

- IBM found that Chinese shoppers showroom more than consumers anywhere else: 26% compared to 7% in the US.

- TNS data shows that 28% of phone owners in China have used their handset for showrooming. Among consumers who now have showrooming habits, 96% said they plan to continue doing so in the future. Chinese mobile phone users usually have the following behaviour while showrooming in stores:
  - 34% compare prices from different shops on their mobile phones.
  - 30% ask friends to recommend products.
  - 21% will take pictures or record product names and details in order to follow up for more information.
  - 16% use their mobile phones to search for product information or compare products.
  - 11% shop through websites or apps on their mobile phones right in the store.

According to Bain & Company\(^10\), nearly 70% of shoppers who bought online first went to a physical store to see the product and make their selection, before returning to their computer or smartphone to make the actual purchase. Chinese shoppers move easily between physical stores and online options, so it’s evident that online sites support bricks-and-mortar store sales, and vice versa.

Research by Boston Consulting Group revealed that on average more than half of consumers pay a visit to offline retail stores before making an online purchase.\(^11\) The reverse is also true, as some browse online first and then visit the store to get a better sense of the look and feel of the product. Others, meanwhile, develop their intention to buy at the retail store, but make the final purchase decision online afterwards.

Due to the rising demand for better ecommerce service and quality, companies with an offline presence have great potential to further differentiate themselves from firms that trade solely online by providing after-sales services that make use of their offline assets and capabilities. This is particularly relevant to categories where exchanges (as in the case of apparel) or repairs (as in the case of consumer electronics) are sometimes needed.

Online pureplays should think about how to have an integrated strategy that spans offline as well, especially given that most sales require an offline element to close the deal. For offline companies, a multichannel strategy that takes advantage of brand trust and offline assets will expose products to a new group of online consumers and potentially become more profitable. As opposed to viewing online and offline as independent silos or standalone businesses, it is important to treat them as integral components of a single business model and to create long-lasting relationships with the most portable customers.

\(^9\) Google, Our Mobile Planet – China, May 2013
\(^11\) The World’s Next Ecommerce Superpower, Boston Consulting Group, 2011
As a result, retailers in China are embracing new technologies to optimise the in-store customer experience and improve competitiveness. Examples of this include 3D virtual fitting at the Lee Lang flagship store. Apparel companies like Lee Lang and Caesar have taken advantage of the weakness of ecommerce platforms to offer consumers personal services that can enhance their shopping experiences. Using 3D sensory dressing and other intelligent devices, they successfully attract consumers to their physical stores for shopping.

How Aokang uses 3D technology to enhance the shopping experience

Brand new stores by Aokang adopt 3D technology to transform the shoe-buying experience. When customers enter Aokang’s Experience Hall, they won’t see the real shoes, but nevertheless they can have a real purchasing experience:

- They pick their own favourite shoes through an intelligent 3D screen; the database currently stores several hundred pairs of shoes with new styles replenished every month.
- Customers will then ‘try on’ the 3D shoe model they’ve picked in front of a sensory mirror, which is a purely computerised process and involves no actual putting on and off of shoes.
- Three-dimensional data concerning different parts of the feet will be measured by the Foot Measure instrument.
- Customers’ gait kinematic parameters will be recorded on gait analysers for the computer to later ‘recommend’ the right shoe styles. Customers can also order customised shoes with their preferred colours on the screen or using an iPad.
- Finally, orders can be placed at the Aokang ecommerce store or by scanning the two-dimensional code besides the corresponding shoe style. After that, what customers need to do is simply wait at home for their tailor-made shoes.

Source: chinasspp.com, September 2013
Image credit: Newtempo

4.3. Multichannel and omnichannel commerce

Multichannel and omnichannel retail are marketing approaches that create an integrated brand experience for consumers via both online and offline shopping channels. They represent a response to the webrooming and showrooming trends, as well as the need to integrate the in-store and online experiences to offer a personalised service.

In the current customer-centric digital era, more bricks-and-mortar stores are launching their online channels, while online retailers are evolving from selling purely on the internet to having a physical presence. China’s retail world is rapidly swinging towards multichannel formats.

According to the China Chain Store & Franchise Association (CCFA), 62 of the top 100 retail chains in the country opened online stores in 2012, up from 31 in 2009. Examples include Jiaobohui, a B2C platform set up by the Bank of Communications in April 2012 and SF Best, an online shopping website launched by SF Express in May 2012.

Zhang Changsheng, general manager of the Bank of Communications’ internet banking department, told The Economic Observer: “If you don’t provide this [ecommerce] platform, customers will go find it somewhere else.”
Other examples of companies trying to bridge the gap between online and offline channels are:

- In August 2012 Walmart snapped up a 51% share of Yihaodian – one of China’s leading B2C platforms. Yihaodian itself has opened QR stores in the southern cities of Guangzhou and Shenzhen where shoppers scan products with their smartphones for delivery later in the same day.

- Moonbaso, a Chinese online apparel retailer, has extended its reach beyond the web by opening an offline ‘experience store’ in Guangzhou in May 2013. Completing the in-store experience is a café located within the store.

- The Beijing Wangfujing Department Store (Group) announced a strategic partnership with Tencent. The first move was a WeChat payment service that has been available for shopping at Wangfujing’s flagship store in Beijing since February 2014. The WeChat official account enables a bricks-and-mortar store to set up a mobile presence, interacting with customers, launching online loyalty programmes or even selling goods directly, taking payments via WeChat’s payment solution.

### What marketers say

“Currently Uniqlo’s physical stores are mainly in tier-1 and tier-2 cities, but our mobile app users and customers of our flagship store on Tmall come from all over the country. We have been working hard to promote our app so that more and more users come to know our brand and want Uniqlo to open stores in their own cities.

“Meanwhile, through our online mechanisms we are able to obtain data about users’ locations and daily activities etc., which offers a good reference for our decision-making on store locations and the frequency of new store openings.”

**Uniqlo China**

“In terms of the biggest challenge – online price control tops the list. It is very important to make sure the physical stores and distributors don’t get hurt. Our online channels can offer 15% discount at maximum.”

**Goodbaby**

“What can online-to-offline (O2O) do at the current stage for my company? My answer is precision marketing. To test this out, we joined hands with online pharmacy Qilekang and launched the O2O Double 11 New Horizons activity in 2013.

“On the day, for any purchase over 200 yuan at Qilekang pharmacy, the customer could get a coupon (valued at 200 yuan) to buy lenses at a discount, and the coupon could be used at more than 1,200 Baodao Optical stores across China, in addition to free professional optometry service. This 40 million yuan actually comes from our advertising budget. The reason we spent it this way was because Qilekang online pharmacy currently enjoys more than 15 million viewers per day – as long as there is a conversion rate of 20% for offline consumption, it would already mean sufficient revenue for us to maintain our store operations.

“Compared with traditional media advertising, one big advantage of our O2O experiment is that the cost of investment can be accurately calculated, to whom the 200,000 electronic coupons are distributed can be precisely identified. And whether the customers finally go shopping with the coupons can be known as well. Typically, not all customers who receive the electronic coupons will go spending offline, so we can accurately figure out the investment cost.

“The experience function of physical stores is irreplaceable by online optical stores. Also, the combination of frame and lenses is only possible offline, which forms the basis of O2O development. We plan to do ten more O2O marketing campaigns this year, like once a month. The desired outcome is that with 2,500 stores, we can achieve the sales of having 10,000 stores.”

**Baodao Optical**
What marketers say (cont.)

“We are seeing O2O initiatives affecting ours and our clients’ ecommerce strategy. These initiatives relating to the deeper integration and closer binding with customers to various sales channels, including ordering online and picking up in store, the cross-availability of loyalty and membership programmes can all be game-changing.

“Younger users tend to be more tech-savvy in regards to multichannel sales. However, most merchants operate their offline and online sales channels separately (i.e. separate teams, budgets, targets, etc.). So it often looks more like creating internal competition between the online and offline teams within organisations, instead of promoting profitable and intelligent collaborations.”

Patrick Deloy, Found & Executive Director, Bluecom Group

One interesting observation about ecommerce in China is that consumers from tier 1 cities do not always go for repeat purchases on ecommerce platforms. Instead, there is a tendency that after a successful purchase from a brand’s ecommerce store, the consumer would make his second purchase at the retail outlet, as the customer looked to enjoy the full brand experience.

This phenomenon means it is crucial that the brand experience in both online and offline channels is consistent. The brand image and the service quality are expected to be of industry standard.

In China, the concept of seamless retail is still very new. No retailer has yet put in place a seamless and integrated omnichannel strategy. Having said that, more retailers are starting to take a closer look at various aspects of omnichannel strategies and impact on their businesses.

Some traditional retailers have stepped up in making efforts to form a closer link between their various sales channels, hoping to complement and enhance the total customer experience. The challenge for retailers is to ensure that all channels complement one another and provide accurate, consistent and current information.

Case Study: Suning

Suning (China’s largest retailer), which adopted one of the bravest retail strategy moves in recent times, has announced a wholesale change in its retail philosophy. Sun WeiMin, President and Head of Suning.com, recently stated the intention to reposition the appliance retailer as “a combination of Amazon and Walmart”.

If it’s successful, it would be a magnificent and rare achievement for a 1,700-store retail giant dramatically changing its offer, solely in response to pressure from the online world.

Suning is a great example of how retailers are integrating their online and offline channels. As part of the overhaul, in February 2013, Sunning announced the change of the company’s name from Suning Appliance Co., Ltd to Suning Commerce Group Co., Ltd.

This name change emphatically underscored that it was ending its time in specialised electronic appliances and starting its business transformation. The company’s new retail business model on the mainland comprises “physical stores, ecommerce, plus retail service provider”.

Suning completed the integration of its online and offline divisions for procurement, logistics and product management. Sales are generated from various points-of-sale (POS), including its physical store, websites and mobile platform, where consumers can place orders. The offline stores focus more on enhancing the customer experience by providing exceptional after-sales and delivery services and include setting up an exhibition/showroom. The company planned to set up an online shopping counter in its offline stores for customers to pick up the products they buy online, return their orders or receive a refund.

Source: ‘Online Retailing in China’, Fung Group, June 2013
Likewise, other retailers are learning to adapt to this changing environment by consolidating and unifying functions, developing the skills needed to ensure a seamless customer experience, and implementing the ecommerce and data platforms that can support such services. Across both B2C and B2B sectors, brands have started to realise that collaboration with other players and third-party payment providers can prove advantageous in such a competitive ecommerce market.

What marketers say

“We operate both in B2B and B2C, and our B2C online sales account for 10% of total sales. Our core focus is to integrate all B2C channels including call centre, mobile, international and domestic channels to unify customer experience.”

“Every day there are hundreds of thousands of people visiting our website, and every day we fly about 200,000 people both domestically and internationally. This allows us to accumulate rich customer data. We designed many pre-sold products to address customer needs based on our customer insights, which has hugely contributed to our sales growth.

“Some of our products are available on our staff’s iPad – it helps our staff to identify if the customers in front of him/her are high-value customers. For example, if the customer is a silver card member, the staff will be prompted to read the customer’s accumulated points, religious belief, language, preferred food choice. Our staff are now enabled to provide customised services to each of our customers.”

**China Eastern Airlines**

“There is a certain level of convergence where all brands are seeking and wanting to incorporate all channels and devices, so that they can create a unique user experience. Multichannel in China needs to be thought with Chinese-specific characteristics. In China, the dominance of major marketplace players like Taobao is taking our multichannel approach to a different level.

“As each marketplace player is offering a different set of users, restrictions, branding and marketing, we usually integrate for our clients in a horizontal way. We leverage different time slots, promotions, user segmentations with different marketplaces – we play around multiple web properties and horizontally integrate them so that we can properly drive a real ecommerce multichannel experience.”

**Lac Tran, Head of Digital, Web2Asia**
4.4. Delivery and fulfilment

The robust growth of China’s ecommerce sector has generated a great demand for logistics services and extensive delivery networks, in particular when it comes to express delivery services.

In a country without a national delivery service, many consumers continue to complain about the poor service they receive from delivery companies, including long delivery times, damage and loss during delivery, and complex return processes.

According to CNNIC, nearly half (49%) of consumers are dissatisfied with their online shopping experience because of long delivery times and inconsistencies between the products displayed online and the actual products they receive.

Figure 9: Reasons for dissatisfaction towards online shopping, 2011-2012

Due to these issues that constrain the development of online retail, many players have started to focus on services to differentiate themselves from their competition. Some have set up their own warehousing facilities and logistic systems, provide same-day delivery guarantees and other after-sales services to enhance the customer experience.

According to Paramjot Jassal, head of business transformation-international, at Asos, “The Chinese customer is one of the most demanding customers in the world.” He added: “In tier 1 cities same-day and next-day deliveries are the norm. To compete we knew we would have to have our product in country close to the customer.”

When online shoppers place their orders on Taobao or Tmall, the system will automatically match the nearest Tmall community service stations with the delivery address as provided by the shoppers. So if consumers want to experience the goods collection service, they can select a Tmall service station.

Once a parcel arrives at a Tmall community service station, it will be scanned and recorded into the system. The system will then send a text message with a password to the customer for pick-up.
The parcel will be kept by the service station for free within the first five days, during which the customer can come to pick it up with a valid identity card as well as the password. Under current circumstances, Tmall service stations at the moment only give support to non-fresh items of small size and not exceeding 3,000 yuan in value.

Following Taobao’s example, other Chinese domestic ecommerce players such as Amazon, Yihaodian and JD.com have all launched offline goods pick-up services. They are also offering solutions that support payment upon delivery by credit cards through UnionPay POS system, cash payment or online payment.

For instance, Yihaodian has built a robust logistics system based on a proprietary intelligent warehousing solution, an extensive logistics network and a multichannel delivery system. After launching its own express delivery team, Yihaodian saw that customer experience greatly improved, with 92% of customers reporting they are satisfied with its delivery service.12

To improve the online shopping experience, JD.com has launched a new express delivery service, promising to deliver products within three hours of purchase. Another example is 51Buy who sought to improve delivery services by offering deliveries three times a day, starting from the end of 2012.

Other players have partnered with convenience stores or metro companies to provide self-service facilities at various locations. For instance, Amazon China has teamed up with Family Mart to provide a self-pick-up service in Shanghai starting from March 2012.

SF Express has started drone delivery trials in Guangdong province’s Dongguan city. Each drone is fitted with eight propellers and comes complete with a space where packages can be inserted and can reach a flight altitude of about 100 metres. According to SF Express, the drones were developed as a potential solution for delivery to remote areas. The company independently develops hi-tech shipping machines and all come with built-in navigation systems that only require input of address and flight path. Staff controlling the drones will be able to monitor the drone’s movements and correct each machine’s position within two metres. SF Express’ drone project is still in early stages of development without an announced date of completion.

4.5. Mobile commerce

For a nation which increasingly relies on mobile devices for 24/7 internet access, mobile commerce is the next commercial frontier for retail brands to conquer. According to iResearch, China’s mobile commerce market was valued at 169.6 billion yuan ($27.2 billion) in 2013. Mobile shopping penetration reached 9.2% in 2013, almost doubling over the course of 12 months, and is predicted to hit 24.2% in 2017.

With continued upgrades to mobile network connectivity and the popularity of new devices, the size of the mobile shopping market is expected to reach one trillion yuan by the end of 2017.13 According to Euromonitor, China’s mobile commerce market is expected to triple by 2018 to become the second largest market worldwide after the US.

No retailer should ignore the trend of more consumers preferring to purchase products or services via mobile devices. The new Chinese consumer base is comprised of people who were brought up with transacting with virtual currencies like Tencent’s QQ, comparing prices online and offline, and spending enormous amounts of time and money on online gaming. With the shift from PC to mobile as a more dependent device to access the internet, it’s natural that consumers are rapidly taking up mobile shopping.

12 Internet Retailing in China by Fung Group, June 2013
13 iResearch, January 2014
A snapshot of China’s mobile internet scene

- By the end of December 2013, China had 500 million mobile internet users, an increase of 80 million compared with the end of 2012. Among all internet users, the proportion of those using mobile phones to access the internet rose to 81% from 75% in 2012.

- The number of active mobile smart devices in China exceeded 700 million by the end of 2013. In the fourth quarter of 2013, 59% of new devices were purchased by existing mobile users upgrading or replacing their devices. Over a quarter (27%) of smartphones in China cost more than $500 and 80% of those were iPhones.

Source: CNNIC, January 2014
Source: Umeng, March 2014
Taobao, Jingdong and Tencent command over 80% of the mobile shopping market. A large proportion of Chinese consumers believe that Tencent’s mobile messaging platform WeChat is best suited for micropayments. Therefore, many are increasingly turning to Alibaba’s mobile payment platform (Alipay, a payment service similar to PayPal) when it comes to large sums (including down payments for apartments, as reported by The Wall Street Journal14). Chinese banks are notorious for the poor service they provide, so Alipay is seen as a great alternative due to its reliable service and better coverage in mainland China.

Alipay reportedly processed $519 billion of payments in 2013, more than double the $248 billion in goods sold on Alibaba’s sites. Payments for Alibaba’s ecommerce sites represented less than two fifths of the total, meaning that more than half of Alipay’s transactions are for third-party sites. The platform is not stopping here, as it’s launching new services for managing investments, savings and everyday spending, all the while attracting opposition from regulators and state-controlled lenders.

Mobile search has really taken off, especially since China’s mobile internet users exceeded PC users in August 2012. A study by Mindshare and Millward Brown released in November 2013 indicated that 15% of all mobile searches were shopping-related activities, primarily for clothing (29%), groceries (26%), electronic devices (22%) and personal and beauty care (9%).15

According to data compiled by Go Globe, mobile shopping is expected to grow by 91% from 2013 to 2014, with transactions on Taobao accounting for over three-quarters of ecommerce spending on mobile devices.16 This growth is also partially driven by the behaviour of the largely young online consumers who use their mobile phones continuously all day (including the pre-sleep period), a trend highlighted in GroupM’s China’s 2013 mobile study.17

What marketers say

“Mobile is a key focus on our digital agenda. Mobile or mobility is definitely affecting how we plan going forward. For financial services, traditional players have yet to really think mobile first, while the disruptors are already leveraging mobile and its inherent capabilities to build mobile-first experiences.

“The Internet of Things trend, and the growth of such devices, is also one to look out for. Particularly for an industry like ours, which is still heavily relying on bricks-and-mortar. The trend could bring about interesting propositions that marry the offline with the online world.”

Financial services company

Recommended reading

China: from WeChat mcommerce to experiential nuts
https://econsultancy.com/blog/65088-china-from-wechat-mcommerce-to-experiential-nuts

14 http://online.wsj.com/news/articles/SB10001424052702303678404570535840686151748
16 http://www.go-globe.com/blog/mobile-commerce-china/
Key trend: mobile commerce via WeChat

For retailers based in China, WeChat is ideal for O2O or online-to-offline purchases. Customers can pay for items or services inside the WeChat app or pay in-store by scanning the QR codes generated inside the app. It also allows social sharing for purchases made via WeChat, which is why it is so effective in driving mobile commerce.

Tencent claimed that its WeChat messaging app ended the second quarter of 2014 with 438 million monthly active users, an increase of more than 80 million monthly active users since the end of 2013. In March 2014, Tencent opened up the system and added support for any brands to allow customers to purchase items or services inside the app.

“Customers can purchase their preferred products faster [on WeChat],” wrote a blogger using the name Huo Shan on Huxiu.com, a Chinese business and technology website. “All you need to do is click on the product you want to buy and you can purchase it directly, eliminating the step of adding an online shopping cart. By registering your bank card with [WeChat], you can complete the entire shopping process rapidly.

“In contrast, the PC user’s [shopping] experience is filled with pop-up adverts, and for many people, their first reaction after seeing such adverts is to turn them off... There are also various channels of third-party payment... WeChat offers a minimalist experience. As long as you have registered your bank card, you can pay quickly, omitting third-party payment links. It’s no exaggeration to say that this is a big advantage [Tencent has] over Alibaba.”

How brands use WeChat

- Since the launch of WeChat banking in 2013, Shanghai Pudong Development Bank has been enjoying ever-increasing numbers of followers and transactions. At 20:00 every Monday, they offer a WeChat-based financial product, which is usually sold in one minute, with transaction amounts hitting 300 million yuan in an instant and creating rather rare internet financial transaction records.

- According to official data released by WeChat, the Zhongguancun branch of discount store Shangpin is now witnessing a daily turnover exceeding 240,000 yuan via the app, accounting for 11% of its store sales revenue.

- Ubox (a leading vending machine operator in China) has 10,000 vending machines that support WeChat payments, which account for 25% of Ubox’s daily sales of four million yuan. After adopting the WeChat payment solution, Ubox enjoyed a 10% increase in total sales and the ticket value of each WeChat payment is 22% higher than cash payment.

- According to Didi Dache, the taxi-hailing app, the integration with WeChat boosted the service to 40 million registered users (from about 20 million in 2013). In February 2014, the company claimed that a total of 21 million cab rides had been booked via WeChat, at an average of 700,000 bookings per day.

In order to encourage customers to use Didi Dache inside the WeChat app, the two companies decided to spend 400 million yuan ($64 million) on ‘bonuses’ for both users and taxi drivers for each transaction carried out via WeChat.

- Shopin, one of the first bricks-and-mortar discount store chains in China, launched the very first WeChat experience store in Hangzhou, that enable customers to purchase goods in the store using the WeChat app. Customers can also save items into the shopping cart and decide later whether they’d like to have them delivered to a certain place or pick them up at the store.

Case study: Xiaomi uses WeChat to sell new handsets in record time

Chinese smartphone manufacturer Xiaomi sold 100,000 units of its latest flagship device, the Mi-3, in under 10 minutes using chat app WeChat.

Summary

Xiaomi occupies fifth spot in China’s growing smartphone market, selling over 200,000 smartphones in the local market in 2013. Following previously successful efforts to sell deliberately limited qualities of its devices online, the company wanted to generate the same levels of demand and sales when it launched its Mi-3 in Taiwan in December 2013. It decided to experiment by selling the new handset through the popular messaging app WeChat, enabling consumers to reserve and buy the device from Xiaomi’s branded page within the app. The approach resulted in all 100,000 Redmi devices being sold in under ten minutes.

Objectives and aims

Xiaomi, which has been in business for over three years, has outpaced Taiwan’s largest smartphone maker HTC to take the fifth spot in China’s growing smartphone market behind Samsung, Apple, Nokia and Huawei. According to Far EastOne, one of Taiwan’s main telcos, Xiaomi sold over 200,000 smartphones in the local market in 2013, including 100,000 units of the Mi2S and 100,000 units of the Redmi.

Xiaomi has never had a problem selling out of deliberately limited quantities of any of its devices. On November 11 2013 it sold 200,000 in less than three minutes, and in a flash sale on November 19, 2013 it sold 100,000 phones in six minutes. In December 2013 the company launched the cheaper version of Redmi in Taiwan – the Mi-3 – and wanted to fuel the same level of demand and replicate similarly strong sales.

Implementation, execution and tactics

Xiaomi launched the cheaper version of its Redmi, the Android-based Mi-3, by making a total of 100,000 devices available for orders online. To grab consumers’ attention, it partnered with WeChat - a mobile text and voice messaging communication service developed by Tencent in China - to enable consumers to complete the entire process within the app, from reserving the device prior to the event to purchasing it once handsets were made available.

Consumers could find the sale within Xiaomi’s WeChat branded account. Clicking on the order button took buyers to a payment page (still inside WeChat) where they could make a reservation with a nominal 0.01 yuan payment. The proper price – 1,999 yuan ($320) – was charged later if the limited daily stock hadn’t been sold out already and their order was successful.

Results

Taiwanese participants snatched up all 100,000 Redmi devices in under ten minutes – or in nine minutes and 50 seconds to be precise – with all sales made within the WeChat app.

Source: Econsultancy
4.6. Social commerce

Social media has a greater influence on purchasing decisions in China than anywhere else in the world, according to McKinsey. Chinese millennials are interested in spending their growing disposable income on products and brands which signify wealth and prefer to pay a premium for quality high-end goods, rather than spending large amounts on day-to-day products and basic necessities.

According to the Boston Consulting Group, the 120 million most affluent Chinese commanded $590 million in buying power in 2012. The company also estimated that the affluent class would account for a fifth of China’s population by 2020.

Social media usage is a key reason which is driving millennials’ ecommerce use in China. Chinese consumers tend to ask friends and even other internet users for advice as they see interesting products or things online. Online shopping behaviour is even more heavily influenced by social networks, particularly product recommendations and reviews on Sina Weibo and Taobao.

An ecommerce study of various cities in China conducted by Tongji University revealed that the younger consumers are, the more important online shopping is for them. It is also worth noting that over half of the factors influencing online purchases come from social media content and online reviews.

This is a key trait of Chinese millennials, as they trust friends and seek their social acceptance when it comes to the brands they like and the products they buy. That is why any successful social commerce strategy in China would essentially have to be one that revolves around millennial consumers.

Shoppers in China generally engage more actively with social media than their overseas counterparts. According to a PwC survey, 57% of survey respondents follow brands or retailers on social media, compared to 38% of the global sample.

Chinese internet users’ heavy reliance on social media is providing brands and retailers with opportunities to market via various social media platforms. Sina Weibo, with over 500 million registered users, is one of the most popular social networks in China. The table below shows the number of followers of selected major B2C operators on Sina Weibo, with leading players such as Tmall and JD.com having over three million followers.

Figure 11: Number of followers of selected B2C operators on Sina Weibo

<table>
<thead>
<tr>
<th>B2C operator</th>
<th>Number of “fans”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tmall</td>
<td>3,213,380</td>
</tr>
<tr>
<td>Dangdang</td>
<td>2,065,806</td>
</tr>
<tr>
<td>Lefeng</td>
<td>1,494,673</td>
</tr>
<tr>
<td>JD 3C</td>
<td>1,665,906</td>
</tr>
<tr>
<td>JD.com</td>
<td>3,482,087</td>
</tr>
<tr>
<td>Huajiangbei shang chang</td>
<td>325,397</td>
</tr>
<tr>
<td>JD mobile</td>
<td>1,971,902</td>
</tr>
<tr>
<td>Damai.cn</td>
<td>792,981</td>
</tr>
<tr>
<td>Vipshop</td>
<td>1,385,900</td>
</tr>
<tr>
<td>Tmall 3C</td>
<td>1,385,900</td>
</tr>
</tbody>
</table>

Source: ‘Online retailing in China’, Fung Group, June 2013
Sina Weibo was also the first social media platform that helped brands to promote and sell their products on a massive scale. China phone maker Xiaomi was the first to partner with Sina Weibo to sell 50,000 units of its Mi2 smartphone directly via the Sina Weibo platform in December 2012. Payment was made through its own online payment service, WeiboPay.

Social media not only represents an advertising channel for brands and retailers, but also acts as a platform to share product information and shopping experience. Brands are now expected to create content continuously to ‘feed’ information to their followers on social media – so as to keep them interested in longer-term engagements.

Other examples of social forums that allow consumers to share their online shopping experiences and comment on products they buy online include Meilishuo and Mogujie.

Figure 12: Top 10 social sharing platforms in 2013

Social sharing is another way Chinese consumers are becoming more sophisticated in their mobile internet use, according to Umeng. Of the top 1,000 apps in China, 46% allow for social sharing and 55% of the top 100 do so.

Social sharing promotes these apps on social networks and apps often reward users for sharing their experiences with friends. Both games and photography applications are popular when it comes to sharing. Umeng reported that between March and November 2013, it observed 8,600% growth in social sharing of mobile apps on social site WeChat and a 2,900% increase on Qzone.

**Recommended reading**

**Weibos, WeChat & Renren: how to approach social marketing in China**  
Social commerce in action

Alibaba and Sina Weibo collaboration

Sina Weibo and Alibaba announced a collaboration that would allow users of China’s leading micro-blogging platform to make direct purchases from Taobao.

As both accounts are rolled up into the same system, shoppers can use either Weibo or Taobao to log in. Weibo introduced a convenient new way of displaying Taobao products, which uses a ‘virtual card’ to give information on pricing, popularity and store credit rating as well as a one-click ‘buy’ button.

Sellers on Taobao will be able to quickly and easily upload product information by simply adding a software module to their existing store management program. It’s all designed to make the purchase journey as simple as possible for the customer – and early reports suggest that it’s proving popular with both customers and brands.

Weibo has also taken a further step towards providing a truly social ecommerce experience – it offers users a shopping assistant named Ruyitao (that belongs to Alibaba), which sends private notifications whenever there are discounts on Taobao, Amazon and JD.com.

Mogujie: Pictures speak louder than words

In effect a social network that filters best-selling items on Taobao, Mogujie allows users to post the equivalent of tweets with product pictures. Mogujie revolves around sharing shopping experiences and comparing products and prices.

Aimed at “connecting people who want to buy quality things with quality sellers”, the platform enables shoppers to post links to their favourite purchases, which are then voted up the waterfall flow of content via ‘likes’ or comments. Its revenue comes from commission from sellers and advertisements from both sellers and brands.

Source: ClickZ
5. Strengths, Weaknesses, Opportunities and Threats (SWOT)

Here are some of the key opportunities and challenges faced by the ecommerce sector in China.

Strengths

To many companies, establishing their presence with a retail infrastructure via ecommerce in various cities is a relatively safe and easy step after working out a deal with on-the-ground delivery or logistics partners whom they can trust. Other advantages include:

- It allows brands to do research on the different regions in China and to **determine which regions have the most demand for their products and services**. This is important as China should not be seen as a monolithic market, but a collection of regional markets, each with its own preferences.
- It allows brands with presence in tier 1 cities such as Beijing, Shanghai, Guangzhou or Shenzhen to **expand quickly into China’s vast inland markets** without investing in setting up new retail outlets.
- Brands can experiment to find out which are the best products or services to launch for various markets in China, as well as embarking on co-creation and crowdsourcing exercises with Chinese consumers to **develop localised versions** of the brand.

Weaknesses

The downside to establishing an ecommerce infrastructure in China is that it has some negative implications to the franchise agreements and may impact the business at existing retail outlets in China due to consumers’ showrooming habits.

- **Franchise partners** may need assurances that their offline sales of products and services will not be affected by ecommerce efforts. This is difficult to promise unless the ecommerce platform focuses on clearing stocks from the last few years, while the offline retail stores sell recently launched products. The downside of this is that many consumers who research online are hardly impressed by off-season goods.
- Ecommerce should be seen as more of a **complementary approach** in tier 1 cities. The consumers in tier 1 cities will try out the brand with a purchase online and if they like the purchase, they will go to the brand’s physical store the next time to enjoy the entire brand experience. This is due to the fact that it is easy to gain access to the stores in tier 1 cities with their established transport networks.
- As mentioned earlier, ecommerce is especially relevant in regions with poor transport infrastructure where brands lack store presence for consumers to experience their products or services. However, that would mean **brands need to spend more on logistics, fulfilment and customer service if they go on a pure ecommerce route**, which may be a daunting process for any brand that has not even established itself in China yet.
- The **habit of starting shopping searches on Taobao and Tmall is so ingrained** that many Chinese consumers seldom use the country’s leading search engine, Baidu, for this purpose. This makes search engine marketing rather costly and sometimes ineffective, so retailers may find it difficult to promote their own ecommerce sites.
Opportunities

- According to iResearch, online sales are expected to jump from 1.84 trillion yuan in 2013 to **4 trillion yuan in 2016-2017**.

- **Tier 3 and tier 4 cities** are expected to be the key focus for China’s retail business development over the next few years as competition gets tougher in tier 1 and tier 2 cities. In rural China, mobile penetration far outpaces internet penetration: this means companies that count rural residents among their target customers have a chance to get a piece of the ecommerce pie if they’re able to move proactively with a winning mobile commerce-focused strategy.

- Chinese consumers, especially those who are urban and part of the newly emerging middle class, have shown that they prefer to be multichannel shoppers. In a few years, **multichannel shoppers will make up nearly half of urban China’s consumers**. It is no longer enough for companies to focus exclusively on consumers’ online or offline shopping habits.

  Because of this, companies such as 3M view ecommerce as the key driver for future growth given this allows them to be more profitable than selling through offline channels. But some companies need to undertake heady online growth if they want to be competitive. For instance, companies like Noah Wealth Management and Arc International say only 1% of their sales come from online.

- The ecommerce market in China is still at a stage where **new and existing brands essentially face the same requirements** to start an ecommerce presence, especially in tier 1 cities. Any brand can just pay 160,000 yuan to start a Tmall B2C store.

- The **30 million annual influx of new Chinese consumers** into the market – partly due to a higher proportion of people accessing the internet via mobile devices – presents many growth opportunities for China’s ecommerce scene.

- **Mobile commerce** via the popular WeChat platform will be providing a great opportunity to increase transactions online, especially as China has dozens of payment gateways that are starting to complete the mobile experience. For example, applications such as KuaiDi, Didi Dache and WeChat taxi calling service have succeeded in converting China’s population to booking and paying for taxi rides from their phones in a just matter of months.

- Ecommerce and social commerce are naturally playing complementary roles in the vibrant and dynamic China’s retail landscape. This allows various brands to develop innovative and cost-effective strategies to market their brands, goods and services via content and social media marketing, while they **avoid spending exorbitant budgets on traditional paid media**.

  In China, media inflation runs rampant, with TV and radio advertising seeing an annual 20% inflation rate. According to Ogilvy & Mather’s Head of Digital Asia Pacific, Barney Loehnis, a national TV campaign costs around $20 million and probably has to be bought a year in advance.

Threats

- The ecommerce market in China is evolving both quickly and in its own particular way. While many Chinese companies use or are planning to use the internet as a selling tool, in general **multinational companies have been slow to take advantage of this fast-growing channel** in the last few years.

- The makeup of ecommerce teams varies in terms of numbers and how they are structured. For instance, **the majority of brands have quite small in-house ecommerce teams**, ranging from one to three or four persons.
Some brands work closely with distributors online, thus the ecommerce function is a shared responsibility between sales, marketing, customer service and sometimes IT. A small proportion of companies have separate budgets.

- A large proportion of retailers choose to launch a store on Tmall, as they consider that this route gives them more control over their image and an easy way to sell to China’s dispersed population. However, Tmall uses heavy discounting, which is something that really appeals to price-sensitive Chinese consumers. Therefore, retailers run the risk of commoditising their brand and having to deal with severe price competition. These price wars can take their toll on profits.

What marketers say

“Ecommerce is such a new thing. The role of ecommerce in our business is constantly changing, we are learning and practising. We launched our WeChat account last year; however, we keep changing the positioning and function of our WeChat platform.”

Noah Wealth Management

- Consumer needs vary. Heavy spenders have different concerns from their lower-spending counterparts, and consumers across tier cities and in urban versus rural areas are looking for different products. Companies have to be clear about who their target customers are, where they live and what their specific needs are.

This is reflected in the strategies of both L’Oréal (authorises vertical cosmetic platforms to sell L’Oréal products) and Goodbaby (launched a strategic partnership with JD.com), given both vertical platforms and JD.com are better positioned to match products with target groups.

- Sale of counterfeit goods remains a continuing sore point in China. Although the government has increased efforts to protect online consumer rights, there has been little improvement.

This is a unique challenge faced by skin care players in particular; all the three cosmetic brands interviewed for this report share this concern. In the baby milk powder business, buying direct from overseas eats up share of brand. The other challenge that applies to all is cross-channel price control, applied so that physical stores don’t get hit by lower prices online.

What marketers say

“Bureaucracy in China is still a barrier to develop ecommerce. New policies for certain products like milk powder or certificate requirements like animal testing are barriers that cannot be surpassed. Organic cosmetics clients who we are in contact with have given up on coming to China because of these issues. This is not something we can control nor expect.”

Lac Tran, Head of Digital, Web2Asia

- Supply chains for online stores are generally more complicated than for physical stores. Currently, there is a shortage of properly trained professionals in online retail operations and the staff turnover rate is also very high.
What marketers say

“Many ecommerce managers in China are rather young and inexperienced to take on more challenging tasks such as the integration of multiple sales channels into an omnichannel sales experience. It is also difficult to find qualified people, especially for software development and ecommerce platform management.”

Patrick Deloy, Founder & Executive Director, Bluecom Group

“It took quite a while for the company to bring the right talent on board. We hope that with the right talent on board, we could take off soon in the area of ecommerce. From my observation, none of the top online players in our industry performs better offline, or vice versa.”

Wyeth