

A new era in buying

Retail in China's digital age



Opportunities are ripe and plentiful

China's retail economy is booming and is set to reach RMB 32 trillion (US\$5 trillion) by the end of 2015.

China has the most rapidly growing consumer market in the world with millions of people entering the middle class every year and has the most mobile-centric population in the world (75% of internet access is over mobile in China). At the end of June 2013, the Chinese online population swelled to more than 590 million and is expected to reach 800 million by 2015. All of these trends strongly indicate to retailers that their future success will be defined by their approach to e-commerce and digital in an omni-channel China market.



China's e-commerce industry is burgeoning thanks to third party digital marketplaces that have made it very easy for the Chinese online shopper to buy (e.g. Taobao, TMall, Jingdong). PwC's recent multi-channel retail report highlights that 58% of consumers surveyed shopped online at least once a week, tending to buy products directly from brands or manufacturers through these online platforms.

Chinese online giant Alibaba Group leads the e-Commerce market with a market share of 88% for C2C and 48% of B2C, with its Taobao and TMall sites exceeding RMB 1 trillion (US\$160 billion) in sales, making them the largest e-commerce marketplace operator in the world.

The success of Taobao and TMall is partly attributed to its online payment platform – Alipay – which gives its customers a seamless, convenient, purchasing experience without the need to enter their credit card information. Another attribute to their success is AliWangWang - an instant messaging service that enables direct communication between online shoppers and sellers which creates a reliable platform for both parties to establish a trustworthy transaction.

Retailers, on the other hand, find themselves out in the cold with only 10% of total transactions taking place between themselves and shoppers, through either online pure-pay portals or brick-and-mortar businesses on their own portals.



The challenge of Chinese retailers

Every retailer recognises the daunting upfront cost and time to build a national presence in China, with bricks-and-mortar retailers capturing a proportionately smaller share of the country's overall retail market compared to other markets such as the US. (In China, the top five bricks and mortar retailers generally hold less than 20% of the overall retail market, which is lower than US levels of close to 60% in some retail segments.)

Given the disparity in capturing the consumers, retailers are recognising the limitations of their approach and are seeking different (but not necessarily competitive) ways to counter Taobao and its equivalents.

Many retailers are struggling with the basics of creating an e-commerce approach with the challenges of web/mobile channel creation, inventory management, warehousing and distribution, and virtual customer service given the dominance (and convenience) of Alibaba and the sheer enormity of the task to reach the disparate Chinese online shopper.

Embracing social media and mobile engagements are critical for retailers to create a personalised omni-channel approach. The same multi-channel retail report found shoppers are willing to grant retailers permission to mine information from transactions in exchange for offers and future purchase targeting.

However, it is a mistake to believe that digital retailing rests with just e-commerce. Indeed, embracing digital can be a way of significantly improving productivity (footfall, basket size, and repeat purchases) for bricks and mortar stores. Given the ever-increasing cost of leasing, improving these yields through digital have never been more critical to a retailer's success.

The changing behaviour of the Chinese consumer

Multi-channel shopping is gradually becoming the social norm as Chinese consumers price-match, product-search, research and decide whether to make in-store or online purchases in order to find the best deal a store has to offer. This really is omni-channel retailing in practice, yet it is surprising how poorly retailers and consumer goods brands are responding to this shift in behaviour.

The future is mobile (wallets)

We believe that the mobile wallet will do more than revolutionise the world of payments; it can also help unlock some of the digital challenges for retailers in China.

Mobile commerce is not about online shopping over mobile – it's about providing holistic value-added services to deliver the personalised shopping experience.

For traditional brick-and-mortar retailers to compete with “pure-play” online retailers more effectively, mobile commerce enables them to deliver a fully integrated retail channel and payment experience supported by personal offers, enhanced loyalty schemes and targeted “push” mobile marketing and advertising.

For pure digital retailers or consumer goods providers, it allows a way to differentiate from being “yet another product” on the TMall.

Clearly this approach, alongside an e-commerce plan, needs to be customised to the specific targets for each retailer – more importantly it is a part of an omni-channel approach that will likely also include all of the scale benefits that Alibaba and its counterparts can offer.



Going the path of digital

To capture the full potential of multi-channel retailing involves more than just publishing a catalogue or replicating an in-store product online and assuming that consumers will click and buy. Sustainable growth requires a tightly integrated strategy across all channels (physical stores, catalogue, the internet and mobile).

Moving into the multi-channel space has big advantages of generating more sales and improved user experience through mobility and social networking. The multi-channel retail report shows that more than 50% of Chinese consumers shop online at least on a weekly basis; about 50% of Chinese shoppers use smartphone, tablet and social media platform to make purchases. Moreover, multi-channel retail generates more sales; the survey shows that 56% of shoppers are spending more with their favourite multi-channel retailers and nearly one in five says that they are spending at least 25% more.

What does good look like?

PwC have enabled many shopper recruitment approaches, including the use of search engine optimisation to attract new customers, the use of Chinese retail marketplace such as Taobao, TMall, Jingdong to increase online shopping at cost-effective way, and the use of social networking tools such as Weibo, Wechat as part of a concerted customer engagement programme.

Social engagement, when combined with the creation of an e-commerce channel, and strong digital (mobile) wallet approach, can yield significant results against the status quo that involves many retailers relying on profitable growth purely from the continued rising middle class.

Social media targeting and engagement, e-commerce channels, and mobile wallets are not new approaches for retailers.

We have carried out numerous strategy, business change and subsequent launches, of the necessary technology, data integration and analysis, ecosystem partnerships, and platforms that this digital retail approach requires. This also applies to the latest forms of contextually-relevant offers over mobile and ability to deliver the in-store digital experience that many believe is still nothing more than a vision. However the key is for retailers (and consumer goods providers) to first recognise the paradigm shift that digital presents to the China opportunity.

E-commerce is just the beginning of this journey, but mobile engagement is the key to unlocking the personalised shopping experience. Beyond this, we expect the sophisticated Chinese consumer to quickly move to outcome-based commerce where the transaction is not just about the purchase of goods but also an outcome. We've already seen this with Nike moving to a "health-based outcome" with Nike+ as a means to sell products and this is just the tip of iceberg – omni-channel retailing is here to stay, and we believe that China will be at the forefront of the digital shopping experience.



PwC digital team – Retail

At PwC, our digital team in China creates value by bridging the gap between business and technology. With a focus across all key industries, our team can provide insights on the latest digital trends, technology developments and innovation. We are committed to working with you to design the best approach for your business – from strategy through to execution – to help you make sense of an ever-changing world, throughout your digital journey.



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