

e-COMMERCE IN CHINA

THINK LOCAL, ACT LOCAL

EXPERT OPINION



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Whilst the market in Europe is headed toward stabilization, Chinese e-Commerce continues to post spectacular growth rates. This vitality should accelerate in the coming years, thanks to an effective ecosystem and to "digital-oriented" consumers. Distributors and brands, notably Western ones, can find it to be a major growth driver, provided they know how to adapt to the local context and to the specific issues associated with this market. Here is an overview of "e-Commerce made in China", of the opportunities that it offers... and of the traps to avoid.

TOO BIG TO IGNORE

The year 2013 will have been marked by a major upheaval : China became the world's number one e-Commerce market, moving ahead of the United States, with a total turnover of around 220 billion dollars. Whilst the size of the market (1.3 billion consumers) is a contributory factor, it does not explain everything : the penetration rate for online commerce is high, above 6%, which is a sign of a real appetite for on-line channels¹. Above all, growth over the coming years remains promising, with 2015 forecasts above 500 billion dollars of on-line sales.... Beyond the figures, growth is clearly centred on this part of the world : between 2009 and 2012, it averaged 70% in China, but only 13% in the United States...²

Alongside local players, numerous Western brands or distributors have already opened their own online businesses, whether it be (to cite a few examples) L'Oréal, Lane Crawford, Uniqlo, Zara, Clarins, Cache Cache, Asos, Amazon.... Other players prefer to go down the route of an association with local partners in the form of the taking of a stakeholding, like Walmart with Yihaodian in the food business, Neiman Marcus with Glamour Sales or BestBuy with FiveStar in electronic products. Whatever the mode chosen, it is fair to say that there has been a

tidal wave of such initiatives in the last two years, which should continue or even grow in size this year, judging by a few recently-announced projects (Gap, H&M...).

While significant positions have already been taken by local and international players, the market still remains open, in a context marked by a high degree of fragmentation. Indeed, the top 20 distributors represent only a 20% market share in China (online and offline), whilst this figure is at least double that in the West³. This is another illustration of the opportunity for businesses to position themselves, all the more so given that the appeal of Western brands is real and is often a token of confidence.

The performance of the Chinese infrastructures necessary for omni-channel business facilitates this growth : whether it is a question of logistics, which are now very efficient, sometimes even better than in the West (in the very large towns, same-day delivery is tending to become standard ; for the more remote towns, all of the major e-Commerce players are currently investing massively to develop logistical platforms guaranteeing the required delivery standards), payment, hosting or customer-support systems, the capabilities are of a good level, allowing the traffic and the processing volumes to be

managed effectively. The only constraint : the requirement of heavy localization, notably in relation to hosting, so as to avoid suffering the limitations of the Chinese Great Firewall (the levels of performance of sites which are not hosted in China are significantly impaired).

DIGITAL IN CHINA : A MARKET WHICH IS TRULY... CHINESE

Achieving success on the Chinese market is, however, not simple, and it requires steadfastness and above all a sense of adaptation. The market and digital habits are widely different and need to be taken into account if one is to avoid missing one's target. A few recent failures bear witness to this...

In the first instance, in digital matters, China is an autarchy : it has built itself up aside from the rest of the world, giving birth to an essentially Chinese digital industry. In China, Amazon is thus called Tmall, Google is denoted by Baidu, Facebook is pronounced Sina Weibo and Paypal is called Alipay ! The overall result speaks volumes, since China is the only country, with the United States, where the digital leaders are local : amongst the top 25 online audiences, 92% are operated by Chinese players...while this percentage is only 36% in France.

On top of this predominance of local players come particularities in the way the Chinese experience their relationship with digital :

- The Chinese consumer society is recent : many Chinese discovered consumption... at the same time as Internet. The online reflex is therefore very widespread and thus comes naturally, whether it involves comparing prices or obtaining product information.
- The Internet is experienced as a major socialization space for notably cultural reasons : the single-child model makes it necessary to search for socialization outside of the family circle, which is possible notably through the social networks.
- Trust is also strongly associated with Internet, because digital is first and foremost seen as a horizontal space for exchanges between individuals, preferable to the top-down communication from brands or from the authorities, towards which mistrust exists. Hence the intensity of exchanges on social media, which allow consumers, interacting as peers, to find things out, exchange information... before proceeding to purchase.

FROM SOLOMO TO SOGLOMO

Whilst the cultural relationship with digital is different, this is also very much the case with consumer habits. The

Chinese e-Consumer is Social, Global, Mobile :

- Social, with the importance of social networks being greater than anywhere else in the world. More than 90% of Internet users have at least one account on a social network, and 40% of them make posts or read notes and remarks ! The first assessment of a brand often taking a digital form, it is therefore essential to project a good image to consumers on social networks, by giving an impression of quality and by being actively present on all these networks. This represents a significant but essential cost for anyone who wants to grow in this market
- Global, because Chinese consumers first go through multi-brand marketplaces to buy online. The level of concentration is very high because it is estimated that around 80% of B2C trading is done through platforms such as Tmall, JD.com, DangDang... Although direct sales on the own-name sites of distributors and Brands are growing, a swift expansion in turnover often involves going through such platforms. Even brands such as Apple, known for its wish to control its entire value chain, position themselves on the marketplaces, this being proof of the strength of the model⁴. A worthwhile solution for the brands is to segment the channels by positioning the own-name site in the premium and exclusive offerings, and the marketplaces on the ends-of-line or the special promotions, thereby avoiding cannibalization
- It is nevertheless essential to develop one's own-name business in order to avoid being in a situation of total economic dependence on these platforms, which, moreover, do not always respect the brand's image. Finally, the growth prospects for own-name sales are very strong. It is therefore an excellent way to prepare in advance for the rebalancing between marketplaces and direct sales
- Mobile. The Chinese consumer is very much this. In the last 5 years, the number of mobile users has exploded, with nearly 500 million mobile Internet users, that is to say more than 80% of the total online population. Although purchases on mobile devices still account for only around 10% of total online purchases, they are key in terms of preparation, and constitute a major opportunity in the territories where fixed broadband is not installed. It is precisely these which are the next targets for online business...
- Other key specificities are to be taken into account, amongst which one can mention : the appetite of the Chinese for promotions (price is one of the most important criteria behind choosing to buy online), the preference for contacting customer services via an online chat, the necessary adaptation of the design of sites (abundance and wealth of information and

of photos) and of purchasing processes (shorter), the importance of Cash On Delivery (payment upon delivery) and the choice of browsers to be preferred in terms of compatibility

WHAT PROSPECTS ?

In a rapidly-growing market, it is sometimes difficult to spot the new areas of challenges and territories into which the competition is going to shift. We have identified 4 of them, which seem to us to be the main challenges of the coming years :

- How to take advantage of the growing mutation of business towards the new channels (which could reach 20% market share overall in a few years' time) ? This situation forces distributors and brands to either speed up or face leaving the lion's share of the market to the pure players as is presently the case (8 out of the Top 10 online stores !), thereby leading them towards an automatic erosion. Cross-channel business is not an option but an obligation, in China as in most countries
- How to build an effective O2O (online to offline) model, in order to utilize the digital lever to generate traffic at the sales point ? In a country where the majority of the dominant players are pure players, without a physical network, distributors must capitalize on this differentiating asset. Putting in place games, linked up, for example, with a social network, or offline promotions offered online, are solutions worth exploring. Even though O2O is not yet as important as in Europe, it is a formidable opportunity to be seized

- How to better gain customer loyalty ? The model which is exclusively centred on promotions reaches its limits for brands because it destroys value. Services for successfully gaining online consumer loyalty and creating a lasting attachment to the brand remain to be invented
- How to better utilize data and turn them into a real competitive advantage ? In the big data revolution, omni-channel business holds a goldmine : numerous data, possessed in-house, and which are just waiting to be utilized to better serve customers

A few tips before getting started...

Be :

- **Ambitious** : the e-Consumers are already there, and the infrastructure is efficient
- **Humble** : China is a digitally-advanced country. Be able to understand and take on board the local specificities in order to succeed
- **Agile** : practices change quickly (channels, social networks), necessitating flexible and scalable platforms
- **Quick** : market shares are not established and the growth prospects are very strong. Attach importance to Time To Market
- **Demanding** : the quality of service expected by consumers is high (delivery, customer service, content)
- **Local** : a local presence and an established partner network in China are essential to success

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¹ CNNIC, February 2013

² Bain & Company : "China's e-commerce prize", 2013

³ Euromonitor International, 2012

⁴ apple.tmall.com. 70 000 brands are present on Tmall



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