



COMPETENCE CENTER CHINA

by sim, ZHAW SML & Swiss SME China
for Swiss SMEs



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E-commerce in China

INTRODUCTION

CASE

RECOMMENDATION



China's e-revolution means business, if understood and managed properly

If there is one topic on top of every company's agenda looking at selling its product (especially B2C) in China these days, it's e-commerce.

The numbers alone are mind-boggling. China has become the largest e-commerce market in the world. On this year's Singles' Day (11.11.2016), Alibaba claimed its GMV (gross merchandise volume) topped US 1bn just 4 minutes and 54 seconds into the sale. At 3:30pm on that day, the GMV had already reached its value of the previous year, and by the end of the day, Alibaba had reached total sales of US 17.79bn, a growth of 32 percent from last year's US 14.3bn, which had seen a 60 percent increase from the year before. What Alibaba in 2013 sold in one day, they sold this year in one hour! In comparison, the likewise Black Friday shopping event around Thanksgiving in the US reached US 4.5bn in GMV last year.

Today, there are over 760 million people online in China. When it comes to online shopping, the quickly increasing Chinese consumers make already almost half of global retail sales, amounting to US 581bn (+33.3% y-o-y). Plus, selling online in China allows you to reach out to customers in 2nd and 3rd Tier cities that are getting more brand-conscious and are about to achieve a certain wealth, allowing them to purchase your product, without the need of an actual physical presence in the market. Particularly interesting is the fact that mobile sales make a large part of the consumption activity, with roughly 80 percent of sales being made by mobile phones, in contrast of something in the neighborhood of 35 percent of sales shopping in the US. By 2020, it is expected that 42 percent of all private consumption will take place online. By now it should be clear that the online ecosphere in China plays its unique role in getting your products to your customer.

Two factors shape the current development most: scale and isolation. The massive scale of the rising Chinese mainstream consumer (estimated at 51% of urban households by 2020, from 6% in 2010) drives the need for businesses to thoroughly understand the changing behavior of this consumer. The emerging emotional consumer is increasingly moving away from a "value for money" focus towards increasing discretionary spending on emotional needs and with brand awareness. Also, the Chinese consumer is very skeptical about authoritative claims. The way the Chinese consumer gets his or her information is through online channels where peers share their reviews about a product, a phenomenon called "real time Chinese consciousness". At the same time, the isolated online ecosphere in China requires companies to localize their e-commerce activities if they want to reach their consumer and sell successfully.

Understanding and properly managing these procedures and the different platform requirements and functionalities (e.g. the rating of your shop on Alibaba's TMall) towards meeting the customer, but also to clearly know their dependencies, is therefore key. This means that companies need a localized team with the respective skills, and need to have an effective online management in place that deals with the customer and public complaints, and reacts to customer needs within 24 hours.

Having seen the rising importance of selling online in China to a very tech-savvy new consumer base, in selling their products in China, companies need to therefore ask themselves where their customers are and whether it makes more sense to have a brick-and-mortar store, to operate on a platform such as Alibaba's TMall (B2C), to have their own online marketplace, or to sell their merchandise on TMall Global (B2B2C) in case no actual presence in the market is desired (i.e. export). This is no easy decision as its implications can require a different business model.

Currently, Alibaba's Tmall is the most obvious solution. Alibaba, the Hangzhou based behemoth

Exchange, is responsible for 80 percent of Chinese e-commerce sales and is worth more than eBay and Amazon combined. TMall, the company's B2C platform, claims a market share of over 60 percent. The company run by Jack Ma, who states that "*we don't want to be number one in China. We want to be number one in the world.*", made use of the country's unique situation of a rapidly rolled out infrastructure, a large pool of tech-savvy internet and mobile users and rising incomes. Most of all, however, it was the ability to understand the market and consumer that also led him to introduce Alipay, a payment system that works with an escrow account as a built-in security (mostly used for the C2C marketplace Taobao) for transactions. Recent developments in integrating logistics providers (Cainiao - or "green hand" - in the case of Alibaba) means that customers can expect a good to arrive within 24 hours domestically.

The nature of the market and the relatively few regulations ensure that the development in e-commerce will further evolve, and new players are likely to emerge. Besides Alibaba, other providers are JD, Tencent, Suning, Yihaodian etc.

Going digital with a beauty consumable in China

One of the biggest make-up brands in the world has seen tremendous expansion throughout the past few years. According to the official financial statement, the brand sold over 25.26 billion euros of product value and generated 4.388 billion euros of profit revenue in 2015 worldwide. As for online sales, they increased by 40% from 2014 to 2015 reaching over 1 billion euros of revenue and accounting for 5% of the total turnover of the group.

China is the second biggest market in terms of sales for this brand after the US and even before France, the company's home country. Despite the current Chinese economic slowdown, it enjoyed a slight increase of 3.5% in sales from 2014 to 2015. Among all international beauty and make-up brands, it was the first one to open a store on TMall, the major Chinese-language website for B2C online retail in mainland China, Hong Kong, Macau and Taiwan.

The president in charge of the brand's consumer products divisions shared during a 2014 earnings call that over 10% of the brand's sales comes from e-commerce in the Chinese market. Moreover, the sales online have doubled year-over-year between 2013 and 2014. As for the active cosmetics division, about 70% of the products sales were made online in 2014. In addition, according to China Internet Watch, in 2015, 56% of luxury e-commerce buyers purchased cosmetic products, predominantly by women. One needs to understand that 8 out of 10 Chinese consumers are online shoppers!

As is known, most Chinese netizens use mobile phones to either search for information, buy products or even getting food delivered. As a matter of fact, about 9 out of 10 consumers are using their mobile phone to buy online.

After opening their own TMall shop in 2010, this brand took a step further and created a specific brand for the Chinese market called "**Magic**" and a unique innovative app called **Makeup Genius**. This mobile app was specifically designed to enable any woman to try on some makeup products virtually. The lady simply needs to hold the phone like a mirror and wait for the "magic" to happen. Makeup Genius launched in 2014 is very successful. As of 2015, more than 14 million downloaded the app worldwide among which 4.7 million were from the Chinese market!

This success is a combination of a strong presence in the Chinese online market places together with a consequent marketing budget. One without the other can certainly generate sales, will however not bring the results one is aiming for in a 1.4billion market. Only a clearly conceived and well implemented long-term campaign will bring the expected double digits numbers, and yet it might be already a bit late to have that high expectations, as local and international competition is getting fiercer.



Success is not a given - agility and localization are key

Reading the above it becomes obvious that expanding on the Chinese market requires a well thought-through digital marketing strategy, as well as solid market knowledge and local expertise to deal with the daily operations towards optimally dressing the customer.

Understanding the changing consumer behavior, e-solutions need to be mobile-friendly. Also, the little belief in authority means that opinion leaders become all the more important in conveying the message of your brand/product. Data analytics provided by the platforms increasingly enable companies to better understand their customer behavior and preferences. Strategies need to be adapted to reach the target audience.

Even though e-commerce in China allows some brands to sell their products without an actual market presence in China, it makes for most brands still sense to be somehow on ground with an actual physical presence where the customer can experience the product. This does not have to be a fully fledged subsidiary and can be done in a smart and practical way with 3rd party services and offers.

Furthermore, it is important to see that brand awareness of the average western brand is still only emerging in China and the customer especially in less developed markets considers the price still an important criterion. Marketing campaigns are, due to the circumstances and the size of the country, very costly and can represent a danger to cash flow for SMEs in the mid run. So, while social media campaigns and online tools certainly can help, they need to be monitored and managed closely to ensure the expected results.

Last but not least, the regulatory framework and the hardware environment are still under development in China and are likely to change over the coming years (seven years ago, nobody

talked about wechat-shops for instance). This combined with the continuous emergence of new business models and platform providers means that a high degree of flexibility is required for any business in China. Companies need to develop an agile organization that enables them to reinvent their business model if the market requires (speed is key). Strategy in such a fast-paced environment is best developed bottom-up. Also, localization in such an isolated e-sphere is paramount, meaning that the management on-site needs managerial freedom and support from the home base.

After all, numbers don't lie, and in some years from now, most of the Chinese consumes will shop online and mobile. If you want to be ready for that, you'd better start today.

The Competence Center China for Swiss Small and Medium sized companies is a joint initiative of sim (selective international management) Co. Ltd., ZHAW School of Management & Law and Swiss SME China (the representative of SKV in China).



For further questions about E-commerce in China, please do not hesitate to contact Michael Lehmann, General Manager of sim, m.lehmann@sim.biz
Prof. Markus Prandini, Dr. oec. HSG, Head of Competence Center Asia Business, pnas@zhaw.com
or inquiry@competence-center-china.org