

SPOTLIGHT ON CHINA: THE FUTURE OF RETAIL

LEARNING FROM THE TECH TRENDS
DRIVING CHINA'S RETAIL SCENE



AT A GLANCE – RETAIL IN CHINA

Retailers the world over are looking to China more than ever before – and not just because it is a hugely attractive market in which to operate owing to the 1.42 billion population and rising demand for consumer goods.

China's evolving consumer behaviour, which includes ubiquitous mobile payments, may provide indicators on trends we can expect in the West. And Chinese giants Alibaba, JD.com and newcomer Pinduoduo are setting the pace when it comes to innovation, providing inspiration for retailers across the globe.

This report seeks to uncover how the Chinese consumer behaves and what drives them to purchase.

It will focus on the retail behemoths of the East and reveal what

retailers can learn from the way they have digitally transformed. It will also offer ideas on how best to capitalise on Chinese consumers in the UK and in China, drawing on successful retail case studies.

According to the United Nations World Tourism Organization, tourism expenditure from China went from \$24bn (£18.4bn) in 2006, 3% of the world's total, to \$261bn (£200bn) in 2016, 21% of the world's international tourism spend.

Behind its internet firewall, China has developed its own shopping ecosystems where payment and fulfilment are among the fastest and most convenient in the world.

This is what China's retail world looks like today:

China's top five categories for cross-border sales

(Data from 2017. Source: Frost & Sullivan)



22%
FASHION



20%
BEAUTY/COSMETICS



19%
GROCERY



18%
SPORT & LEISURE



15%
MOTHER & BABY

Fast facts



£9.2trn
CHINA'S GDP IN 2017, 4.5 TIMES
THE SIZE OF THE UK'S



300 million
THE NUMBER OF MIDDLE-INCOME
EARNERS IN CHINA



£3,997
THE AVERAGE PER CAPITA
DISPOSABLE INCOME IN 2017



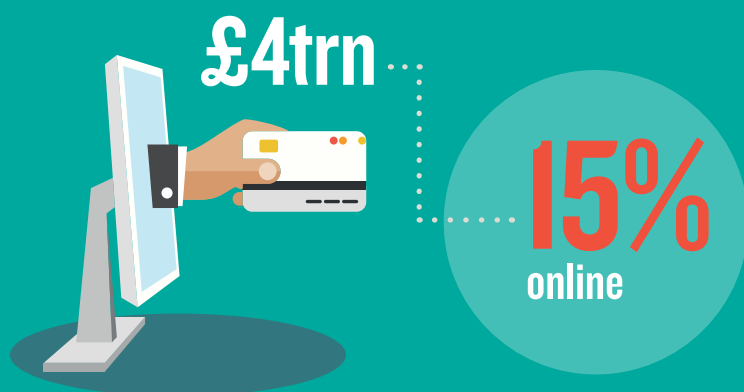
67%
THE PROPORTION OF CONSUMERS
MAKING CROSS-BORDER
ECOMMERCE PURCHASES IN 2017



80%
THE NUMBER OF ANDROID
SMARTPHONE USERS IN Q2 2018

Source: Nielsen, *People's Daily Online*, Kantar Worldpanel ComTech global consumer survey, Xinhua News Agency

How China shopped in 2017



Of the £4trn spent on consumer goods within mainland China in 2017 (a year-on-year increase of 10%), online retail sales accounted for 15% (a year-on-year increase of 28%).

Source: China Internet Watch

THE RISE OF MOBILE ECOMMERCE

724 million

THE NUMBER OF MOBILE INTERNET USERS IN CHINA

502 million

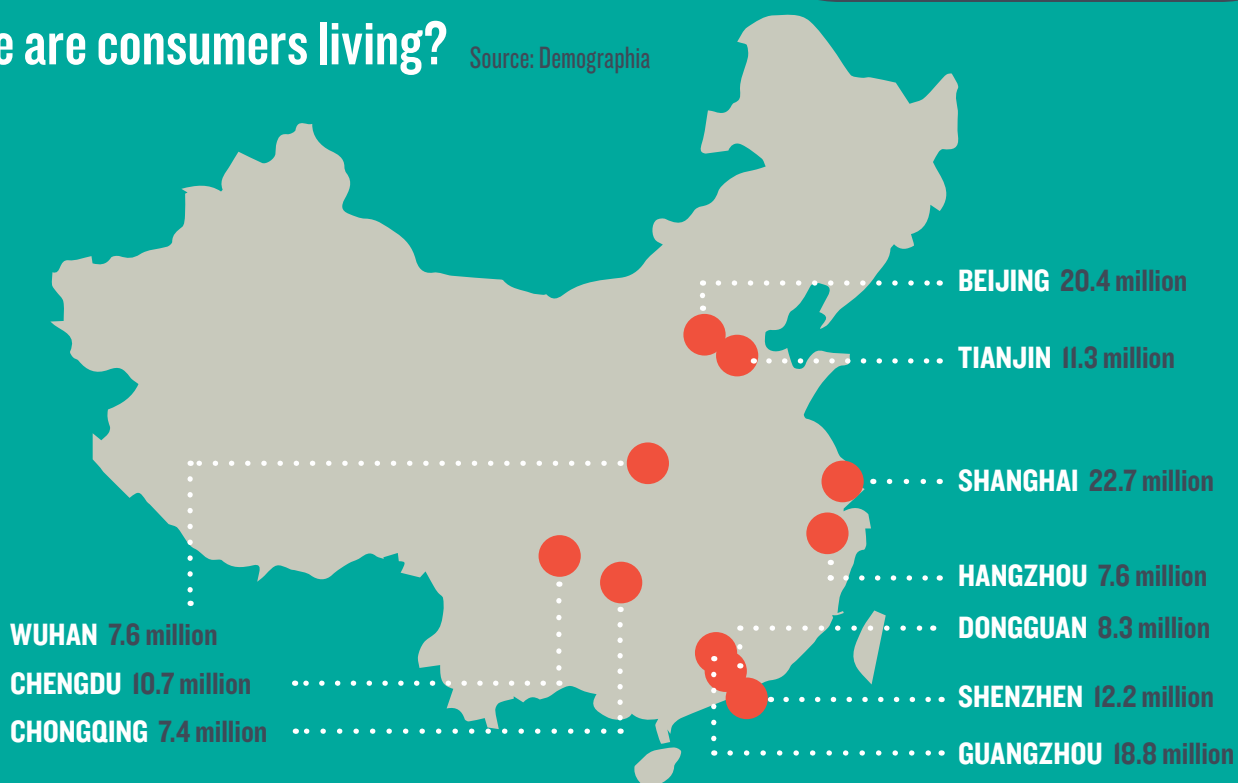
THE NUMBER OF MOBILE PAYMENT USERS IN CHINA

83%

THE PROJECTED GROWTH OF MOBILE INTERNET RETAILING FROM 2017 TO 2022

Source: China Internet Network Information Centre (CNNIC); Euromonitor International

Where are consumers living? Source: Demographia



CHINA'S TOP ECOMMERCE PLATFORMS BY MONTHLY AVERAGE USERS



1. TAOBAO

With **576 million monthly active users** across the Alibaba Group marketplaces, Taobao is an eetail marketplace holding more than 50% market share in China's domestic ecommerce market. Taobao's success lies in offering consumers highly personalised and relevant content and updates from merchants. The group's core commerce division, which includes Taobao.com, contributed £16.5bn to the group's annual revenue of £30.6bn in the year to March 2018. Also part of core commerce, Taobao's sister marketplace, Tmall, is aimed at B2C ecommerce including cross-border purchasing.

2. JD.COM

Beating the Alibaba Group on revenue, the ecommerce platform offers direct sales of electronics products, books, home appliances, digital communications, apparel and food. It has **292 million monthly active users**, turned over £42.4bn in 2017 and holds a 33% share of the Chinese ecommerce market. To improve its delivery service, JD.com set up JD Logistics in 2017.

3. PINDUODUO

Shanghai-based Pinduoduo is an ecommerce platform that offers a wide range of products, from daily groceries to home appliances based on a group-buying model. Launched just three years ago, it has more than **195 million monthly active users** and pulled in revenues of £298m in the year to June 2018.

4. VIP.COM

With around **56 million active users**, VIPShop is seeing slower growth in user numbers compared with other marketplaces but is maintaining a presence in online discount retailing with an annual revenue of £8.5bn.

Source: Business Wire, China Internet Watch, *South China Morning Post*, Statista

CONTENTS

CHAPTER 1

NEW CHINA RETAIL – MEET THE CONSUMER

- A burgeoning middle class has increasing disposable income
- Chinese consumers are looking to spend on “upgrading their lifestyle”
- Affluent shoppers are turning to online marketplaces to purchase imported goods

CHAPTER 2

HOW TECHNOLOGY CHANGED CHINESE RETAIL

- Domestic tech companies have created an on-the-go consumption culture
- Alibaba has developed a new digital retailing landscape coined as ‘new retail’
- Mobile retailing is experiencing rapid growth because of the increasing numbers of smartphone users

CHAPTER 3

WINNING THE CHINESE POUND

- Growing numbers of Chinese consumers travelling internationally has sparked an interest in global brands
- When launching in China retailers should consider setting up an ecommerce site via a marketplace such as Tmall
- Popular Chinese travel periods such as Golden Week offer invaluable opportunities to UK retailers

九集團公司

6 中心
NEW WORLD
CONTEMPORARY ART
CENTER

5 陶瓷
精品商場



4 SHANGHAI
PORCELAIN
EXPO

3 珍珠城
PEARLS CITY



2 工艺礼品
ART & CRAFTS



1 新世界銀樓
New World Jewellery



7 观景
咖啡餐厅
COFFEE
RESTAURANT

6 新世界
现代珍藏品
中心
NEW WORLD
CONTEMPORARY ART
CENTER

5 陶瓷
精品商場

4 SHANGHAI
PORCELAIN
EXPO

3 珍珠城
PEARLS CITY

2 工艺礼品
ART & CRAFTS

1 新世界銀樓
New World Jewellery



珍珠
PEARL CITY

ME&CITY

ME&CITY



RETAIL WEEK FOREWORD



JAMES KNOWLES
HEAD OF COMMERCIAL PROJECTS, RETAIL WEEK CONNECT

China is an exceptional example of how technology can transform and disrupt a retail market, with ecommerce sales experiencing double-digit annual growth as Chinese consumers embrace new channels for discretionary spending.

Motivated by finding the best price for desirable foreign goods as well as high levels of customer experience, Chinese shoppers are embarking on new purchasing journeys that merge online and offline both at home and abroad.

There is a new reality to how consumers are spending that is much removed from models adopted by early foreign entrants to China's domestic market.

Realising the consumer's love affair with their mobile phone, technology companies have delivered ecommerce and payment

solutions tailored to how the Chinese customer likes to shop.

A handful of tech companies – Alibaba, Tencent and JD.com – hold power in the retail sector and have created entire ecosystems that meet multiple consumer needs, from interactions with friends to payment and fast order fulfilment.

International brands can play in these spaces and many are using marketplaces to good effect, whether as one part of a larger China strategy or to test the market.

One thing is clear though – the key to unlocking the Chinese pound in China and overseas is to respect these tech-enabled retail universes and operate within them. A learning curve that can only benefit retailers as the West plays catch-up with the East.



The key to unlocking the Chinese pound is to respect these tech-enabled retail universes



RETAIL WEEK CONNECT: SPOTLIGHT ON CHINA

Head of Commercial Projects

James Knowles 020 7715 6167
james.knowles@retail-week.com

Commercial Production Editor

Abigail O'Sullivan 020 3033 2940
abigail.osullivan@retail-week.com

Contributors Helen Berry, Rose Bundock,

Emily Kearns

Production Manager

Paul Moran 020 3953 2676
paul.moran@emap.com

Account Director

Julia Jones-Collins 020 3033 2952
julia.jones-collins@retail-week.com

YEXT VIEWPOINT



FRANKLIN YAO

MANAGING DIRECTOR – GREATER CHINA, YEXT

Whether we look at discount shopping, social commerce or mobile payments, Chinese consumers have operated at the very forefront of retail behaviours for some time. Leaps such as using one app – WeChat – to pay bills, find local hangouts and book doctors' appointments have become ingrained in society and set shopper expectations for a seamless online-to-offline journey and for sharing these experiences within social networks.

Now these shoppers are driving revenue for Western brands with the rise of cross-border commerce and global travel. This is increasing the pressure on those brands to get to know these customers and deliver experiences that meet cutting-edge consumer expectations.

From Sainsbury's and Marks & Spencer

to Clarks, many international heritage brands have already established a presence on online marketplaces such as Tmall or JD.com to test the market and maintain an omnichannel customer service.

These brands have learnt that product listings that resonate with Western audiences are unlikely to win traction in such a vastly different market as China. Not only does the language need to change, but sometimes so does the colour used or the discount offered. And, of course, the products themselves must often be reviewed in line with local demand.

Retailers looking to tap in to the ever-increasing pool of Chinese travellers must ensure product and store pages are visible through search engines beyond Google, which is blocked in China and on Chinese mobile phone services. Local-language

product listings and store information are key to enable offline conversion.

Another lesson from China's tech titans is that of shopper urgency. Alibaba kick-started a shopping phenomenon when it commercialised Singles' Day. Adjusting prices and marketing around events and exploring how to drive urgency around bespoke promotional events is crucial to driving conversions. Promotions are often the starting point for brand discovery.

In short, success is attributed to a real understanding of the priorities for these digitally savvy shoppers. There is enormous opportunity for retail marketers to tap in to one of the largest global groups of affluent consumers. For many this will prove a vital testing ground for their ability to deliver a consistent experience across the entire digital ecosystem.

YEXT

Yext is the leading Digital Knowledge Management platform. Yext's mission is to give companies control over their brand experiences across the digital universe of maps, apps, search engines, voice assistants and other intelligent services that drive consumer discovery, decision and action. Today, thousands of businesses including brands like

Tesco, Marriott and Jaguar Land Rover use the Yext Knowledge Engine to manage their digital knowledge in order to boost brand engagement, drive foot traffic and increase sales.

01

NEW CHINA RETAIL – MEET THE CONSUMER

Take a closer look at China's average consumer in 2018 and the view is of a burgeoning middle class both in urban and increasingly rural areas. They are feeling positive about their income and their growing discretionary spend.

Even as storm clouds gather over China-US trade relations, the government remains bullish that the consumption capacity of China's middle class will remain stable and fuel year-on-year economic growth of between 6.7% and 6.9%. In August, Zhao Ping, director of the international trade research department at the China Council for the Promotion of International Trade, told local media that "capital liquidity, a high employment rate and consumers' sound credit payment capacity" should ensure that China's consumers keep spending.

China's middle classes are looking to spend money on "upgrading their lifestyles on goods and services such as education, cars, property and mobile phones", according to Credit Suisse research report *The Chinese Consumer in 2017*. In addition, they are "shifting their pattern of spending to discretionary items" and "spending less on housing and food, but more on travel and entertainment compared with other emerging markets".



Patterns of consumption are also drastically changing, with China's malls in Tier 1 and 2 cities no longer the go-to destinations for premium and luxury foreign brands and retailers. Instead, consumers have wised up to the markups charged by distributors on imported goods. Increasingly, affluent consumers are shifting from bricks-and-mortar retailers to online marketplaces where there is abundant choice and a greater likelihood of discounts.



Consumers have wised up to the markups charged on imported goods



FIVE CONSUMER TRENDS



1. Cross-border shopping

While Chinese shoppers still prefer to purchase big-ticket items in store, there are certain categories experiencing a rise in cross-border shopping. Health scares around the safety of domestically produced baby, personal care and beauty products as well as over-the-counter medicines have driven consumers to use ecommerce marketplaces to buy established and credible international brands at reduced prices.

Meanwhile, young fashion-conscious Chinese consumers are becoming increasingly interested in international heritage brands such as the UK's Clarks shoes to demonstrate an appreciation for quality over mass market. Cross-border retailer Xiaohongshu kick-started the trend in 2013 for selling overseas brands, counting 100 million users by June 2018 – the majority of which are young consumers. Kaola.com followed before China's big ecommerce players – Alibaba's Tmall Global and JD.com – launched their own offerings.

2. Discounts and promotions

Gone are the days when Chinese consumers had to pay a 25% to 125% markup on international brands sold through franchises. Finding a premium or luxury item at a reduced price has become “almost a national sport”, says Elena Gatti, managing director of Azoya, a consultancy that helps brands and retailers launch online in China. Consumers are very price-sensitive, which explains the success of shopping festivals such as Singles' Day on November 11, an online Sales event that has eclipsed Black Friday and Cyber Monday combined (more on this in Chapter 2).

VIP-type offers are another way to attract the Chinese consumer's attention. In 2018, Alibaba launched 88 VIP – a loyalty membership programme that includes discount savings and coupons for consumer electronics – across its marketplaces. Ecommerce companies also use virtual 'red packets' containing offers and promotions as a marketing tool. This plays on the Chinese tradition of giving red envelopes filled with money during national celebrations and special occasions.



3. Social commerce

The pursuit of a great deal as well as a societal trend to share good fortune with friends and family has resulted in the rise of a distinctly Chinese retail force – social commerce. Tapping into this desire to share products and find deep discounts is ecommerce platform Pinduoduo. Brands and retailers on Pinduoduo offer a heavily discounted price if a group of consumers all buys the same item. Users will use social platforms such as WeChat to find enough friends to fulfil the requirements of the discount.



4. Key opinion leaders

Leading social media personalities are playing an increasing role in China's retail space. Selfridges hosted Angelababy, a Chinese model and actress with 80 million followers on microblogging site Weibo, at its Oxford Street store in September 2018 to attract Chinese tourists during Golden Week (See Chapter 3). Alongside internet celebrities is a new breed of micro-influencers who have niche audiences – a good option for brands seeking amplification through user-generated content. Azoya's Gatti says user-generated content is so significant retailers can't market to 19- to 21-year-olds without influencers.

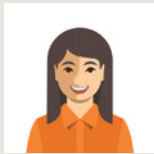


5. Mobile payments

Driven by China's largest ecommerce companies and their desire to promote on-the-go consumption, consumers have embraced mobile payments for their convenience, shorter queuing time and security against receiving counterfeit bank notes – an ongoing problem in China. Merchants, who pay a lower commission rate than to payment card issuer China UnionPay, are also widely adopting the QR-based technology led by mobile wallet solutions WeChat Pay and Alipay.

CHINA'S CONSUMERS BY DEMOGRAPHIC

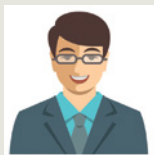
Since China opened its domestic market to the West in the late 1970s, the speed of change has been such that each demographic cohort has had a different experience of consumerism, resulting in a shift away from the traditional Chinese mentality of saving rather than spending.



YOUNG ADULTS

18-29 YEARS OLD

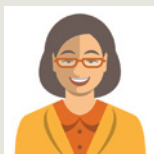
Known as the 'Post-90s' generation, this group is driving consumption growth as well as volumes of online shopping. Young adults are often characterised as optimistic and more likely to spend rather than save.



MIDDLE YOUTH

30-44 YEARS OLD

In 2017, young adults and middle youth combined accounted for 39% of China's population, according to a Euromonitor International report. The middle youth, known as the 'Post-80s' generation, are in their peak earning years and are contributing to a demand for quality goods and services. Middle-youth consumers tend to be homeowners, driving demand for household-related goods and services.



MID-LIFERS

45-64 YEARS OLD

Mid-lifers in China's urban areas enjoy early mandatory retirement at 55 for women and 60 for men. Travel is among the leisure activities embraced by middle-class and affluent pensioners, typically in the spring and autumn months. Alibaba's Taobao has 30 million users aged over 50.



SENIORS

65+ YEARS OLD

The number of Chinese people aged over 65 is expected to rocket from approximately 100 million in 2005 to around 330 million in 2050. To cater to their needs, Alibaba's Taobao has launched a senior-friendly version of its ecommerce app with a simple interface and a family chat button to enable group purchasing options.

Source: Euromonitor International, January 2018



ACTION POINTS FOR RETAILERS

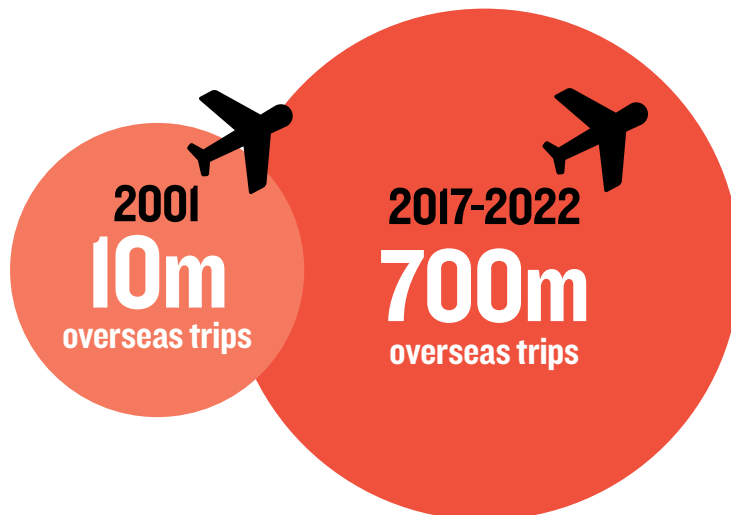
- Ensure product listings reflect quality as well as value. Discounts are standard from budget to luxury but promotions need to be consistent across every marketplace.
- List location-based information in Mandarin so online shoppers can find stores, still the preferred channel for buying big-ticket items.
- Allow customers to see a breadth of product peer reviews.
- Manage brand information across all platforms that Chinese consumers use, both at home and when abroad to ensure accuracy and consistency.



THE CHINESE TRAVELLER

When China's President Xi Jinping said last year he expects Chinese tourists to make 700 million overseas trips by 2022 – up from 10 million in 2001 – he was acknowledging that outbound travel is no longer the preserve of the wealthy elite. China's middle classes are spending more on experiences and planning overseas trips during the peak travel periods – two week-long national holidays known as Golden Weeks in the spring and autumn.

Although greater volumes of Chinese tourists visit Asian destinations, European countries are experiencing high spending per capita in part because of shopping for luxury and premium items. Alipay had a 25% year-on-year uplift in Chinese tourist spend in the UK in summer 2018, driven by the weaker pound and more direct flights. Based on data from Alipay users, the average total spend per user was around £480 between July 1 and August 31.



THE CHINESE CONSUMER – A SNAPSHOT

Retail Week surveyed mainland Chinese consumers on their ecommerce shopping habits and preferences, revealing that:

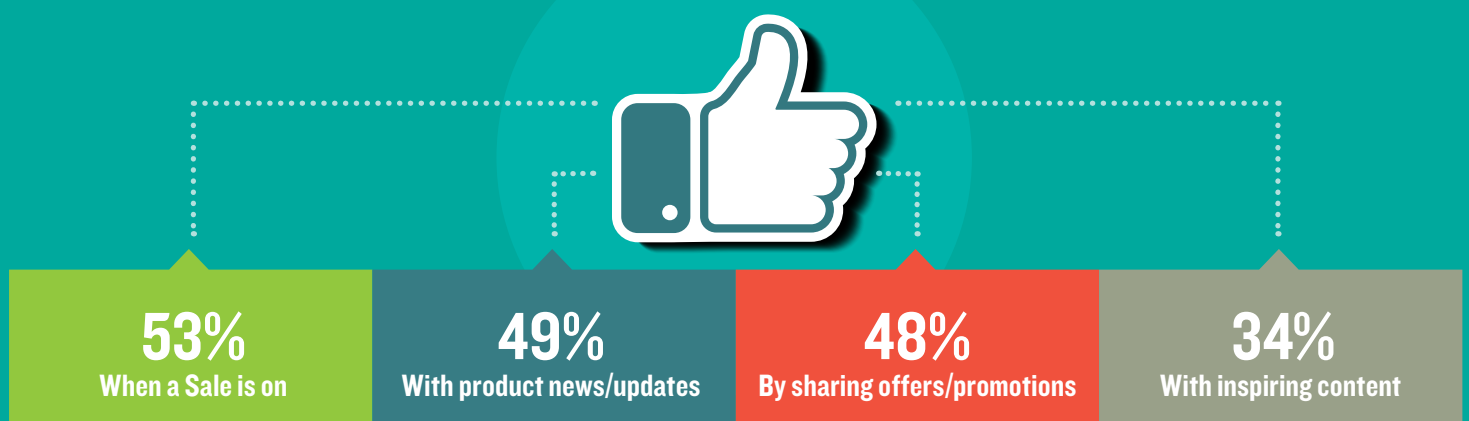


*Survey conducted in October 2017 of 1,000 mainland Chinese consumers

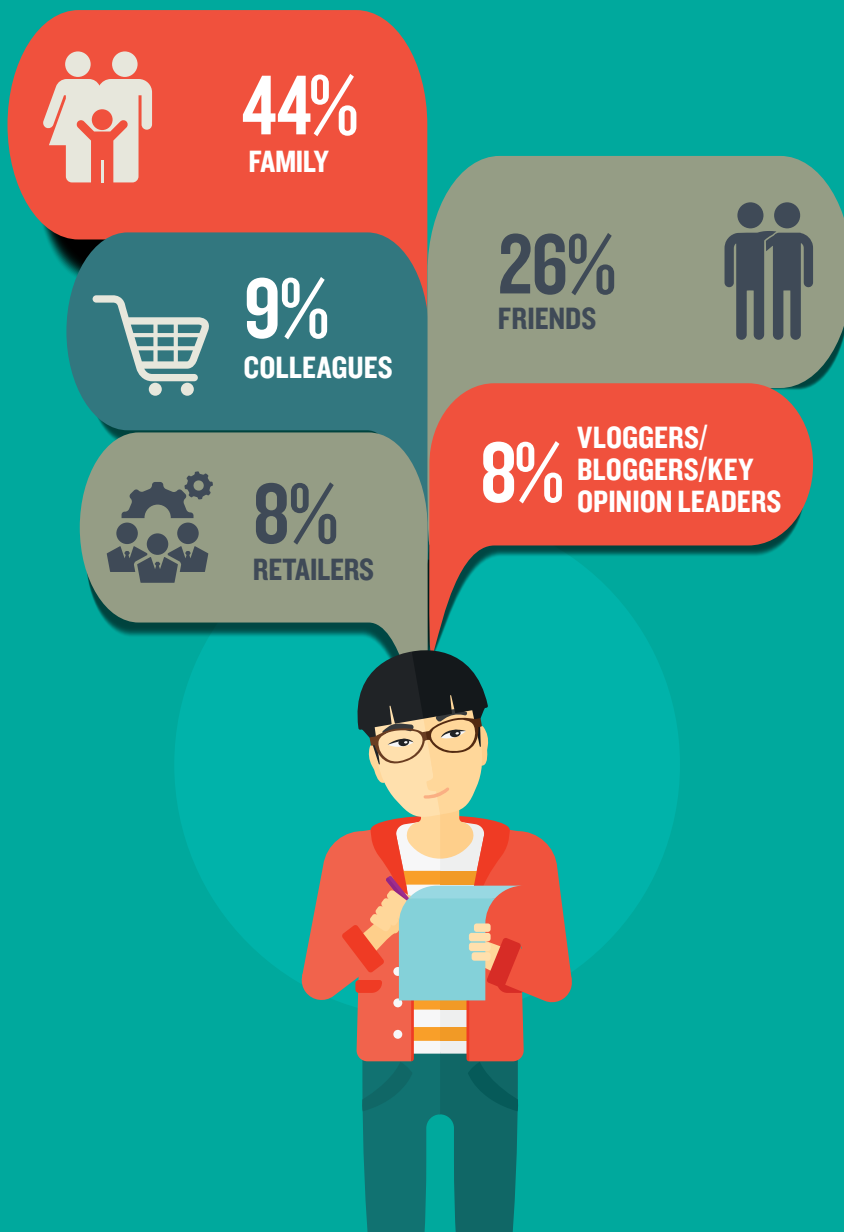
The top five categories for online sales



How consumers like retailers to engage with them on social media platforms



What influences purchasing decisions?



The factors guiding decision-making

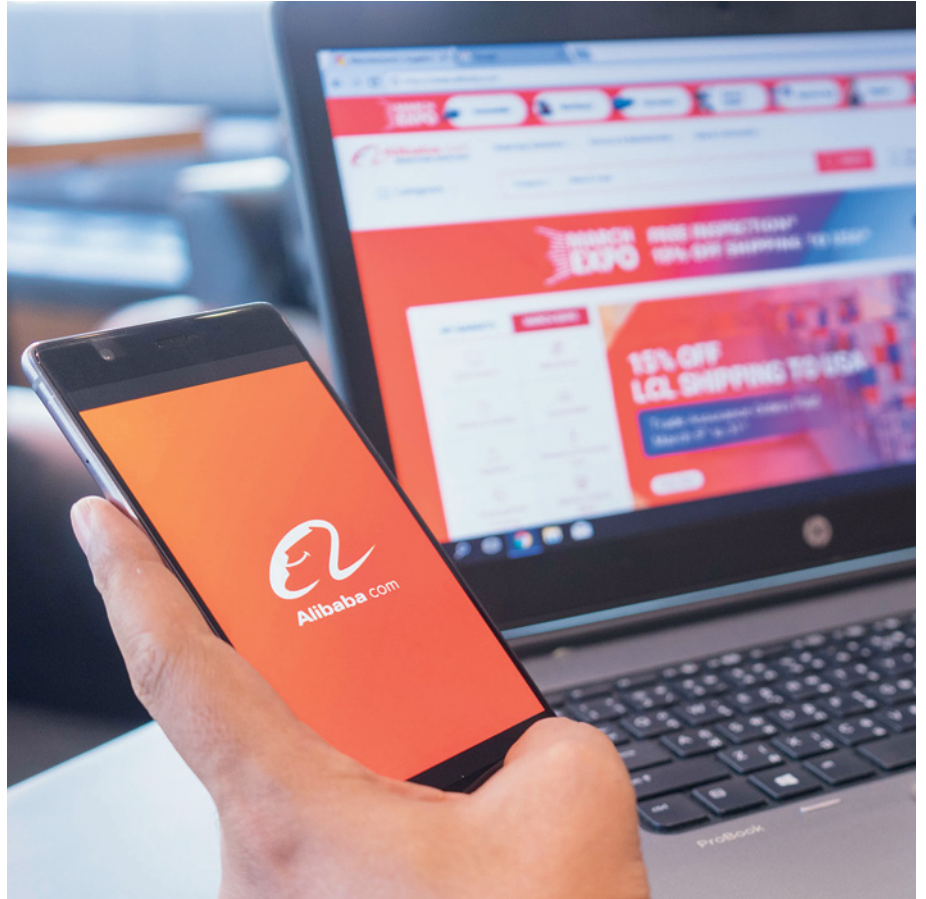


The most important factors when browsing a website



02

HOW TECH IS CHANGING CHINESE RETAIL



Just as Apple has created demand for products consumers didn't realise they needed, home-grown technology companies have driven change in China's spending patterns by encouraging an on-the-go consumption culture.

By delivering applications and services that solve Chinese problems in a Chinese way, the tech giants have developed entire retail ecosystems that consumers have been only too happy to embrace. And it has resulted in a small number of companies dominating the space.

Alibaba

Borne from the dotcom boom of the late-1990s, Alibaba has grown from a single online wholesale marketplace to a conglomerate of technology companies with an annual turnover of £17.47bn in 2017. Led by chief executive Daniel Zhang, Alibaba comprises online and offline retail businesses and fulfilment company Cainiao Smart Logistics Network. The umbrella brand also includes digital media and entertainment businesses as well as an internet service provider company.

In June 2018, Alibaba reported 634 million monthly active users of its apps, picking up an additional 17 million consumers since March 2018 alone. In a country that reached the 800 million internet user mark in the middle of this year, Alibaba's products hold a majority market share.

Within its retail stable, Alibaba has ecommerce platforms including Taobao and Tmall, and bricks-and-mortar stores that are all supported by its mobile and online payment solution Alipay. The introduction of the Tmall Global marketplace has given thousands of global brands a presence in the Chinese market including UK retailers New Look, Cath Kidston, LK Bennett and Clarks. Tmall also features Luxury Pavilion, which offers



Jack Ma, founder of Alibaba

a customised and premium shopping experience.

In its quest to further digitise the retail industry – coined as 'new retail' by Alibaba founder Jack Ma – the group has launched Hema, a grocery store format. The automated unmanned stores, of which there were 45 in June 2018, test out Ma's concept of digitising every part of the customer journey from in-store technology to inventory tracking, supply chain management and mobile payments.

THREE RETAIL LESSONS FROM CHINA'S TECH TITANS



1. Create shopper urgency

Alibaba kick-started a shopping phenomenon when it commercialised a young people's celebration called Singles' Day – an unofficial national event that originated at China's Nanjing University. The annual online and offline shopping festival on November 11 – a significant date as it resembles four bare sticks, Chinese phraseology for single people – is now nearly double the size of the US' Black Friday and Cyber Monday combined and has been adopted in parts of Southeast Asia. In 2017, sales revenue from Double 11, Alibaba's trademarked name for the event, was £19.3bn, with its mobile wallet app Alipay processing 256,000 payment transactions per second. JD.com followed suit by creating a mid-year 18-day festival of discounts, promotions and experiences. In 2018, the annual so-called 6.18 event pulled in sales of £18.9bn.



2. Simple and seamless solutions

The QR code as part of mobile payments has revolutionised the way that customers can transact in China's increasingly cashless society. Tencent first introduced QR code scanning as a way for users to join a WeChat group, but gradually developed it to complete a series of tasks including mobile proximity payment. Third-party payment companies offering discounts for customers paying via QR code scanning helped to rapidly establish the payment method. In April 2018, the government rolled out set daily transaction limits for QR-code payments capped at £550 in order to cut fraud.



3. Think cross-channel

Chinese tech giants are increasingly focusing on integrating online and offline channels. Brands and marketplace owners are pragmatic as opposed to protectionist in their pursuit of meeting consumer demand for quality products delivered in a fast and convenient way. JD.com has established strategic relationships with grocery retailers including Walmart and Yonghui Superstore to strengthen its logistics operations, while Alibaba struck a deal with Starbucks Coffee Company in August 2018 to deliver the chain's coffee to customers through its food delivery unit Ele.me.



Tencent

Rivalling Alibaba in scale and ambition is tech giant Tencent, which has carved a strong presence through social platforms and digital content. Like Alibaba, Tencent has a range of complementary technology-based companies from an ISP division to on-demand delivery.

The jewel in Tencent's crown, however, is WeChat, a social communication platform that counted 1 billion monthly app users in March 2018. Launched in 2011, the WeChat platform integrates instant messaging and social entertainment through features such as video calls and photo sharing, as well as friend-adding services such as 'Shake' and 'People Nearby'.

Tencent has extended the WeChat ecosystem by offering companies the chance to showcase products and services within the app. By adding payment solution WeChat Pay, users could then also pay for utility bills, top up mobile phone credit and complete other daily tasks such as booking doctors' appointments. The aim is for Chinese consumers to conduct their everyday lives through the platform.

Under Ma Huateng, chairman and chief executive, Tencent's latest tech innovation is WeChat Lite or 'mini-programmes' that look and operate like native mobile browsers such as Apple iOS or Google's Android systems but are far less data intensive.



JD.com

Nasdaq-listed Jingdong, or JD, is China's largest retailer by revenue. Originally a way for Chinese consumers to make direct purchases of non-counterfeit electronics products at reduced prices, the brand has expanded its offering to 170,000 merchants offering fashion, food and books.

The company now counts Tencent and Walmart as shareholders and has provided an entry point for UK retailers including Iceland, Clarks and Dyson into China. Earlier this year, founder and chief executive Richard Liu pledged to Prime Minister Theresa May that JD.com would sell £2bn worth of UK goods to Chinese consumers over the next three years.

Like its peers, JD.com is seeking technology solutions to improve customer experience and profitability. The retailer has invested heavily in artificial intelligence and robotics for fulfilment as well as offline shopping.

Keeping pace with competitor Alibaba, JD.com has launched an unmanned grocery store format – 7Fresh, while the company is using drone technology for deliveries. Liu's version of 'new retail' is 'boundaryless retail', a combination of online, offline and virtual shopping enabled by augmented reality.



MOBILE FOR THE MASSES



Chinese tech titans have attracted monthly average users to their retail apps and services at such scale because of the high proportion of smartphone users and the accessibility of the internet.

The percentage of mobile users with a smartphone is forecast to hit 60% next year, with consumers able to choose from premium domestic smartphone brands including Huawei, OPPO, Vivo and Xiaomi. Large-screen models of 5.5 inches or greater are on the rise, facilitating the on-the-go consumption trend.

China's key commercial internet service providers including Alibaba, Tencent, China Telecom, China Mobile and Baidu have spent years investing in communication technology infrastructure. China's fixed-line broadband and mobile broadband penetration rate is expected to reach 63% and 75% respectively by the end of this year, according to the Chinese government. Commercial application of the 5G mobile network – broadband-equivalent download speeds over mobile networks – is expected in 2020 in line with the UK's estimated roll-out.

RURAL CONSUMERS

Meanwhile, the Chinese central government earmarked investment of £16.8bn to extend broadband coverage to its rural areas by 2020 to shrink “the digital divide between countryside and city”, according to the Ministry of Industry and Information Technology.

A lack of big-box retail parks means that China's rural consumers – which account for 45% of the population – are jumping straight to mobile commerce and the tech giants are assisting the transition. Alibaba's Rural Taobao marketplace programme enables non-urban residents and businesses to sell agricultural products to urban consumers; JD.com has invested in drone technology to fulfil orders in Tier 3 and 4 cities as well as inaccessible villages; and leading players such as Tmall even offer slightly lower prices via their apps than via their online shopping portals, to promote mobile internet retailing.

Source: CNNIC



209m

The number of rural internet users in China in 2017



47%

The proportion of rural internet users using mobile payment



35%

The penetration of internet access in rural China

ACTION POINTS

FOR RETAILERS

- Find a way to easily and conveniently update price and availability information on ecommerce platforms when taking part in shopping events.
- Use top-of-the-funnel search engine activity to drive direct sales from China's rural mobile-enabled consumers, which account for 45% of the population.
- Explore how to leverage tech innovations such as Tencent's WeChat Lite to broaden access to the domestic Chinese market.



The predicted percentage of rural villages with ecommerce capabilities by 2020



03

WINNING THE CHINESE POUND

China's consumers are increasingly adopting a more international mindset, with a growing proportion opting to travel abroad and also spend their money with overseas brands. This presents international retailers and brands with an opportunity to catch their eye and encourage spend via different channels.

A consumer could be exposed to a brand while in the UK and then later make a purchase through a cross-border ecommerce platform in China. It's important to remember that while traveling abroad, Chinese consumers remain behind a firewall and will use native apps such as WeChat, Baidu and DianPing to discover UK brands. It's crucial for UK retailers to manage their information across these platforms to capitalise on sales from the Chinese tourist.

Launching in China

The country is a high-potential market, says Gatti of Azoya, a China ecommerce consultancy that helped launch UK online beauty retailer FeelUnique. "But it's not for everyone," she cautions. "You need to get to know your customers, be flexible and be open to new trends."

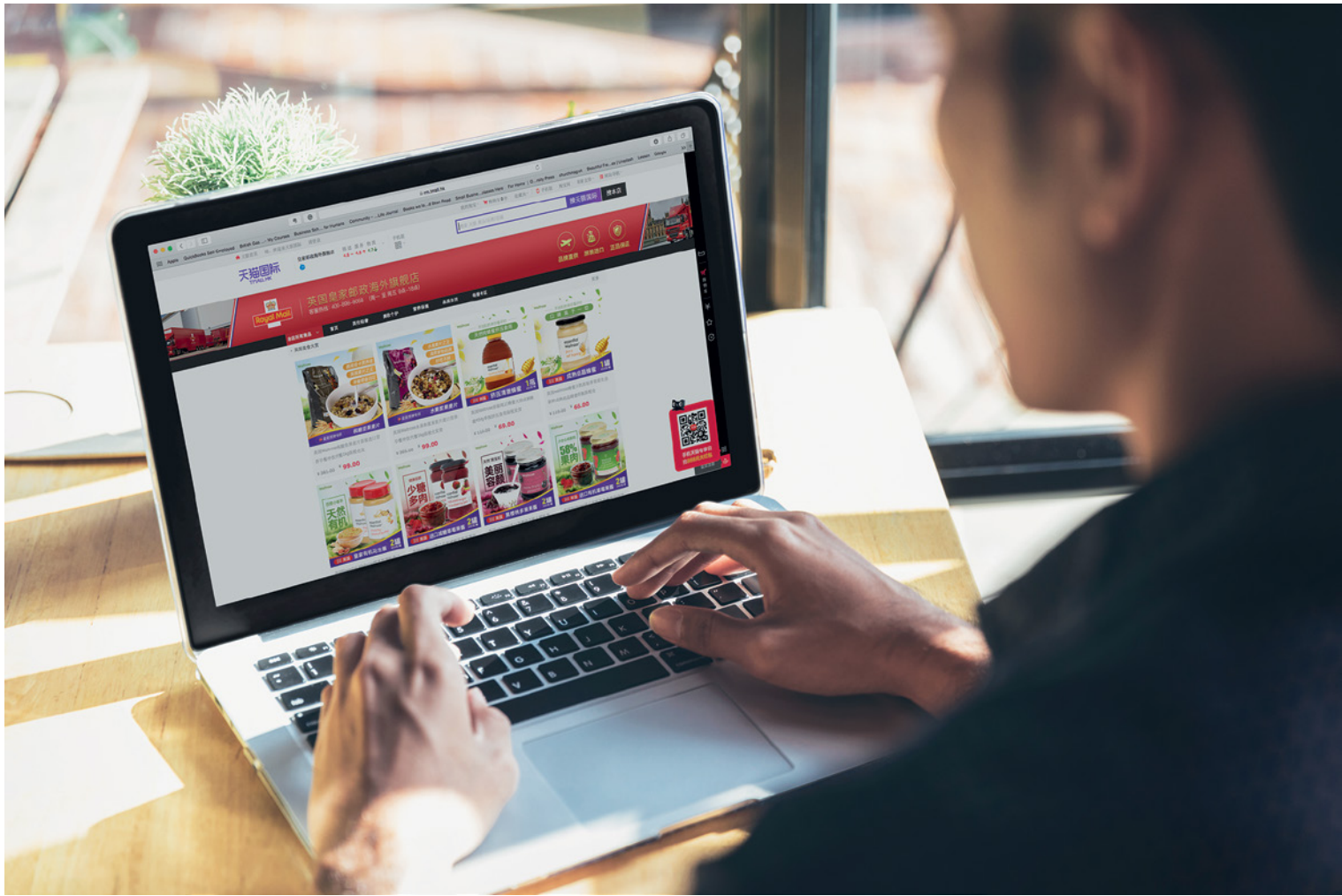
According to Gatti the first step in assessing a brand or retailer's suitability to launch in China is to determine if the category is a good

fit, if the company is prepared to invest in branding, and if it is prepared to wait three to five years before seeing a return and, if needed, absorb the losses if the launch fails.

"Chinese consumers are used to lots of choice so a brand needs to be flexible and expand its product offering if necessary," says Gatti. "Can they also guarantee the volume and speed to market, particularly if listing on marketplaces such as JD.com, and can they adapt to new situations such as changes in regulation affecting the operating environment, which is the greatest risk to launching in China? These are the kinds of questions we ask to see if a brand is a good fit."

Azoya recommends brands and retailers first go to market by creating a dedicated China ecommerce website, which is fulfilled by dropshipping from Europe. "In this way," she says, "brands can figure which are the hot items among their inventory." Chinese customers are also used to waiting the 10 to 14 days it takes for a product to travel from Europe and clear customs, she says.

To scale up, the next step is to sell through a marketplace such as Tmall or JD.com. Both of these companies have strict service-level agreements that dictate fulfilment terms, meaning retailers will need stock warehoused in one of China's



free trade zones in order to meet the fast delivery times.

A consideration though is how much a brand is prepared to discount – especially during shopping festivals. This is an area where foreign brands need to be careful to find a balance between the market price and cost efficiency, says Gatti.

UK retailers on Tmall

UK retailers have incorporated Tmall into their international growth strategies to either test the market, maintain a presence in the market or as part of omnichannel customer service.

Sainsbury's is one example of a UK retailer that has tested the Chinese market through a trial ecommerce site on Alibaba's Tmall. After the trial in August 2016, the grocer revealed plans to double the number of products it sells in the country.

Clarks, a more established retailer in China with around 120 stores and 400 concessions, is also realising the benefit of an online marketplace presence. The retailer sells 10% of its annual China sales volume during shopping festivals such as Chinese New Year and Singles' Day.

High street retailer Marks & Spencer has given up its bricks-and-mortar estate in

China, but has retained an online presence on Tmall, notching up 147,000 orders on Singles' Day in 2016 with childrenswear, belted raincoats and cashmere jumpers among the best-performing products.

At the niche end of the retail scale, there are heritage brands such as the Cambridge Satchel Company, which sold 8,000 bags on its Singles' Day launch in 2014, four times the volume chief executive and founder Julie Deane expected.

A year and a half later, the brand launched bags in two new colourways exclusively on Tmall before they were available to the rest of the world.

The UK's Royal Mail even has its own Tmall shop selling British brands and products. The postal company buys goods at an agreed price in sterling that covers logistics, duties, marketplace commission fees, translations and products listings. It advises brands that an export plan must include a budget to create a social media presence.

Royal Mail describes Tmall as "an easy, low-cost and rapid way for sellers to establish a presence on an online marketplace in China", an invitation for retailers to take an exploratory nibble instead of a bite out of China's growing consumer market.

OPENING A MARKETPLACE STOREFRONT



Competition – there are tens of thousands of brands already listed



Shopping festivals can boost annual sales volumes

Customers expect discounts and free delivery – getting the price right can be hard



Provides a shop window for millions of active buyers and rising

Less control over how a brand is presented – Chinese consumers like busy, packed websites



Faster, simpler and cheaper to gain a foothold as there is less red tape than creating a franchise and distributor network

Requires unique Chinese branding and strategy so needs investment



Increases brand awareness as part of an omnichannel journey



UK retailer Selfridges has embraced the Chinese pound in its stores following increased sales from mainland China and Hong Kong through Selfridges.com. The retailer has accepted Alipay since 2016 and launched WeChat Pay across all stores and all tills at the end of August 2018. More than 1,000 customers each week are using the payment methods, with Oxford Street accounting for 70% of sales.

Selfridges said the combination of a simplified checkout process, subscription-based delivery payment system Selfridges Plus, and Alipay and WeChat available at point of sale have contributed to a 30% year-on-year increase in Chinese consumer sales.



Golden Week 2018

For China's second busiest travel period of the year in October, Selfridges focused on WeChat and key opinion leaders including Angelababy, a Chinese model and actress, talking to Chinese customers in China. The retailer developed a WeChat mini-programme specifically for Golden Week featuring influencers sharing tips on what to do when travelling to London, Manchester and Birmingham.

Yana Geng, head of UK and Ireland at Alipay, says the starting point for a retailer in adopting the third-party payment system is to check if the current payment provider supports Alipay "and if it doesn't, you can reach out to us to find a way to deliver it".

One advantage of the system, which ensures retailers are paid in local currency, is being listed on Alipay's app, as well as insights from Alipay's vast volume of location-based real-time data. From tracking transaction data, the company determined that the most popular UK attractions for its users in 2018 were Buckingham Palace followed by Bicester Village.

With increasing insights into the ways that Chinese consumers shop, travel and talk to each other through social apps, retailers and brands have a firmer footing to enter the Chinese consumer market and win spend. All that is needed is to understand the tech that makes China tick.

ACTION POINTS FOR RETAILERS

- Tap into the increasing spend of China's middle classes on experiences and overseas trips during the two week-long national holidays known as Golden Weeks by developing WeChat mini-programmes featuring influencers sharing their UK travel tips.
- Be seen by Chinese travellers on trip-planning platforms such as Mafengwo and Feizhu, as well as being listed on Baidu Maps and Dianping which are used for directions and discovery when travelling overseas.

CONNECTING WITH CUSTOMERS



With an increasing amount of noise around brands on social media and marketplaces, it can be hard to stand out and be added to a virtual basket or on to shopping itineraries for outbound travel. Here are three ways to connect with Chinese customers both in China and in the UK.

1. Build brand recognition in China

Use tech that is popular with consumers to familiarise them with your brand. US department store Macy's has played with live streaming and virtual reality (VR) to give Chinese consumers a chance to experience its brand and make ecommerce purchases. In October 2017, Macy's teamed up with online marketplace Taobao to offer 150,000 shoppers the chance to buy cardboard VR headsets for the equivalent of 10p, which they could use to shop a 'virtual' version of the New York flagship store. This builds on a live-streamed 'private' walk-through of the same store for 100,000 users in 2016 using a Chinese-speaking host.



2. Become an Alipay or WeChat Pay merchant

Just as Chinese consumers use the same navigation apps when they travel, they also prefer to stay within the security and convenience of their mobile payment apps. Spotting this need, Alipay has a presence in 37 overseas territories, recruiting merchants to offer its in-store QR-code-based technology to users. Alipay's Geng confirms the company is working with Selfridges, Holland & Barrett, The Body Shop, Harrods and London airports, as well as Bicester Village in Oxfordshire.



3. Apps abroad: get behind the firewall

Chinese mobile users remain behind a firewall when travelling outside China, so will look to their existing app ecosystems when abroad. This demonstrates the value of listing on travel sites such as Baidu, DianPing and Mafengwo that use push notifications on arrival at different cities to recommend local shopping and attractions.

