What China reveals about the future of eCommerce

tradegecko

Table of Contents

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In recent years, online shopping in China has developed at an accelerated rate, making it one of the most advanced eCommerce markets in the world. We take a look at how China's sophisticated consumer behaviors and digital marketplace offer us insights into the future of online retail globally.

China's eCommerce market was valued at $750 billion in 2016[1], making it the largest market in the world and worth more than the US and UK combined. With 650 million internet users – more than any other country in the world – it's also the fastest growing online shopping market. Between 2010 and 2015, eCommerce exploded in China at an unprecedented rate in conjunction with a growth in disposable income and consumption across the country. Having now surpassed every other major market in the world, China's eCommerce trajectory can provide us with insights into what the evolution of eCommerce will look like elsewhere: explosive, widespread, and constantly changing.

$750B

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China has **650 million** internet users. More than any other country in the world.

What do online consumers in China look like?

China currently has two major eCommerce markets, which can be categorized in line with the Government's development ranking system. Tier 1 cities - representing the nation's most developed areas - are at the cutting edge of online and mobile commerce, while Tier 2 cities are increasingly spending across mobile, WeChat, and Alibaba commerce.

In top-tier cities, 83% of people aged 13 and older are online[2], totaling an online shopper base of 183 million. Among those users, 89% of people already shop online. While there are still 160 million people in lower-tier cities who use online services but don't shop online yet, their total online shopper base surpasses high-tier cities at 257 million. Consumers in lower-tier cities are also outspending those in top-tier cities, revealing significant growth potential in those areas. Many eCommerce businesses are reacting to this huge opportunity by investing primarily in logistics and marketing in lower-tier regions.

In top tier cities, eCommerce adoption is almost complete, so there is a focus on refining the understanding of customer behavior using data with a view to increasing the frequency and dollar value of purchases by existing shoppers.

Low-tier cities spend more on eCommerce than high-tier cities

	High-tier	Low-tier
Share of national GMV	49.9%	50.1%
eCommerce Penetration	89%	62%
Online Shopper Base	183 million	257 million
Online Shopper Growth	43%	61%

Social media's impact on online purchases in China

50% of Chinese consumers use social media to do product research or find recommendations[2], making it a powerful channel for online purchasing decisions. In a recent survey of WeChat users, 31% said they used the platform to initiate online purchases – double that of the previous year. Among WeChat shoppers, apparel and personal care are the most popular categories, accounting for about 25-30% of online spending in those categories.

Chinese consumers' adoption of social media as a shopping medium shows us that social media will be paramount in the online shopping experience elsewhere as countries develop more sophisticated eCommerce markets. There is a significant opportunity for growth for eCommerce brands that leverage social media through highly targeted advertising to tap into new markets and engage with customers.

50% of Chinese consumers use social media for product research.

31% of WeChat users used the platform to initiate online purchases

Where are Chinese consumers buying their goods?

With the steep increase in online shopping across all regions, Chinese consumers now have greater access to products from overseas. 20% of digital consumers buy some goods from vendors outside China[2], particularly cheaper alternatives to domestic products or goods that are scarce locally. In Tier 1 cities, for example, 40% of healthcare product purchases, 36% of luxury product purchases, and 20% of apparel product purchases are from international suppliers.

However, with the formalization of import procedures and VAT on cross-border products[3], Chinese consumers are likely to increasingly use cross-border vendors for products that are difficult to obtain locally, rather than to find better prices on domestically-available goods. For eCommerce businesses hoping to tap into the Chinese market, the focus for product ranges should be on scarcity rather than price point, as value-added tax on imported goods will likely make it difficult to match prices on goods that are already available domestically.

International purchases from Tier 1 cities

1. Healthcare Products — **40%**

2. Luxury Products — **36%**

3. Apparel Products — **20%**

Understanding O2O (online-to-offline) commerce and its impacts on physical retail

Prior to the eCommerce boom in China, physical retail was less developed in comparison to other markets, enabling eCommerce to become the default shopping behavior – a trend that is still developing in other countries. In China, 71% of consumers are already using online-to-offline services such as click-and-collect ordering and online restaurant bookings, and of those, 97% say they will use the same or more in the coming six months[2]. Close to one-third of people who haven't yet used O2O services claim they would like to try them in the next six months.

For Chinese consumers, offline shopping activity is complementary to online buying. 72% of consumers want O2O services to offer a way to return products purchased online to a physical store, while 56% want to order goods online and pick them up in-store[2]. They are also looking for offerings in three primary O2O categories: entertainment (61%), healthcare (47%), and housing/care services (42%).

Restaurant and travel companies are reacting to the demand for online-to-offline services, with 67% of consumers using O2O dining services and 77% of survey respondents reporting that their spending on travel increased as a result of using O2O travel services. To capture the ever-changing and fast-learning Chinese consumer market, businesses in other sectors will need to expand their O2O offerings – finding better ways to serve their customers with a seamless multichannel customer experience. Similarly, eCommerce businesses worldwide should be already looking at refining their O2O services as shoppers increasingly demand a seamless and convenient online-to-offline experience.

Sources: [3] *http://hkmb.hktdc.com/en/1X0A6AHP/hktdc-research/Cross-Border-E-Commerce-China-Policy-Update*

What is being bought and sold in China?

Chinese consumers are more likely to buy apparel online than any other category, with 66% of purchasers having done so in the last three months[4]. Packaged and fresh food account for the most frequently purchased items – 34 times a year per consumer in comparison to 22 times a year for apparel. Online food shopping is more widely accepted in China, with 40% of Chinese consumers buying food online in contrast to 10% of US consumers.

Improved delivery time has driven bi-weekly food purchases in China, with 40% of retailers offering same- or next-day delivery, up from 29% in 2011. This trend shows that speed and ease of delivery will continue to be key for online retailers globally in driving frequency of purchases, and encouraging customer loyalty.

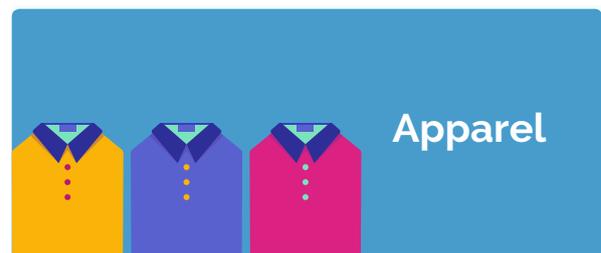**66%** of Chinese consumers are most likely to buy apparel online.

Most frequently purchased items:

Packaged/ Fresh Foods
34x a year per consumer

Apparel
22x a year per consumer

Mobile eCommerce is the way forward

China is a pioneer in mobile eCommerce, and it's expected that 74% of all online shopping will be done on mobile devices in China by 2020, compared with 46% in the US[1]. It is also predicted to grow by 20% annually – doubling every three and half years – over the next five years, driven by increased spending and millions of new consumers from smaller cities and rural areas entering the market.

Today, Chinese consumers use mobile devices to buy everything from organic foods to luxury cars, and this is set to diversify even more over the next five years. It's projected that 15 categories, from snacks to financial services, will reach 40% penetration within the online shopping market, compared with just five categories in the US.

While growth in mobile usage is slower in most other countries compared with China, the trend toward mobile shopping is increasing across the board. Accordingly, eCommerce retailers will need to ensure their mobile offering is sophisticated and user-friendly as it becomes a standard device for online shopping.

By 2020, it is expected that **74%** of all online shopping in China will be done on mobile devices.

74%   46%

Sources: [4] http://mckinseychina.com/chinas-iconsumer-2015-a-growing-appetite-for-change/

Key characteristics of Chinese eCommerce consumers and brands

In China, shopping is deeply connected to entertainment, discovering new things, and social engagement.[1] China's consumers spend on average almost 30 minutes a day on Alibaba's Taobao, the country's biggest eCommerce marketplace – that's nearly three times longer than the average US consumer spends on Amazon. In this way, shopping can be considered a pastime rather than a means to an end.

Intense competition drives constant innovation by Chinese retail brands. It's survival of the fittest in the retail market, meaning brands are forced to experiment and respond to shifting consumer demands and market conditions at greater speed. Their products are also more widely spread across news sites, games, and videos with click-to-buy product placements. Dedicated brand stores are less popular purchase destinations – product discovery is more likely to come through online marketplaces such as Taobao, apps like iQiyi or social media platforms like WeChat[1].

Looking forward, online retailers across the board should prepare for their products to be surfaced online through social media and other online marketplaces such as Amazon, rather than strictly being centralized on their website. This will require a holistic digital marketing strategy that takes into account a diverse set of online channels.

Platform usage time comparison:

amazon

10 mins per day

Alibaba Group

30 mins per day

Amazon vs. Alibaba: what's the difference?

While both are online marketplaces, the way in which consumers use Amazon compared to Alibaba is significantly different. In the US, Amazon is a market leader and customers come to the site with a high purchase intent. Conversely, Chinese customers consider Alibaba to be more of a "virtual mall" where they visit to first be entertained, and then shop. Alibaba provides services to help eCommerce wholesalers and retailers directly connect with shoppers through games, videos, online communities, news, and even celebrity events and talk shows – supporting the platform as an entertainment hub first, online marketplace second.

While Amazon and Alibaba differ in their usage, both platforms succeed in learning from and fulfilling consumer demand. Accordingly, online retailers should primarily be consumer-focused - giving the customer what they want, when they want it, and offering a personalized experience.

The future of shopping and eCommerce

China's highly developed eCommerce market tells us that shopping in the future will be online-first, with integrated offline services complementing consumers' online habits.

Globally, retailers must respond to the challenge of ongoing, profitable growth in an online environment by developing a holistic multichannel model that leverages online and offline strengths. They need to deliver a seamless, convenient and engaging customer experience that takes advantage of efficient inventory management systems and logistics frameworks. The divide between online and offline trading has disappeared in the mind of the customer, and accordingly, businesses need to be proactive in providing a seamless end-to-end and online-to-offline customer experience.
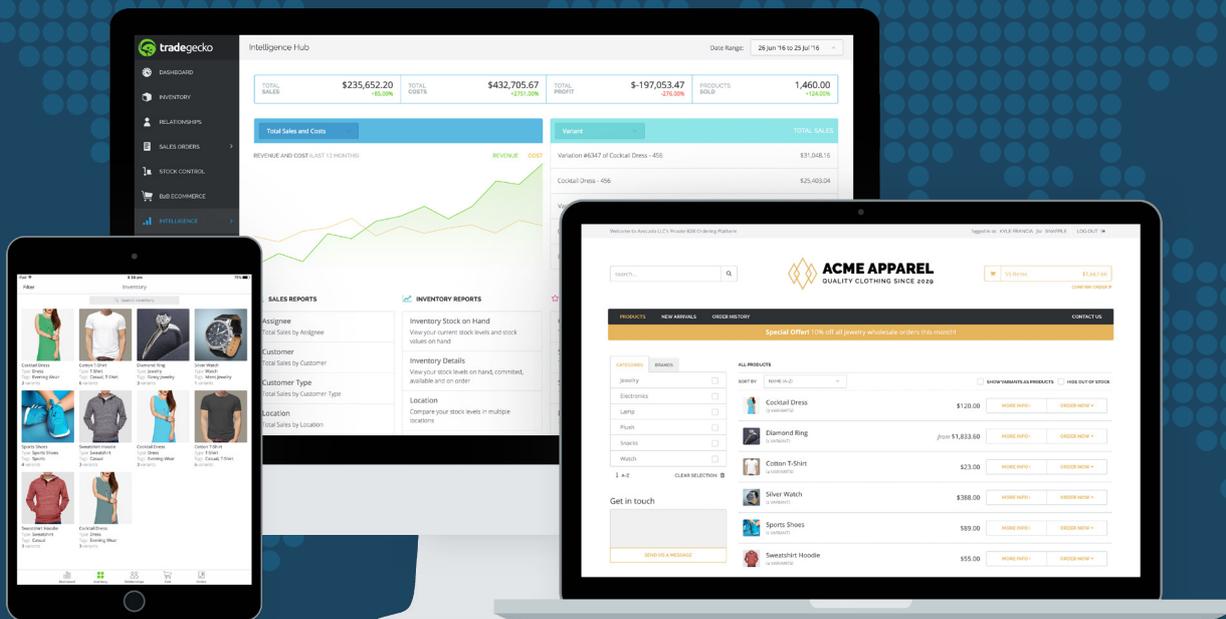
Retailers also need to focus on engaging the customer on an individual level using sophisticated data to provide insights on behaviors and preferences. Developing capabilities across marketing, innovation, and logistics will be key to adapting to ever-evolving customer needs.