Singapore Productivity Centre Study Mission Series

CHINA'S E-COMMERCE ECO-SYSTEM:
INSIGHTS AND LESSONS FROM BEST PRACTICE STUDY MISSIONS

Content

The Rise and Power of e-Commerce in China

With approximately US$1.07 trillion worth of sales in 2017^, China's online retail market is the world's largest, surpassing US online retail sales by 122%#. China has the most internet users in the world. It is also the fastest growing e-commerce market*.

According to Kantar Worldpanel, China's local e-commerce penetration rate increased from 35.9% in 2014 to 53.5% in 2016. Compared to its 2006 figures, China's 2016 e-commerce GMV per capita grew 127 times.

Unlike in the United States, where e-commerce appears to be the demise of physical retailers like Macy's, Sears and Walmart, China's spectacular e-commerce growth has been accompanied by equally stratospheric growth in its physical retail sector. The country's e-commerce market now represents 15.5% of total retail sales, and e-commerce represents twice the growth rate of its entire retail economy.

FOOTNOTE
^ Online Retail Sales Soar Past $1 Trillion in 2017, Digital Commerce 360, Feb 18
# U.S. e-Commerce Sales Grow 16% in 2017, Digital Commerce 360, Feb 18
* Top 20 Countries with the Highest Number of Internet Users, Internet World Stats, Dec 17

Rapid Evolution and Innovation

Recent projections show that the Chinese e-commerce market will grow at a slower pace as it reaches maturity, in response, Chinese companies have already begun changing their strategies. They are targeting new market segments and territories, focusing their efforts on second to fourth-tier cities in China. This is driven by demographic changes in these cities where the middle-income group is growing rapidly. Major platforms and companies are vying to colonise this growing space much like they did in first-tier cities a decade ago.

As the middle-class grows across China's cities, online consumers now have higher expectations of product quality and safety. Above all, they want assurance against fake or counterfeit goods. At the same time, the growth of Daigou — a channel through which customers outside of China make purchases on behalf of a Chinese customer — is driving sales of niche foreign apparel and products not available in China. Capitalising on this trend, we are seeing smaller platforms such as Little Red Book and Ymatou increasingly occupying a larger portion of the pie, as mass marketers such as Taobao and JD struggles to keep up with the increasingly complex needs and desires of the burgeoning middle-income group.

This evolution has also spurred retailers to innovate and appeal to consumer needs. Innovative retail formats like the 'New Retail' and unmanned convenience stores, that integrate facial recognition, are gaining traction in China.

China's E-commerce Eco-system

China's e-commerce scene is dominated by 3 players, namely Baidu, Tencent and Alibaba. Collectively, these companies have created eco-systems where applications such as WeShop and AliPay provide simple and effective shopping and payment infrastructure, for businesses and consumers, online and offline.

Mobile payments in China are estimated to grow 740% between 2015 and 2019. In PwC's Total Retail 2017 report, 67% of Chinese consumers surveyed said their mobile phones will become their main shopping tool, with 52% shopping on their smartphones on a weekly or daily basis. In 2016, consumers in China used their mobile phones to make purchases about 50 times more than American consumers.

Success Factors for China's e-Commerce Companies

High Mobile Phone Adoption Rates

On average, every household in China, even in the most rural areas, has 3 to 4 mobile phones. This means a huge potential for the mobile app market.

China's consumers have embraced technology faster than any other country, giving China the edge over the rest of the global ecommerce markets in pioneering innovation, reach and trend setting.

With 780 million broadband users and 555 million mobile users

(including 162 million 4G users as of December 2014), the Chinese government is betting on a new economy where anyone can buy or sell products and services. Consequently, according to *China Daily*, on March 5, 2015, Premier Li Kequang unveiled the Internet Plus plan to integrate mobile Internet, cloud computing, and the Internet of Things with modern manufacturing, to encourage the healthy development of e-commerce, industrial networks and internet banking. The plan will also include getting internet companies to increase their presence in the international market.

Big Data Through Payment Apps

In the last few years, Chinese companies have leap-frogged the credit card business and now see 600 million consumers using sophisticated mobile payments systems led by WeChat and Alipay.

All these payment transactions yield large amounts of data, which provides essential information that will help the country to shape and develop its future plans. With these insights, Chinese companies can predict trends and give shoppers exactly what they want and at the right time.

Community Building

The Chinese shop online as if browsing through a mall. Therefore, brands prefer to set up stores on well-established platforms instead of running their own websites. This allows them to be part of a shopper's journey of discovery as Chinese consumers log on to their favourite shopping platforms to see the hottest new trends and receive real-time customised recommendations.

Active Innovation

Innovative ways to help drive sales are developed every day in China. Some companies choose to partner with key opinion leaders like celebrities or influencers, and market through WeChat. Others live-stream their products directly from websites such as Taobao, Tmall or JD.

Agility

Thanks to an abundance of manufacturing sites and geographical proximity, manufacturers are increasingly flexible, allowing smaller manufacturing volumes and frequent changes to production lines. In contrast, foreign companies must make their orders far in advance and wait for their shipments.

Keen competition among China's courier companies or "kuaidi" also contribute to improving distribution, providing efficient tracking methods, and ultimately faster deliveries to customers.

Insights from Visits to Some of China's Successful e-Commerce Companies

In May 2017, the Singapore Productivity Centre (SGPC) led a delegation of 21 participants from 9 retail companies to Shanghai, China on a study mission themed Building a Sustainable E-Commerce Ecosystem. The study mission is a core component of SGPC's range of programmes that enable best practice learning from overseas markets and companies. Among the companies the delegation visited were Sina Weibo, Jingdong Mall, Shanghai Tayohya Home Fashion Co. Ltd, and lingerie brand Yalanka, from which they gleaned the following lessons.

Align strategies for better customer engagement

Developing an omni-retailing strategy requires clear alignment from back-of-house systems to front-of-house sales engagement. New commission structures must be created so staff will view online channels as tools to support the company's growth.

Tayohya (多样屋) is merging its 500 stores through its e-shop on WeChat. It introduced an online eco-system where retail staff double as online sales representatives who engage with customers through WeChat messenger. To make this work, Toyohya enhanced its commission structure, rewarding offline retail staff when their customers purchase from the WeChat stores.

Develop robust data analytics to derive retail insights

Lingerie retailer Yalanka emphasised that it has benefitted immensely from data analytics. Since its entrance to the Chinese market in 2012, online sales have grown significantly, and now account for approximately 40% of its total revenue.

Using both online and offline data, it derives insights such as distinct consumer preferences among the various tiered cities, allowing it to generate different marketing campaigns to target different geographical areas effectively.

INSIGHTS GATHERED BY PARTICIPANTS

"We learnt that data from both the online and offline channels are crucial in helping us generate effective and targeted marketing campaigns to improve sales."

BLUM & CO

"Understanding the different strategies to drive online-to-offline sales provided us with ideas that we can implement in our stores to drive sales."

ISLAND SHOP

Transform customers into brand ambassadors

To engage and provide meaningful experiences to their target audience, retailers must employ strategies to create interest and location-based social groups that transform customers into brand ambassadors.

LiZhi FM, for example, is a platform that allows community-led content to proliferate in online social groups in areas such as news, music, food, fashion and social issues. Similiarly, Toyohya has created district-based activities for residents within close range of its retail outlets. Events such as cooking classes and floral arrangement courses drive customers from their online social groups to Toyohya's physical stores. This, in turn, drives customers to recommend the events to their friends and followers on social media, driving more traffic to the stores.

"It is important to continuously engage our customers through both online and offline channels, to build customer loyalty and groom them to be our brand ambassadors."

KINOBIOTECH

Collaborations and partnerships

New models of collaboration between businesses help leverage on their respective strengths. Luggage brand Diplomat collaborated with TMall to create an offline campaign in its retail stores, driving traffic to the TMall platform. In turn, TMall listed the new product launch on its front page and listed the "smart" luggage as the second banner on its homepage. This encouraged more online sales for the "smart" luggage.

Yalanka co-organises monthly events with partners, such as high-tea networking sessions with café owners, to deepen their customer engagement and generate new content for social media.

Learning Points for Singapore Companies

Singapore's retail companies can learn from China's swiftly evolving e-commerce strategies. The following basic building blocks will help provide companies a strong start to build their own e-commerce eco-systems.

Exploiting digital platforms

Singapore companies commonly view the development of a new app or e-commerce site as a way to venture into online sales. However, the visit to omni-retailers in Shanghai showed that digital platforms and technologies are so much more dynamic and can be put to use as effective marketing tools to extend customer reach and expand market share.

Key role of social media

Taking a cohesive view of the local e-commerce eco-system and social media communities is critical for Singapore companies as they strategise their digital efforts to develop a sound business plan that integrates offline and online channels.

Key role of people in the company

Companies with large offline retail footprints must invest in engaging and educating front-of-house staff on the importance of developing both an online and offline presence, while at the same time, build new commission structures that motivate sales representatives to embrace online sales and marketing initiatives.

Customer engagement

Brands are realising the importance of developing meaningful customer engagement and how it positively impact brand awareness and sales. Social engagement strategies include using the brand platform to build social communities to create symbiotic relationships between brands and their fans.

Product sales planning

Retail companies must ensure their online efforts do not cannibalise their offline sales. For example, Diplomat's online listings are 95% different from its offline products, so it can drive marketing campaigns and sales without affecting the bottom lines of either product listings.

How Can Singapore Companies Capitalise on the Rise of e-Commerce Shopping?

Building a future-ready retail business through online channels is much like building any other aspect of a successful business. Innovation is key, as is solid planning, re-education and customer engagement. Singapore companies can capitalise on the following tenets gleaned from lessons learnt in China.

DIGITAL EXPERTISE

Develop sustainable capabilities in content and social media marketing to increase revenue and improve profitability. Build in-house capabilities in planning, producing, implementing and measuring social media marketing campaigns.

CONTENT GENERATION

Content is power. Brands must engage customers by creating content and a community that their customers can relate to. In doing so, they generate meaning for the customers to use the brand platform.

BUILD LOYALTY

Redesign and align objectives and digital marketing goals. Develop strong digital marketing fundamentals and build direct engagement with consumers to gain customer insights and secure brand preference and loyalty.

MOBILE-READY

The growth of mobile shopping is redefining how retailers engage customers. Mobile-commerce is not only a trend in China; it is gaining popularity in Southeast Asia region as well. Companies must ensure products and payment options are available on mobile phones in order to sustain their online commerce.

DATA-ANALYTICS

Develop data-analytic capabilities to understand the customer base, predict trends, develop relevant products, campaigns and other services, and to ultimately build customer loyalty.

INTEGRATE CUSTOMER CARE & EXPERIENCE

Develop and integrate both online and offline channels to provide a seamless and enhanced shopping experience for customers

Competition in e-commerce is not merely local, it is international. Building a loyal customer base and strong digital capabilities will help establish a good strategy for building a successful brand.

For information on the programmes available to help companies prepare for a digital retail future, visit www.sgpc.sg

Productivity Improvement Programme Partners

Singapore Productivity Centre

Enterprise Singapore

The Singapore Productivity Centre (SGPC) is a one-stop competency centre that is endorsed by the National Productivity Council.

The mission of SGPC is to drive enterprise productivity for sustained growth and competitiveness. It focuses on the retail, food services and hotel sectors.

SGPC provides a comprehensive range of services and solutions to help enterprises effectively, including in-depth productivity consultancy, conferences and workshops on productivity-related topics, benchmarking and applied research.

With the formation of SGPC, companies in the retail, food services and hotel sectors can now approach a single centre for expert productivity assistance.

Over the last three years, SGPC has assisted over 1,000 companies through productivity improvement projects, productivity training programmes, conferences and workshops.

Through its activities, SGPC hopes to demystify the concept of productivity thereby promoting better understanding of its measures and how to improve productivity in the organisation.
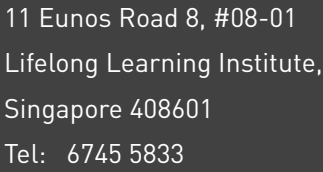
For more information
visit www.sgpc.sg

Enterprise Singapore is the government agency championing enterprise development. Its vision for Singapore is a vibrant economy with globally competitive Singapore companies.

International Enterprise Singapore and SPRING came together on 1 April 2018 as a single agencyto form Enterprise Singapore. Its mission is to grow stronger Singapore companies by building capabilities and accessing global opportunities, thereby creating good jobs for Singaporeans.

The agency works with committed companies to build capabilities, innovate and internationalise. It also supports the growth of Singapore as a hub for global trading and startups. As the national standards and accreditation body, Enterprise Singapore builds trust in Singapore's products and services through quality and standards.

For more information
visit www.enterprisesg.gov.sg

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