eCommerce in China – the future is already here

How retailers and brands are innovating to succeed in the most dynamic retail market in the world

pwc

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Foreword

China, the largest eCommerce market in the world, is now setting the benchmark for present and future global retailing. This is driven by its mobile-first consumer behaviour, innovative social commerce model, and a trusted digital payments infrastructure. eCommerce is the clear growth story. According to PwC's Economic Quarterly Q1 2017, the national online retail sales of goods and services reached 1.40 trillion yuan in the first quarter, 32.1% higher than a year ago. In comparison, retail sales of the physical stores went up by 7.2% only.
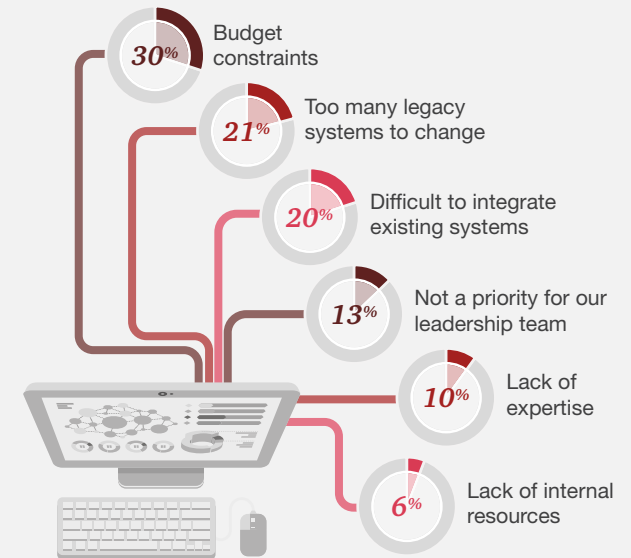
Last year's PwC report – *The Disruptive face of the Retail and Consumer Products Sector in China and Hong Kong* – discussed how economic slowdown, rising millennial shoppers and the online retail ecosystem are causing disruption in the sector. Our recent global *Total*

Retail 2017 survey highlights mobile commerce, secure platforms, and big data analytics, among others, as key investment areas for global retailers to thrive in years to come.

This report "eCommerce in China – the future is already here" builds on the survey findings of the global *Total Retail 2017* to identify nine key trends that are shaping the recovery and growth in the retail and consumer products sector in China. In order to stay ahead of the competition, retailers need to consider investing in identifying customer needs, finding the right partners and investing beyond O2O into omni-channel fulfilment. The report particularly highlights how eCommerce is evolving from being purely transactional to now shaping innovation and customer engagement trends across China's retail and consumer products sector.

China is a must-play, must-win market for retailers and brands globally. It is already the world's biggest retail market and the increasing purchasing power of China's 415 million millennial consumers will sustain future growth. eCommerce is enabling international retailers and brands to enter China more quickly and easily than before through online-only business models. The booming growth of China's eCommerce sector has also propelled the government to take notice and support this growth. China is now drafting its first eCommerce law to include online transaction security, intellectual property rights protection and the protection of consumers' rights.

What is the greatest challenge you face in providing an omni-channel experience for your customer?

- 30% Budget constraints
- 21% Too many legacy systems to change
- 20% Difficult to integrate existing systems
- 13% Not a priority for our leadership team
- 10% Lack of expertise
- 6% Lack of internal resources

Source: PwC & SAP Retailer Survey; Base: 312

China's retail market has never been so simultaneously attractive and challenging. Consumer's spending power is increasing but they are faced with an abundance of choice and are easily bored. eCommerce is experiencing tremendous growth but the market is fiercely competitive and innovation is constant. Retailers and brands in China are racing to stay relevant with consumers.

I strongly recommend you to read this insightful report to not only learn more about the changing landscape of China's eCommerce market but also to gain insights on how the future of global retailing may evolve as digital-native consumers begin to shape the retail model.

Introduction

China is the largest and most innovative retail eCommerce market in the world

With a forecasted compound annual growth rate in double digits, online retailing is expected to grow from 17% of total retail sales in 2017 to 25% by 2020[1]. The current scale and growth trajectory has made eCommerce a top three strategic priority for most retailers and brands. But more importantly, China's eCommerce market offers a glimpse to the future of global retailing.

China, today, is characterised by mobile-first consumer behaviour, vibrant social commerce adoption, and a ubiquitous digital payments infrastructure. In addition, the market is fiercely competitive. Local and international brands compete for consumer's attention and wallet share, the internet giants race to build broad digital ecosystems to strengthen their existing network effects, and well-funded start-ups redefine customer experience. Only the most innovative survive in this dynamic retail environment.

In some ways the future sounds familiar as eCommerce remains the clear growth story. In the past however, capturing this growth typically meant the transactional elements of activating online channels, optimising merchandising, and investing in traffic generation. Yes, these core tenants still apply but China's eCommerce market is a constantly moving target, and we are now entering an era of experience led commerce. As the lines between eCommerce, mobile and social have blurred, so will we see a broader convergence between online and offline retailing. In this way digital becomes a platform for not just online growth but everything from, brand building and customer engagement through to supply chain operations and physical store formats.

Nine trends shaping the retail and consumer products sector in China

This report highlights nine trends, organised around three core themes, we see characterising the recent developments in China's eCommerce market. The first theme, "new retail normal", delves into the increasing maturity of businesses in using data analytics and omni-channel technologies to create a seamless consumer journey between online and offline channels. The second theme, "content driven commerce", discusses how brands and retailers are shifting from eCommerce as a transactional environment to incorporating social engagement and storytelling into the core of their customers' digital experience. The final theme, "new growth avenues" highlights how eCommerce, social and emerging technologies are driving breakthrough growth opportunities across the food, luxury and sports retail categories.

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[1] Goldman Sachs, China E+Commerce, shopping re-Imagined (2017)

9 trends shaping retail and consumer products sector in China

New retail normal

O2O matures into omni-channel

Return on analytics

Content driven eCommerce

eCommerce entertainment

Innovation at the intersection

Moments that matter

Key opinion leaders as retailers

New growth avenues

Food

Luxury

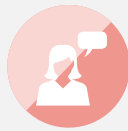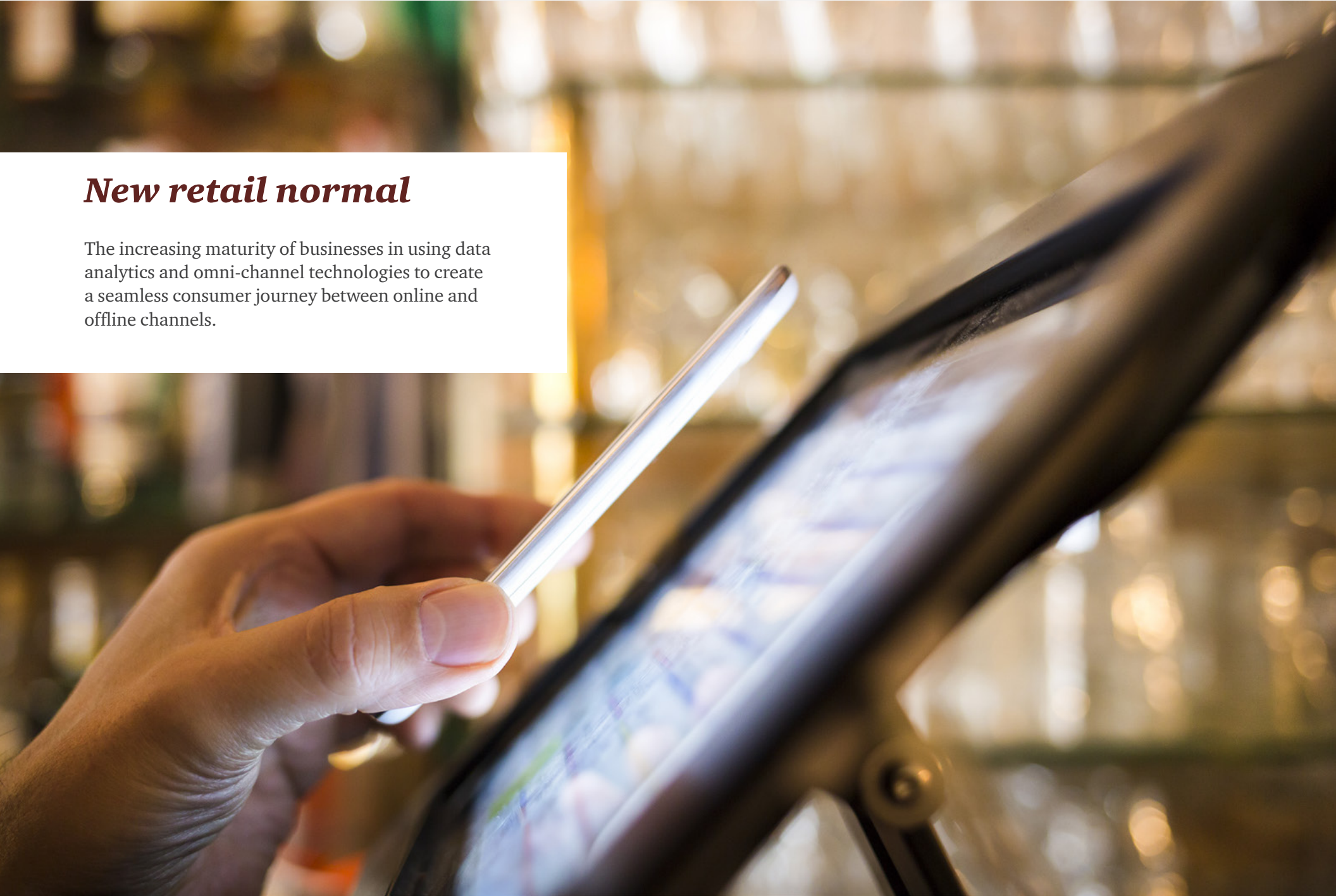**Sports and wellness**

New retail normal

The increasing maturity of businesses in using data analytics and omni-channel technologies to create a seamless consumer journey between online and offline channels.
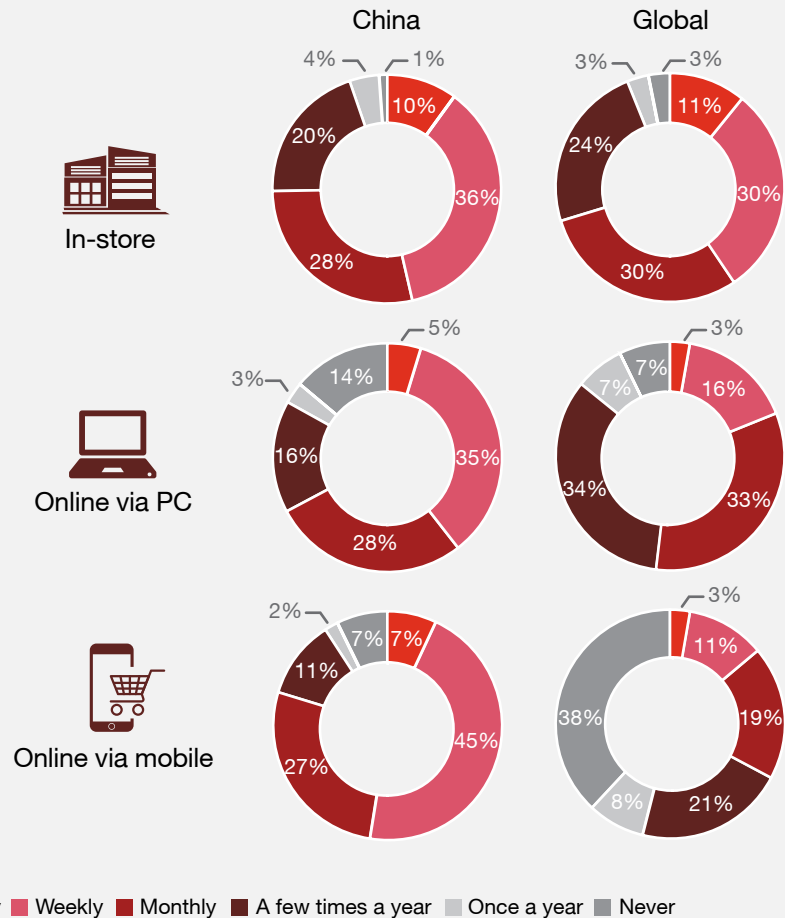
O2O matures into omni-channel

– digitisation of retail moves from marketing and channels into fulfilment and supply chain

PwC's Total Retail 2017 survey reveals that, 46% of Chinese consumers shop in-store on a weekly or daily basis, which is in fact lower than the frequency of mobile shopping at 52%. Our survey also shows that 24% of consumers say they shop less often at physical stores as a direct result of Tmall. These changing consumer trends pose a challenging question to traditional retailers in China – what is the role of the physical stores?

Many retailers and brands started to embrace the growth of digital by experimenting with online-to-offline (O2O) marketing, which meant using online channels to drive consumers into physical stores. While O2O has proved successful, the challenges of this approach are that channels remain siloed, return on investment is difficult to track, costs are rising and customer experience is disjointed.

Mobile shopping behaviour in China is more frequent than store visits
Chinese and global respondents' shopping frequency using different channels

China | Global

In-store

China: 1%, 10%, 36%, 28%, 20%, 4%
Global: 3%, 11%, 30%, 30%, 24%, 3%

Online via PC

China: 5%, 35%, 28%, 16%, 3%, 14%
Global: 3%, 16%, 33%, 34%, 7%, 7%

Online via mobile

China: 7%, 45%, 27%, 11%, 2%, 7%
Global: 3%, 11%, 19%, 21%, 8%, 38%

■ Daily ■ Weekly ■ Monthly ■ A few times a year ■ Once a year ■ Never

Base: 905 (China), 24,471 (Global)
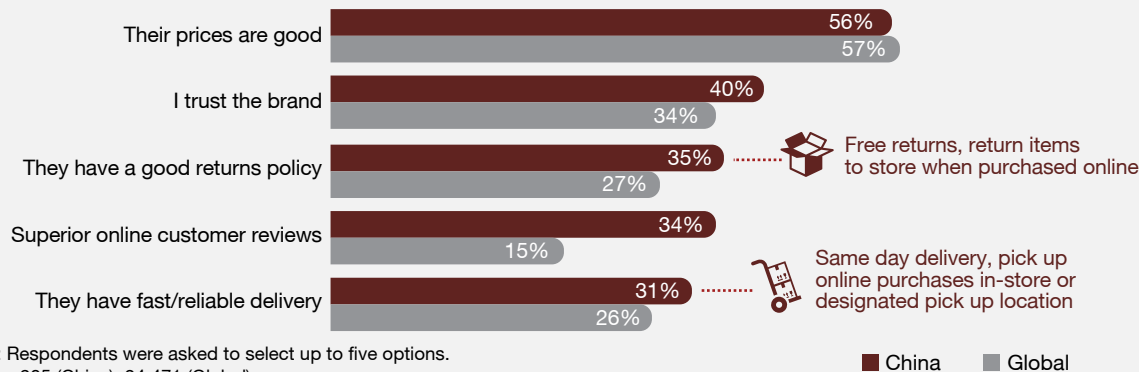Source: PwC Total Retail 2017

In response, retailers and brands in China are starting to invest in omni-channel capabilities. While O2O focuses on marketing, omni-channel covers a broader spectrum of operational processes including marketing, merchandising, customer service and fulfilment. Omni-channel strategies are intended to improve operational efficiency, customer experiences and overall profitability. In our experience, most retailers in China are focusing investments in omni-channel fulfilment as they believe it is the area where the greatest opportunities exist. A major fashion apparel company is turning their physical store network into fulfilment hubs for eCommerce sales. This ship-from-store model allows the retailer to better manage eCommerce demand during peak sales seasons like Singles Day and also optimises merchandising and gross margins by

enabling inventory to be universally managed across online and offline channels. In another example, Uniqlo launched click-and-collect in China, allowing consumers to buy products online and then pick them from 400 omni-channel enabled stores[2]. Our survey shows that 31% of Chinese consumers shop online with their favourite retailer because of reliable and flexible delivery options (like in-store pick up). This strategy also led to higher footfall into the Uniqlo's stores, creating opportunities for up-sell and cross-sell. Outside of apparel, IKEA has launched its first pick-up and order point in Wenzhou China, a small format 1,800 square meter store that displays about 2,500 products. While the store is designed to be small, excluding areas such as food and beverage, it does include professional customer service staff to support with home planning[3].

Omni-channel fulfilment valued as a customer experience differentiator

Top 5 reasons why consumers shop online with their favourite retailer

Reason	China	Global
Their prices are good	56%	57%
I trust the brand	40%	34%
They have a good returns policy	35%	27%
Superior online customer reviews	34%	15%
They have fast/reliable delivery	31%	26%

Free returns, return items to store when purchased online

Same day delivery, pick up online purchases in-store or designated pick up location

■ China   ■ Global

Note: Respondents were asked to select up to five options.
Base = 905 (China), 24,471 (Global)
Source: PwC Total Retail 2017

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[2] Inside Retail, Uniqlo China launches click and collect (2017)
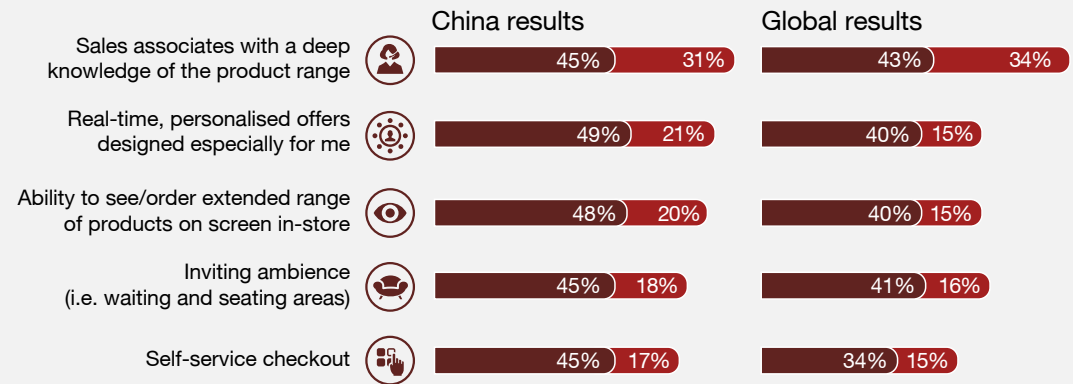[3] China Retail News, IKEA will open first PUP store In China (2016)

This is crucial in China as PwC's Total Retail 2017 survey found that 76% of shoppers say that knowledgeable sales staff is an important element of the overall shopping experience.

As with many trends in China, Alibaba is also at the forefront of omni-channel innovation with their 'New Retail' model. Alibaba wants to move retailers to a new model that blurs the traditional lines between offline and online. This new model uses integrated data and logistics to enable retailers (both offline and online) to sell more goods, more effectively and more profitably. One of the most basic applications of "New Retail" has been the integration of brands offline loyalty programmes with Tmall to allow consumers to claim benefits wherever they shop, and enable brands to capture end-to-end consumer data. Beauty players are leading this trend with 30 brands already participating including La Mer, SK-II and Lancôme[4]. Alibaba's recent investments and partnerships demonstrate the depth of ambition. These include Intime Retail Group, a domestic department store and shopping mall operator, Bailian Group, China's largest retailer by store numbers, Suning, an appliances retailer, and He Ma Xian Sheng (盒马鲜生), a supermarket. The 4,500 square feet He Ma Xian Sheng experience store in Shanghai provides a good example of how Alibaba perceives the offline and online retail world's converging. While customers can make purchases straight from the store, they can also use the mobile app (and Alipay for payment) to order in-store and then enjoy door-step deliveries of fresh food within two hours if they live within a 5 km radius. Online orders are estimated to account for 50% of total sales[5] and are fulfilled from the store.

While O2O initiatives meant re-directing marketing spend from offline to online, and executing through specialist digital agencies, omni-channel strategies cut through to the core of retailing operations. This requires retailers to fundamentally change their operating model including evolving investments in core technology infrastructure, digitising their operations and workforce, enhancing their data and analytics capabilities, and identifying new partnerships.

Despite the rise of digital, well trained sales associates remain a core part of delivering a superior in-store experience

% of Chinese and global consumers' rating on importance of attributes in relation to in-store shopping experience

	China results		Global results	
	Important	Very Important	Important	Very Important
Sales associates with a deep knowledge of the product range	45%	31%	43%	34%
Real-time, personalised offers designed especially for me	49%	21%	40%	15%
Ability to see/order extended range of products on screen in-store	48%	20%	40%	15%
Inviting ambience (i.e. waiting and seating areas)	45%	18%	41%	16%
Self-service checkout	45%	17%	34%	15%

■ Important ■ Very Important

Base: 905 (China), 24,471 (Global)
Source: PwC Total Retail 2017

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4 Alizila, 'New Retail' big winner at Tmall Beauty Awards (2017)
5 StraitsTimes, China's online retailers move into real world (2016)
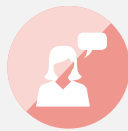
# Return on analytics
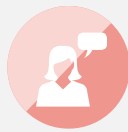– third party platforms finally open up

Today, it is hard to find many retailers or brands in China that are not reaping the benefits of their social, mobile and eCommerce strategies. In comparison, success cases from the implementation of data analytics initiatives have been less common. PwC's Total Retail 2017 survey shows that while 70% of Chinese shoppers consider personalised marketing to be important for their overall shopping experience, only 50% are currently satisfied. Historically, three main challenges have resulted in this gap. Firstly, with third party platforms dominating China's digital ecosystem, brands were distanced from the end customer and had access to only basic sales or demographic data. Secondly, the validity of available data was often questionable with multiple cases of fake product reviews, zombie social media accounts and distorted campaign metrics. Lastly, a fragmented digital marketing ecosystem based on vague customer insights meant the execution was limited in scope or scale.

Marketers still have to close the gap between what consumers expect from digital marketing, and what they experience

% of Chinese consumers who rate real-time personalised offers as important, and are satisfied with their current experience

Importance

70%

49%	21%
■ Important	■ Very Important

Satisfaction

50%

34%	16%
■ Satisfied	■ Very satisfied
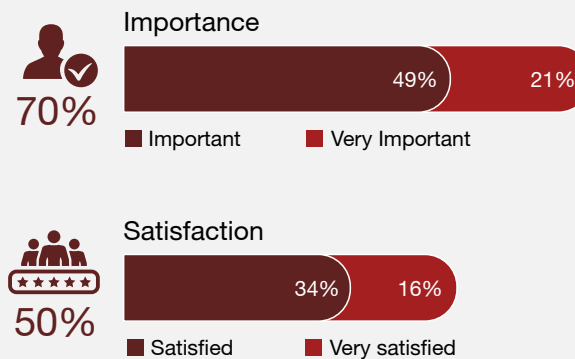
Base = 905 (China)
Source: PwC Total Retail 2017

But the landscape has begun to shift in the last 12 months with companies unlocking the massive potential of data analytics. One big change has been the development of a mature data management and digital marketing ecosystem around Alibaba, JD and Tencent. The emergence of demand-side (DSP) and supply-side (SSP) platforms, and master data management has now enabled merchants to perform the advance customer profiling, precision marketing and content personalisation that many would recognise in the West. PwC's survey shows that the personalisation of digital marketing is particularly effective in China where consumers are almost twice as likely (31%) to click on an advertisement that is relevant to them than the global average (16%). Nestlé partnered with Alibaba to personalise the content on their Nestlé Tmall store based on data models which analysed consumers historical and real-time transactions, browsing behaviour and social graph. As a result, different sets of consumers were shown coffee, dairy or snack products with personalised greetings and recommendations[6]. Unilever, Mars, Hershey's and Metro are other companies that have partnered with Alibaba to leverage similar data driven marketing solutions.

Apart from marketing, many retailers and consumer packaged goods companies are using big data analytics to improve product development, merchandising strategy and physical footprint. Quaker collaborated with JD.com to identify an underserved market segment and develop a high-fibre oats drink specifically for the China market. Likewise NIVEA has a similar partnership in which JD evaluates consumer skin care product sales trends in near real-time and in-return NIVEA provides JD with access to new products when they are launched globally[7]. In another example, Haier used data from Alibaba (which included customer support, product rating and comments) to reverse-engineer its product development and manufacturing process[8]. PwC has worked with many retailers in China to conduct in-depth analytics on eCommerce consumption trends and competitor merchandising portfolio to design successful product assortment strategies and pricing architectures built for market entry or growth into tier 2 and 3 cities.

In the past most brands and retailers in China had to rely on internal customer data which only provided a very small picture of the overall digital landscape. The opening up of third party platforms through application programme interfaces (APIs) and the increasing maturing of the data management and digital marketing ecosystem now enables businesses to generate new customer insights and business value.

31%

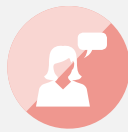of Chinese consumers will click on an advertisement that is relevant to them (16% globally)

[6] Alizila, Nestlé boosts Alibaba partnership with innovative marketing drive (2016)

[7] JD, Investor Relations (2016)

[8] Forrester, Embrace adaptive intelligence to take advantage of China's data economy (2016)

A secure online platform – must for consumer trust

PwC's Total Retail 2017 survey shows that 80% of consumers in China are willing to pay for products using mobile but compared to 49% globally. With the very active consumers shopping online or making payment by mobile, 69% of consumers in China have expressed concern of having their personal information hacked using their mobile devices.

Maintaining consumer trust poses a key challenge to eCommerce retailers in the area of cybersecurity and privacy, such as cyber breaches, threats from online payment and privacy protection. In December 2016, a severe security vulnerability ("Struts2") was discovered on a large online retailers' shopping platform in China. As a result, large amounts of (amounting to 12G) users' personal information got leaked in the cyber black market (the "Dark Web"), including national identity card numbers, login IDs, passwords, phone numbers and email addresses. Given this tremendous impact of a potential cyber breach, it is imperative for online retailers to set cybersecurity and privacy protection as the

top agenda within company's risk management framework. Online retailers should develop a holistic cybersecurity strategy to protect their customers' personal information, and make sure that there is sufficient awareness and budget set aside to develop a secure online platform. Online retailers should keep themselves abreast with the latest security vulnerabilities, threats landscape and attack vectors and address them in company's cyber security risk management framework. They may also consider collaborating with their industry peers and external IT security experts to help them stay on top of the latest developments.

From a legal and regulatory perspective, retailers need to keep up-to-date on relevant legislations, regulations and directives to evaluate the impact and plan ahead. For example, "The network security law of the People's Republic of China" (《中华人民共和国网络安全法》) will be effective on 1 June 2017 and related online retailers should be prepared to comply with this new law in order to avoid regulatory fines/penalty, sanction, and brand reputation.

69%

of Chinese consumers concern of having their personal information hacked using their mobile devices for online purchases

Strategic actions

### Prepare to integrate into a data ecosystem

Data already lies at the heart of eCommerce and will be a greater driving force behind a shift to omni-channel retail. To prepare for a world of big data and interconnectivity with third parties, businesses will need to improve their data management capability – defining, cleaning up and maintaining data. Data is only valuable if it comes from a reliable, secure source, is structured within an architectural environment that accommodates internal and external data, and is regularly maintained. The choice of data analytics platform is another important consideration. Existing enterprise resource planning (ERP) systems do not have the capability to handle sophisticated analytics and many retailers are investing in data integration layers (linked to ERP) and tailored analytics tools on a use case basis. A good first step is to identify 'functional use cases' for early deployment which provide information on building your own data pool, sources of internal and external data, and priortising the use of analytics and visualisation tools.

Pilot and learn before large scale investments

Omni-channel retail has far reaching implications across store format, technology infrastructure, and supply chain operations. While the benefits can be significant, getting it right can require major investments across a multi-year time horizon in areas like order management systems (OMS), commerce suites, and point-of-sales (POS). Before committing resources (capital and management time) to large scale technology investment, we recommend retailers and brands first use pilots and proof of concepts. These approaches offer a range of benefits including better defining requirements based on in-market feedback, testing vendor and internal capabilities to execute, and offering proof points to inform business case expectations.
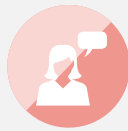
Invest in culture and talent, not just technology

Retailers in China operate in an environment of constant disruptionand therefore investments in digital need to go beyond just technology and into organisational mindset. Businesses need to build a culture of innovation that emphasises cross-functional collaboration, agile working methodologies, and constant learning. Much of this cultural change must come from the top with the CEO becoming a champion of digital and innovation. While acquiring new skills (especially UX design, front-end developers and data analytics) from outside the organisation is inevitable, the war for digital talent in China is fierce. Businesses need to also commit to investing in upskilling the existing workforce so they can harness new technologies, and support cross functional collaboration by being conversant in disciplines beyond their own.
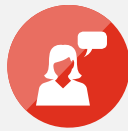
Content driven eCommerce

How brands and retailers are shifting from eCommerce as a transactional environment to incorporating social engagement and storytelling at the core of their customers' digital experience strategy.
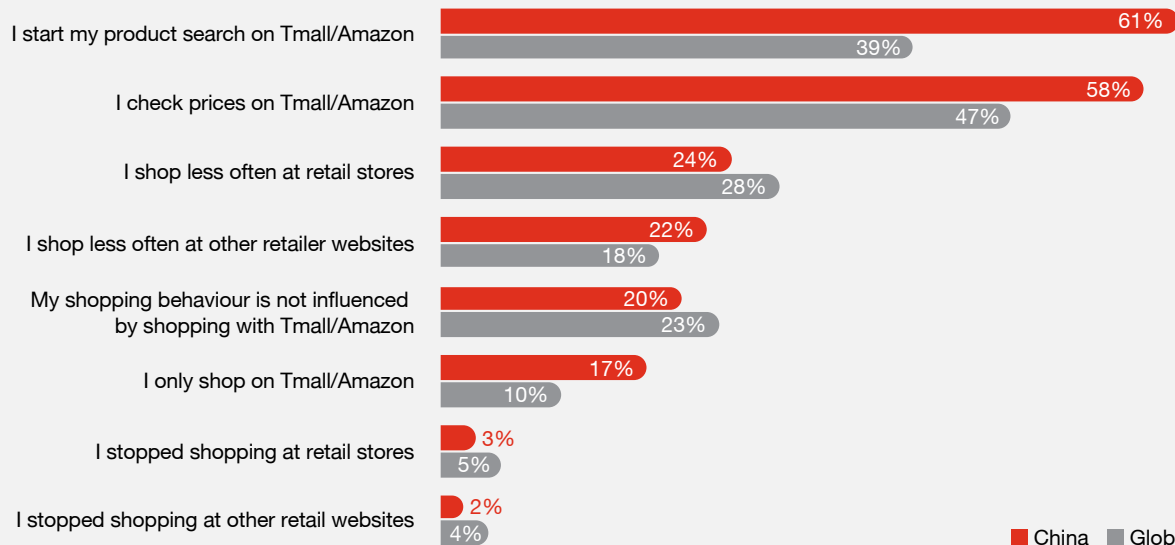
Upgrade

– from eCommerce to entertainment

Alibaba's Tmall platform dominates B2C eCommerce in China with a 53% market share[9] and our Total Retail survey shows that 97% of online shoppers use the platform. But many international retailers and brands, particularly new entrants, often make the mistake of assuming Tmall is just China's Amazon. This comparison is both inaccurate and unhelpful. Our survey shows that 61% of Chinese consumers start their product search journey on Tmall, while only 39% of global consumers use Amazon for the same. It is better for brands to acknowledge Tmall as a search and discovery engine (like Google) as much as it is an eCommerce platform. Recognising that Tmall is about content and commerce is imperative for success in China's retail sector.

97%

of Chinese online shoppers use Tmall

Tmall is both a search and discovery engine and an eCommerce platform
% of Chinese and global respondents' rating on how Tmall for China / Amazon for global influenced their shopping behaviour

Behaviour	China	Global
I start my product search on Tmall/Amazon	61%	39%
I check prices on Tmall/Amazon	58%	47%
I shop less often at retail stores	24%	28%
I shop less often at other retailer websites	22%	18%
My shopping behaviour is not influenced by shopping with Tmall/Amazon	20%	23%
I only shop on Tmall/Amazon	17%	10%
I stopped shopping at retail stores	3%	5%
I stopped shopping at other retail websites	2%	4%

■ China ■ Global

Note: Respondents were asked to select all options that apply.
Base = 877 (China), 13,675 (Global)
Source: PwC Total Retail 2017
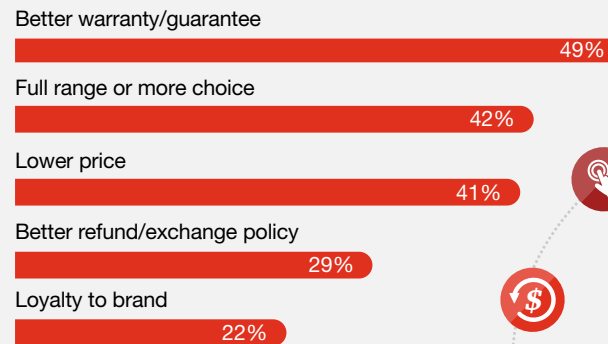
[9] Euromonitor (2016)
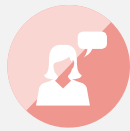
In 2016, Alibaba shifted from a transaction driven marketplace model, to one that was more focused on enabling merchants to create richer consumer experiences. The Tmall and Taobao shopping environment now incorporates: videos, livestreaming, virtual reality, games and competitions, communities, and key opinion leaders (KOLs) – entertainment as much it is eCommerce. Much of this new focus was showcased during the recent 11 November 2016 "Singles Day" shopping festival. With Singles Day typically representing 30–35% of a brand's annual Tmall revenue, getting it right is critical – but understandably competition to stand out is fierce. This year many brands collaborated with Alibaba, who started selling 150,000 cardboard virtual reality headsets in October for RMB 1 (US$0.15). Macy's created a virtual reality shopping environment that allowed Chinese consumers to stroll through the retailer's famed New York flagship store and purchase products via Tmall Global's cross-border eCommerce platform. In another example of entertainment driven eCommerce, Tmall livestreamed an 8 hour fashion show during Singles Day which featured over 800 models wearing clothes from brands such as Ted Baker, Zara and Gap.

While Tmall offers an unparalleled exposure, Brand.cn is the holy grail for direct-to-consumer engagement. The majority of retailers in China generate less than 10% of overall eCommerce revenue from their Brand.cn site but some innovators are building capabilities to increase this contribution to 30-40%. PwC's survey shows that while it is important, price is not the only way to win. Our survey shows that consumers are likely to shop from a brand's official site (over third party platforms) if they get better warranty/guarantee (49%) and/or a full range and wider choice of merchandise (42%).

Brands need to offer more than just low prices to draw consumers from third party platforms

Decision factors for purchasing from a brand's official China website versus third party platforms

Better warranty/guarantee
49%

Full range or more choice
42%

Lower price
41%

Better refund/exchange policy
29%

Loyalty to brand
22%

Note: Respondents were asked to select up to three options.
Base = 901 (China)
Source: PwC Total Retail 2017
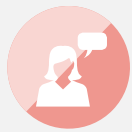
While product and value are core fundamentals, they are not enough to compete with the breadth and depth of merchandise on the third party platforms. Retailers and brands are differentiating through experience. For example, XiaoHongShu (小红书, Little Red Book in English) is a crossborder eCommerce fashion retailer that sets itself apart by providing shoppers with fashion inspiration through user generated content and a vibrant social community. In another example, one multi-category retailer is creating an outcomes-led shopping experience that incorporates rich editorial content, social commerce (user generated content, KOLs and livestreaming) and a distinctive brand personality designed to act as shopping mentor. This experience differentiates the retailer's Brand.cn site with their Tmall flagship store which is focused more on product sales and promotion.

To achieve this step-change in maturity, businesses are recognising the need to change their eCommerce operating model. Today, many brands and retailers, particularly multinationals, outsource their eCommerce operations to service providers (often referred as Taobao Partners or TPs) who manage day-to-day merchandising, logistics and promotional marketing on third-party platforms and brand owned sites. While these partners are well capable of performing execution-orientated tasks, they are ill-equipped to provide the brand strategy, creative design and digital marketing required in an era of content driven commerce. Retailers and brands are increasingly taking back these services and building in-house teams to control content quality, strategic alignment and unified customer experience.

Blurred lines

– innovation at the intersection of mobile, social and eCommerce
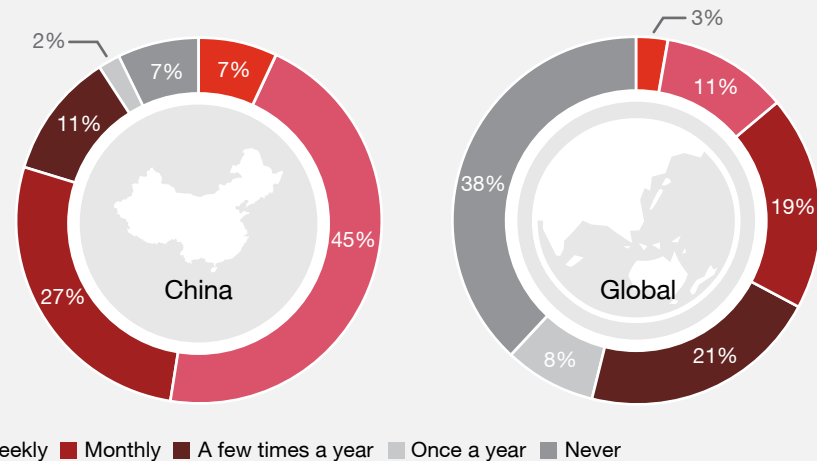
In China, the internet is mobile. PwC's Total Retail 2017 survey shows that 52% of Chinese consumers shop using their mobile/smartphone on a weekly or daily basis, as compared to 14% of consumers globally. Within only 4 years this trend has come to characterise the eCommerce landscape in China. Alibaba's mobile penetration of gross merchandise value has grown from 6% in 2013 to 80% in December 2016[10], making desktop almost irrelevant.

If the internet means mobile, then WeChat is the de facto mobile platform. With over 800 million monthly active users, it is almost a proxy for mobile internet penetration in China. As with eCommerce, where third party platforms dominate, retailers and brands have come to recognise that capturing consumer's attention typically means operating within the WeChat environment, versus building a direct-to-consumer mobile app. Many retailers, including Coach, Estée Lauder and Gap, have embedded their loyalty programmes within the WeChat app and now run customer relationship management (CRM) and engagement through the platform itself. This is an effective strategy. Our Total Retail 2017 survey revealed that 41% of Chinese consumers (34% globally) use social platforms as a way to receive promotional offers.

For example, Max Factor developed a new social CRM programme on the WeChat platform. The company bridged online and offline data to build a detailed customer database with 36 categories of tags. Max Factor can now use real-time data to send personalised messages via the WeChat platform based on different stages of the customer life cycle[11].

Mobile dominates the eCommerce ecosystem in China

Chinese and global respondents' online shopping frequency using mobiles/smartphones

China: 7%, 45%, 27%, 11%, 2%, 7%
Global: 3%, 11%, 19%, 21%, 8%, 38%

■ Daily   ■ Weekly   ■ Monthly   ■ A few times a year   ■ Once a year   ■ Never

Base = 905 (China), 24,471 (Global)
Source: PwC Total Retail 2017

41%

of Chinese consumers (34% globally) use social platforms as a way to receive promotional offers

10 Alibaba (December Quarter 2016)
11 Forrester, Max Factor China rejuvenates customers' loyalty with social CRM (2017)

A strategic partnership between JD.com (a leading B2C eCommerce platform) and Tencent (the parent company of WeChat) in 2014 made JD the exclusive shopping channel within the WeChat mobile wallet. WeChat has become a significant source for JD's customer acquisition, during Singles Day in 2015, 52% of first-time JD's users came via the WeChat platform[12]. What is also significant is that the majority of these users came from lower-tier cities and rural areas. Of the 200 million new online shoppers set to be connected by 2020, 71% are forecasted to be based in lower tier cities[13]. Moreover, they are most likely to be mobile-only users. Therefore, mobile and social engagement is critical to not just gather the attention of consumers today but to also capture the next wave of China's consumer base.
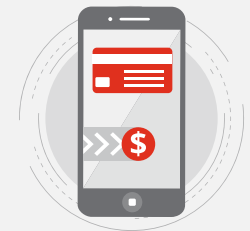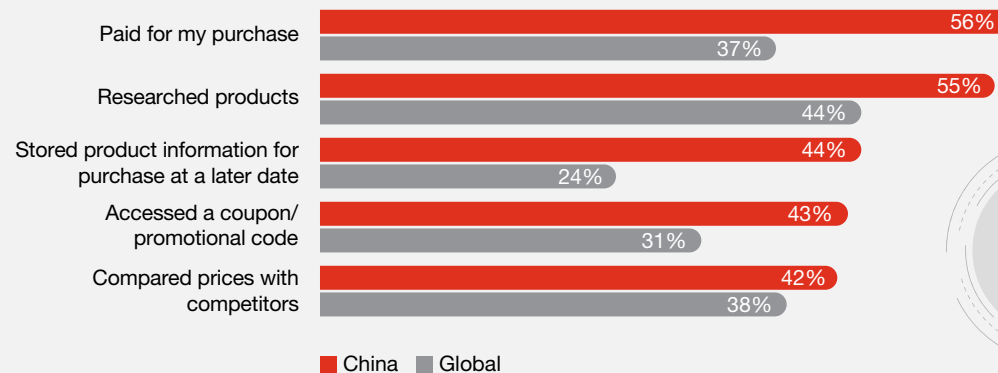
Livestreaming is emerging as a major growth avenue for mobile and social engagement in China. Livestreaming platforms like Bilibili (哔哩哔哩), Ingkee (映客) and YY (歪歪) (the latter of which has 100 million+ monthly active users) have built vibrant content-driven ecosystems of self expression. PwC's Total Retail 2017 survey shows that 70% of Chinese consumers use social networks as a source of inspiration for purchases. It is, therefore, not surprising that many brands are experimenting

with livestreaming to engage with consumers. Livestreaming works best when brands use the real-time, interactive and human nature of the media. For example, to promote the ZX Flux shoes, which can be customised, Adidas livestreamed a graffiti artist who changed his design and patterns according to the requests of people watching live[14]. In another example, an international supermarket used livestreaming as a mechanism to educate Chinese consumers on the benefits of imported food products. The social campaign involved sending celebrities to iconic destinations in Europe which doubled as

the source of origin for promoted products. In this way, livestreaming created engaging content which showcased quality, provenance and health related benefits. Beyond campaigns, some retailers are now putting livestreaming at the core of the eCommerce experience, a strategy often described as "see now, buy now". MoguJie.com (蘑菇街), a fashion-focused social commerce platform with over 130 million registered users, enables consumers to buy products directly from within a livestream environment that uses online celebrities to model items, provide fashion recommendations and answer questions.

Mobile shopping behaviour is blurring the lines between online and offline

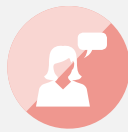*Top 5 shopping behavior when shopping online using mobile/smartphone*

Behavior	China	Global
Paid for my purchase	56%	37%
Researched products	55%	44%
Stored product information for purchase at a later date	44%	24%
Accessed a coupon/promotional code	43%	31%
Compared prices with competitors	42%	38%

■ China ■ Global

Note: Respondents were asked to select all options that apply.
Base = 905 (China), 24,471 (Global)
Source: PwC Total Retail 2017

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[12] JD, Investor Relations (2016)

[13] Goldman Sachs, China E+Commerce, shopping re-Imagined (2017)

[14] AdAge, How advertisers are tapping into China's crazy live-streaming culture (2016)

Moments that matter
– unlocking the social opportunity

The retail opportunity in China is as lucrative as it is challenging. For most categories, the market is hyper-competitive with both local and international players competing for market share. In a highly crowded market, differentiation is the key to success. For brands to stand out, they first need to be at where their consumers are, and in China that means social.

In most markets, businesses have come to recognise the importance of social platforms but what differentiates the Chinese consumer is how social media has permeated the end-to-end consumer journey. In China, consumers use social media to discover new brands and products (45% versus 39% globally), validate the product quality through reviews, comments and feedback (54% versus 47% globally), purchase directly through a social channel (25% versus 15% globally) and then write a review of the product or experience (27% versus 20% globally). Therefore, it is critical for retailers and brands to build and participate in social communities and engage with customers on social platforms across the end-to-end journey.

## Social media has permeated the end-to-end consumer journey in China
Comparison of Chinese and global respondents' usage of social media as part of their shopping experience

■ China ■ Global

45%
39%
To discover new brands and products

54%
47%
To read reviews, comments and feedback

25%
15%
To purchase products directly via a social media channel

27%
20%
To write reviews, comments and feedback

Note: Respondents were asked to select all options that apply.
Base = 905 (China), 24,471 (Global)
Source: PwC Total Retail 2017
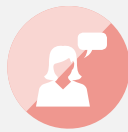
Alibaba has developed a range of tools to drive greater social engagement with their eCommerce platforms. These include Quanzi (圈子, circles) where users can create special interest groups to generate content, discuss products and share recommendations, and Wendajia (问大家, ask others) which uses big data to identify community members who are best placed to answer customer queries. Our Total Retail survey indicates substantial impact of effective social engagement with 79% of Chinese customers (46% globally) saying that positive interactions with brands on social media have driven them to endorse the brand more, and 71% customers (44% globally) have spent more as a result.

Engaging with consumers on social media in China is not about traditional paid advertising. WeChat's ad load (the ratio of advertising to non-advertising content) is only 1%, compared with 7-10% for Facebook[15]. The key to effective social engagement in China is delighting consumers in the moments that matter.

In our experience, local brands in China are often more digitally-literate than their international counterparts, particularly when targeting millennials. One example is Three Squirrels (三只松鼠). Launched in 2012 as pure-play digital brand, it has become the largest snack brand on Chinese eCommerce with sales of RMB 2.5 billion (US$385 million) in 2015. Three Squirrels has created an end-to-end branded experience which is designed to create a wow factor at key "moments of truth". The website is playful and interactive featuring cute squirrel mascots who also feature as customer service representatives known as "masters". When the product is shipped it comes with personalised messaging and complementary gifts including napkins, shell openers and trash bags. While Three Squirrels does spend on paid advertising, it is increasingly shifting to branded content and is working on a cartoon series to be aired on TV[16]. In another example Diao Pai (雕牌), a Chinese laundry products brand, recently took a social-first approach to refreshing its brand image to target younger shoppers. The brand created a mascot (an eagle called Diao Xiong) which was introduced across short online movies, social media accounts, customised emoji's and product packaging. Within Diao Pai's WeChat account, the mascot also came to life through the use of a customised chatbot which responded to customer comments, sent stickers and even sang songs.

Retailers and brands need to become more sophisticated with how they engage on social media in China. Shoppers have integrated social deeply into their consumer journey and navigate between social platforms almost instantaneously. Traditional media buys are an ineffective mechanism to capture the attention of these consumers. What is needed is more creative, brand-led, engagement models that capture distinctive moments of delight throughout the social commerce journey.
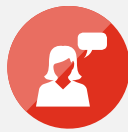
79%

of Chinese customers (46% globally) say that positive interactions with brands on social media have driven them to endorse the brand more, and **71%** customers (44% globally) have spent more as a result

[15] UBS, Investment Research (2016)
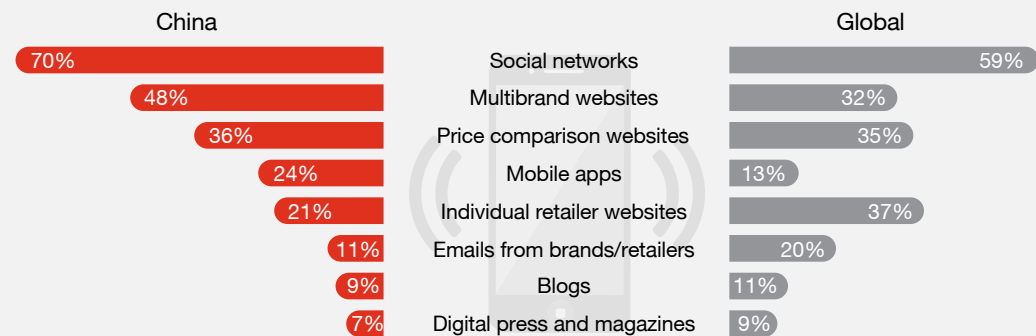[16] Advertising Age, What China's hottest snacks brand can teach you (2016)

New entrants

– key opinion leaders as a sales channel

It is almost impossible to distinguish between eCommerce and social media in China today. This is clearly evident in the developing landscape of key opinion leaders (KOLs). Our Total Retail 2017 survey finds that 29% of Chinese consumers, as compared to 13% globally, use social media to see what brands or products KOLs and celebrities are endorsing. KOLs in China were historically mass market celebrities or subject matter experts. Over the last 12 months, however, a distinctive new segment of social entrepreneurs are impacting the retail landscape in China. "Wang Hongs" (网红, broadly translated as internet famous) are the internet celebrities that monetise their personal brand and follower base by selling products, mostly fashion and cosmetics, over eCommerce platforms such as WeChat and Taobao as well as dedicated micro-merchant shopping sites including Koudai (口袋), Youzan (有赞) and XiaoHongShu.

**For brands to stand out they first need to be where their consumers are, and in China that means social**

% of Chinese and global respondents who use online media platforms as a source of inspiration for purchases

	China		Global
Social networks	70%		59%
Multibrand websites	48%		32%
Price comparison websites	36%		35%
Mobile apps	24%		13%
Individual retailer websites	21%		37%
Emails from brands/retailers	11%		20%
Blogs	9%		11%
Digital press and magazines	7%		9%

Note: Respondents were asked to select up to three options.
Base = 905 (China), 24,471 (Global)
Source: PwC Total Retail 2017

29%

of Chinese consumers, as compared to 13% globally, use social media to see what brands or products KOLs and celebrities are endorsing
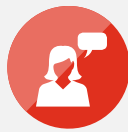
KOLs differ from traditional eCommerce merchants in two key ways. Firstly, they present a personalised shopping experience, often using livestreaming platforms, to create a highly intimate and interactive engagement environment. Secondly, KOLs model clothes to get real-time feedback from their followers over livestreaming sites. Easy access to local clothing manufacturers means that positive consumer feedback enables garments to quickly go into full production. This makes KOLs far more responsive than traditional retailers and even fast fashion players, enabling highly tailored merchandise based on specific customer feedback. Leading stars like Zhang Dayi (张大奕) and Zhu Chenhui (朱宸慧) are estimated to have sold RMB 300 million (US$46 million) and RMB 150 million (US$22 million)[17] of goods annually, respectively, while mid-tier celebrities can earn around RMB 10 million (US$1.5 million)[18]. On Taobao, five out of the top 10 female clothing brands are run by KOLs[19] with Zhang Dayi setting sales records on Singles Day.

This internet celebrity economy was estimated to be worth RMB 58 billion[20] (US$8.4 billion) in 2016 and has spurred a dedicated ecosystem for its development. Incubators like Ruhan E-commerce Ltd (如涵电商), which manages 50 Taobao stores on behalf of KOLs, offers an end-to-end service that includes talent spotting and coaching, eCommerce operations, and supply chain management. Papi Jiang (Papi酱), China's leading internet celebrity, has also become the first to receive venture capital investment. ParkLU (帕克街) has built an online marketplace that matches KOLs with brands, allowing marketers to search for KOLs based on various criteria including audience, interests and price. Others like Guangdong Bobaolon (广东柏堡龙), a Shenzhen-listed fashion clothes manufacturer, has announced plans to invest RMB 1 billion in developing an ecosystem that connects KOLs with clothing production and fashion designers.

While it's still early days, Wang Hongs are expected to impact retailers and brands in three areas. KOL's interact directly with consumers, raise awareness and can help build brand. For example, luxury watch maker Jaeger-LeCoultre partnered with Papi Jiang to promote the brand's Reverso watch (a relatively entry level model) to millennial consumers. In this way, Wang Hongs provide a new marketing channel to capture the attention of China's youth. Secondly, social selling techniques like livestreaming and Q&A enable brands to gather rich insights and real-time customer feedback. This is effectively disrupting the product development process by using crowd-sourcing model. Finally as Wang Hongs grow in popularity, some of the leading stars are set to become more visible as mainstream offline brands or even retailers. It is not unreasonable to expect Wang Hongs to create a line of branded merchandise (as an independent label or as part of a collaboration) and establish a physical presence, likely in pop-up or small format stores.

[17] Guotai Junan Securities, Investment Research (2016)

[18] JP Morgan, Investment Research (2016)

[19] KPCB, A whirlwind tour through tech trends in China (2016)

[20] CBNData (2016)
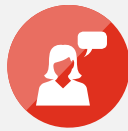
Strategic actions

First focus on the customer, not the channel

The always-on Chinese consumer migrates between offline and online channels, often simultaneously. Retailers and brands should first focus on understanding the customer journey, and then designing a desired customer experience that addresses possible pain points, or moments of delight. Once defined, the role of channels, platforms, marketing and content can then be aligned to how best they enable the desired customer outcomes.

The end game should be personalisation – an outcome that is constantly evolving but seeks to create meaningful experiences for each individual that fuse the online and offline worlds, and strike the optimal balance between transaction and emotion.

Evaluate delivery models and partnerships

As digital influences a greater share of sales and customer engagement it is becoming increasingly strategic to overall business performance. Many retailers and brands have outsourced much of this responsibility to digital/social agencies and eCommerce service providers/TPs. These partnerships should be reassessed to identify the value it offers in an environment where digital commerce is becoming more strategic, brand and content-led. In some cases it may be better to in-source specific operations to have greater alignment with overall business strategy, control of execution, and agility in market.

Align operating models and resources

Digital capabilities now need to be embedded in all parts of the business – it is now too important to remain just the purview of an eCommerce or digital marketing team. For many traditional retailers this change will need to be supported by a new organisation structure. Many retailers and brands are allocating a greater proportion of marketing spend to digital channels and some are combining budgets as they attempt to manage overall marketing return on investment (ROI). To support this shift, we are also seeing an evolution towards an operating model characterised by one customer, one organisation. For some this means the introduction of a Chief Customer Officer role who has overall responsibility for delivering the brand experience across all customer touchpoints, and manages all marketing and channel formats. To underpin this new operating model it is also important to consider updating KPIs and incentive structures so they combine traditional and online metrics with a more holistic view of customer profitability, total marketing ROI, and advocacy.
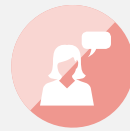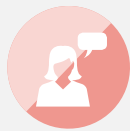
New growth avenues

How eCommerce, social and emerging technologies are driving growth opportunities across food, luxury and sports retail categories.
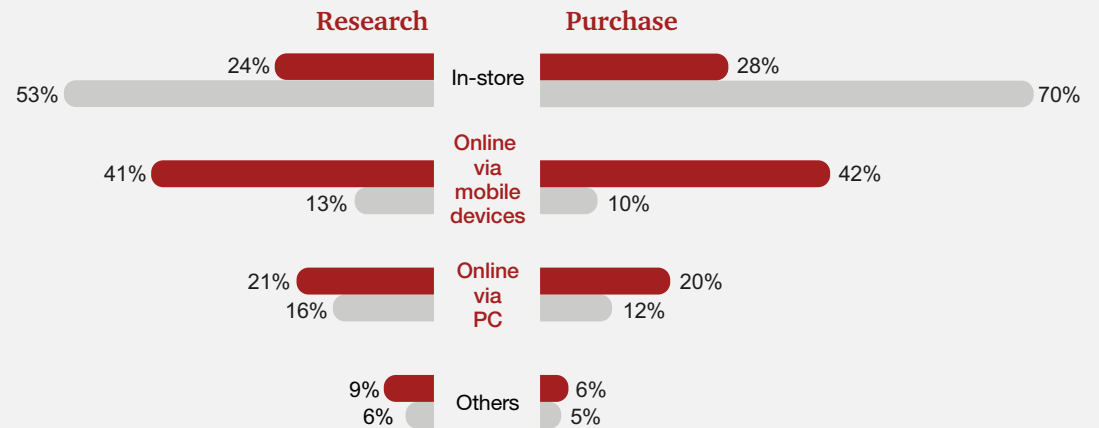
Food
– foundations now in place

China's eCommerce market is reaching relative maturity in categories like clothing and electronics, while growth opportunities in other categories still exist. With an eCommerce penetration of about 5%[21] today, fast moving consumer goods (FMCG) and groceries sector could be the next major growth driver. Even though online grocery has been a challenging proposition for retailers globally, it is an attractive opportunity in China. PwC's Total Retail 2017 survey indicates that while 62% of Chinese consumers (29% globally) prefer to research grocery products online, the same proportion of survey respondents (62% Chinese vs 22% global) would also prefer to buy their groceries online.

With the price point of many FMCG and grocery products being relatively low, consumers – particularly millennials – are often willing to try new brands or varieties that they find to be unique or interesting. This buying behaviour is creating new business model opportunities for FMCG brands to directly reach consumers and disintermediate the traditional retailer distribution partners. For example, Ocean Spray, a cooperative owned by more than 700 farmers in the United States, was experiencing strong demand from Chinese consumers through traditional retail partners selling their cranberry products online. As a result the company decided to go direct to consumers and set-up a flagship store of their own on Tmall Global[22].

Online grocery has been a challenging for retailers globally, this opportunity is more attractive in China

Chinese and global consumers' preferred method in researching and buying groceries

|	Research	Purchase
In-store	China 24% / Global 53%	China 28% / Global 70%
Online via mobile devices	China 41% / Global 13%	China 42% / Global 10%
Online via PC	China 21% / Global 16%	China 20% / Global 12%
Others	China 9% / Global 6%	China 6% / Global 5%

Note: Do not research/purchase options are not shown.
Base = 894 (China), 24,073 (Global)
Source: PwC Total Retail 2017

■ China ■ Global

PwC's survey indicates that 40% of Chinese consumers shop with the favourite retailer because they trust the brand, the second most important attribute after price. This attribute is more significant in the grocery and food segments. Safety and quality concerns have made international supermarkets and brands offering imported products become increasingly attractive. Australian companies have particularly benefited with brands like Blackmore, Swisse and Chemist Warehouse thriving in China's booming market for imported vitamins and supplements. PwC is also working with Alibaba to build better trust in the supply chain of food products by using emerging technologies like blockchain, which enables tracking of products from producers to consumers in China.

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[21] Euromonitor (2016)
[22] Alibaba Group, Ocean Spray launches first online flagship store in China on Tmall Global (2015)
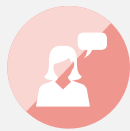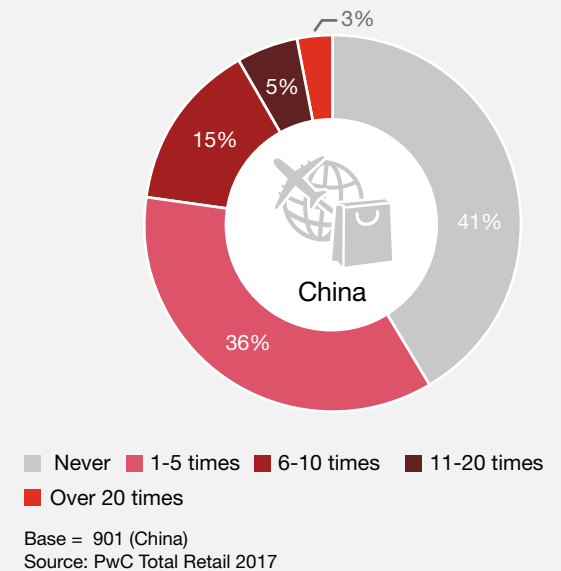
The growth in imported food products has also been facilitated by the development of crossborder eCommerce. In the supermarket sector, Costco was the first to use a crossborder online-only market entry model in 2014 and has now been followed by other large global supermarkets including Woolworths, Sainsbury's, Aldi and ASDA. Crossborder eCommerce offers retailers and brands a new market entry model for China which doesn't require setting up of physical stores, a domestic China entity or significant capital investment. Many retailers see crossborder eCommerce as a "test and learn" strategy. Here they can launch their brand, test the value proposition and merchandising mix with consumers to gain valuable experience and customer insights which can then be used for longer-term and more strategic investments in China domestic business.

One of the key enablers behind the growth of food eCommerce has been the development of logistics capabilities throughout China. Today, 200 cities already have same-day or next-day delivery through JD logistics or Alibaba's Cainiao alliance (菜鸟联盟). Within the FMCG category, fresh food is the largest segment but the most challenging to operate online, a result of the perishable nature of the goods and costly cold chain logistics requirements. We are still in the early days of online fresh food in China but the market is already highly competitive with eCommerce giants, logistics companies (e.g. SF Best), traditional supermarkets (e.g. Feiniu 飞牛, part of RT Mart), and various well funded start-ups (e.g. Yiguo 易果生鲜 and Fruit day 天天果园) attempting to capture a slice of this high growth market. We see multiple business and logistics models still being tested and while consolidation is inevitable, the winners are not yet clear. For example, those with a strong fulfilment network like JD and Tmall supermarket and SF Best, ship directly to consumers from dedicated warehouses. Others like Metro and Fruit Mart use their physical stores as distribution hubs for online orders. We also see regionally focused O2O models which pick-up goods from supermarkets and fulfil the last mile.

Crossborder eCommerce, particularly for food, is experiencing high growth in China

Chinese consumers' frequency of shopping from an out-of-country online retailer/pure player during the past 12 months

China

- Never — 41%
- 1-5 times — 36%
- 6-10 times — 15%
- 11-20 times — 5%
- Over 20 times — 3%

Base = 901 (China)
Source: PwC Total Retail 2017

Luxury
– a model starting to fit

China's luxury retail market is undergoing a transformational shift from an artificial level of demand driven by gift-giving to a more sustainable level driven by personal consumption. As a result, a new wave of young millennial shoppers have emerged as the driving force behind the luxury sector.

China's new luxury consumer is much more willing to access and buy brands online, takes advantage of promotions and has concerns over authenticity. Unlike the mass-market, PwC's Total Retail 2017 survey shows that luxury clothing shoppers are marginally more likely to use a brand's own eCommerce store (45%) than a third party multi-brand eCommerce website (43%). This is a major untapped opportunity for luxury brands in China with many missing the chance to use their own website to build a direct-to-consumer channel. A recent study by BNP Paribas showed that only 21 of 34 luxury brands surveyed had an eCommerce enabled website in China, with some of the biggest names in the industry such as Prada, Louis Vuitton, Gucci, and Hermès having only a showroom site[23]. While pure online sales may never reach the same level of penetration as the mass-market, eCommerce is a key enabler of omni-channel services which integrate with physical stores, the most critical attribute of the luxury experience.

Unlike the mass-market, a luxury brand's own eCommerce store has the potential to compete with 3rd party platforms

Type of website Chinese consumers use to buy luxury clothing, shoes or leather goods

On the brand's eshop
45%

From a website that sells multiple luxury brands
43%

From a department store's eshop
30%

From a website abroad
11%

From a second-hand or auction site
2%

Note: Respondents were asked to select all options that apply.
Base = 782 (China)
Source: PwC Total Retail 2017

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[23] Exane BNP Paribas, China online boom: yet to come for ostrich luxury brands (2017)

Authenticity of all products is a worry for Chinese consumers but the concern is higher for luxury items. PwC's survey shows that about 20% of respondents have not purchased jewellery and watches online, 69% of whom identified product's authenticity as the barrier. This potential challenge has not stopped Tag Heuer to open a flagship store on Tmall in early 2017. Seen as a move to raise awareness among a younger, digitally savvy consumer, Tag Heuer's Tmall store is more about branding and marketing than revenue generation. At the affordable end of the jewellery market, Pandora shows that eCommerce can be a viable sales channel. In addition to physical outlets, the jeweller has a Tmall flagship store, China eCommerce site, and is considering opening a WeChat store. The Tmall store has been open since October 2016 and carries half the brand's collection (including 15 unique to China) and all at full price. While the brand does not disclose eCommerce revenues, sales from Tmall are already described as "significant"[24].

Authenticity of jewellery and watches is the most common barrier to online shopping for this product category

% of Chinese consumers barriers to purchasing luxury jewellery and watches online

69%
I am concerned that some products sold online may not be genuine

41%
I need to see and touch the product before buying

19%
I prefer the in-store experience with a sales assistant

16%
I am concerned over delivery options

8%
I have enough opportunities to visit stores near where I live, work and when I travel

Note: Respondents were asked to select all options that apply.
Base = 182 (China) – only those respondents who have not made luxury product purchases online
Source: PwC Total Retail 2017

24 FT, Cartier talks about cracking China with WeChat (2017)
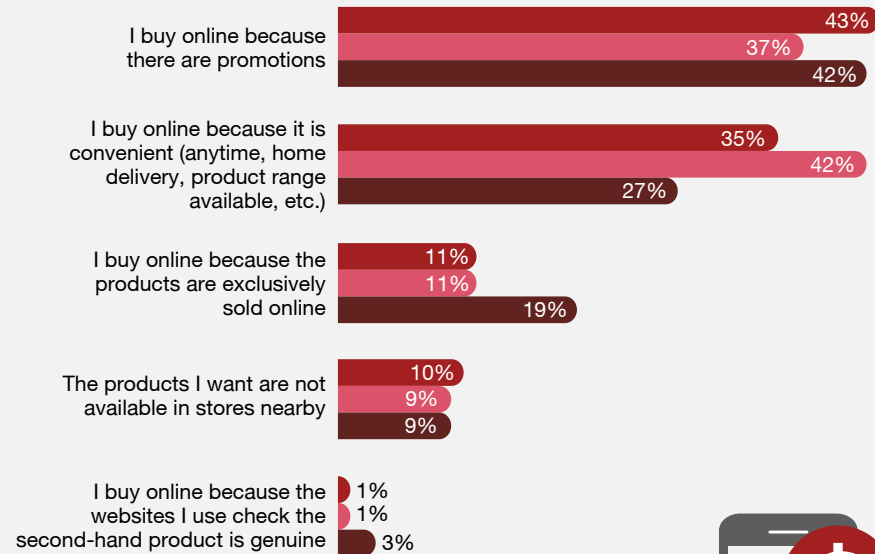
For other categories, 93% of respondents indicated to have purchased luxury clothes, shoes, or leather goods online. Convenience (42%) and online promotions (37%) were identified as the strongest motivations for these online purchases. Our survey also showed that many consumers take advantage of online promotions for luxury purchases, varying by category – clothing, shoes, or leather goods (37%), cosmetics or fragrances (43%), and jewellery and watches (42%). Outside of price-based promotions, luxury brands use digital channels to promote special collections and limited edition items, primarily to build brand image and engage customers. For example, during the Qixi Festival Dior used WeChat to sell a special pink edition of its handbag where buyers could customise the item through an interactive app before paying with WeChat. Only 200 models were made available and were sold out within 2 days[25].

Historically, luxury brands have focused on the physical store experience and traditional media formats like print (e.g. newspaper, magazines) and out of home (e.g. billboards). Whether or not the sale happens online, the mobile and social nature of the Chinese consumer means the question is about how, not if, luxury brands embrace the digital opportunity.

Online promotions, convenience and limited edition items were identified as strong motivations to purchase luxury items online

Chinese respondents' main motivation for purchasing luxury and premium products online

I buy online because there are promotions
43%
37%
42%

I buy online because it is convenient (anytime, home delivery, product range available, etc.)
35%
42%
27%

I buy online because the products are exclusively sold online
11%
11%
19%

The products I want are not available in stores nearby
10%
9%
9%

I buy online because the websites I use check the second-hand product is genuine
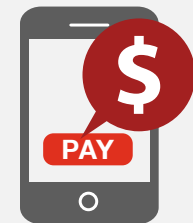1%
1%
3%

Cosmetics or fragrances

Clothing, shoes or leather goods

Jewellery and watches

Base = 782 (China)
Source: PwC Total Retail 2017

[25] JingDaily, Dior and Bulgari become luxury's early adopters of WeChat sales (2016)

## The luxury experience – digitising physical retail

PwC's survey shows that one of the main barriers to consumers buying luxury goods online is the need to touch and feel the product. Hence, the relevance of physicals store for luxury brands remains significant, but retailers shouldn't neglect the opportunity that digital presents to enhance the in-store experience. For example, Sephora embraces innovative in-store digital experiences featuring "The Fragrance Bar" in their Shanghai flagship store to maximise consumer engagement. Customers are able to immerse themselves in the experience with digital applications, interact with emotion-charged scents and share product information directly via social media as a way of personalising their experience. These apps are aimed at increasing sales conversion by creating personalised engagements with different products.

While luxury brands have traditionally prided themselves on their signature customer experience, many brands in China face challenge with the availability of talent for customer service. Their skills often do not match the sophistication of the brand and target customers. To help solve this challenge, luxury retailers like Chanel, Burberry and Lane Crawford are experimenting with client-centric apps or product catalogues on digital devices to enhance the experience for their customers, and bridge the knowledge gap on brand heritage and products.

In order to deliver personalised services and have meaningful conversations around suitable products, luxury retailers are taking initiatives to know their customers more intimately without being personally intrusive, and develop a deeper understanding of their customers' preferences. The underlying intention is not just a CRM programme, but a strong need for unified commerce solutions that allows luxury retailers to continue these conversations and journeys with their customers – from online exploration and discovery to the physical retail environment.

The inability to touch and feel is a driver for the lack of eCommerce penetration in luxury products

% of respondents who have need to see and touch the product before buying
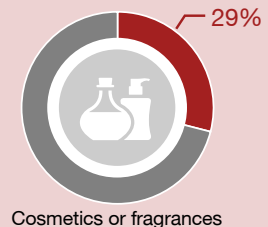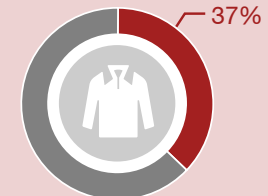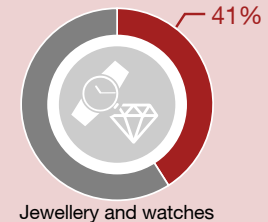
41%
Jewellery and watches

37%
Clothing, shoes or leather goods

29%
Cosmetics or fragrances

Note: Respondents were asked to select all options that apply.
Base = 182 (China) – only those respondents who have not made luxury product purchases online
Source: PwC Total Retail 2017

Sports and wellness
– community driven engagement

In 2011, President Xi Jinping first expressed his wish for China to become a global sporting superpower. Significant proportion of the population have embraced this idea and become proactive not only in sports but also in general health and wellbeing. In order to capture this trend, sports brands are increasingly going beyond the products to position themselves as enablers of wellness through community engagements.
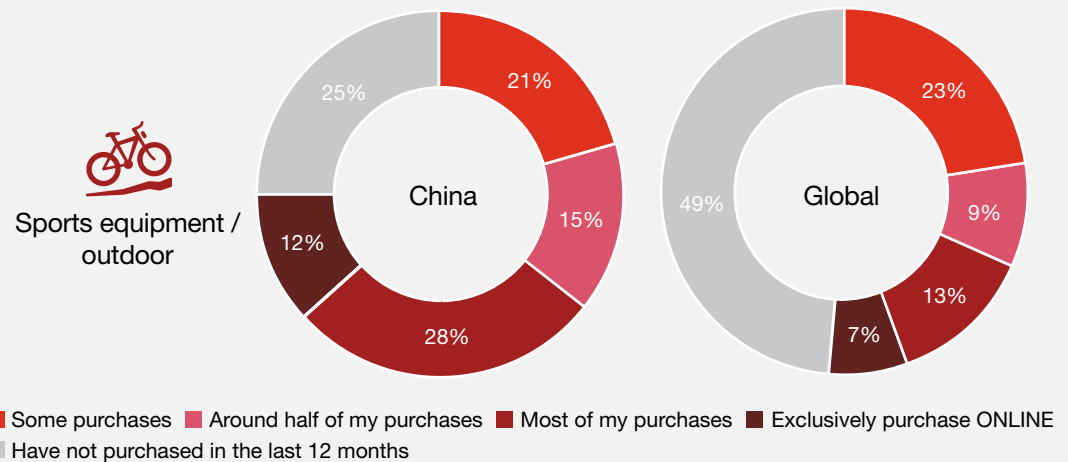
Overall sports category sales in China grew by 11% between 2015 and 2016, more than double the growth rate of the overall apparel market which grew by 5%[26]. For leading international brands like Adidas and Nike, China already represents the largest market outside of the United States with both companies sustaining double digit year-on-year sales growth and healthy profit margins. It is, therefore, unsurprising that market entrants including UnderArmour and Lululemon are looking to tap into China leisure boom. When Lululemon entered the market they recognised that China's active market was already highly competitive with the top 10 players representing 71% market share[27]. This led them to adopt an agile, test and learn approach which included limited hour showrooms to create inflated demand, relatively limited product assortments, multi-channel O2O

engagement across WeChat and Tmall, and actively building communities around key opinion leaders and events in highly selected locations within Shanghai and Beijing.

While Nike and Adidas lead the market, local brands like Anta (安踏) have also been enjoying success. Anta is the third largest player in the market and has built a multi-brand strategy that covers both the mass (Anta), premium (Fila), functional (NBA and Descente) and kids categories. Anta has also invested heavily in sales and marketing including sponsoring the China team at the Rio Olympics. To maximise exposure and reach, Anta partnered with Tmall to launch a Rio Olympics eCommerce sales campaign that was linked to the performance of the Chinese athletes. As a result Anta's "Go surprise yourself" campaign was viewed over 100 million times on Weibo, and their brand reputation index increased by 17%[28].

75% of Chinese consumers already purchase some of their sports products online
Purchases made online over the last 12 months

Sports equipment / outdoor

China: Some purchases 21%, Around half of my purchases 15%, Most of my purchases 28%, Exclusively purchase ONLINE 12%, Have not purchased in the last 12 months 25%

Global: Some purchases 23%, Around half of my purchases 9%, Most of my purchases 13%, Exclusively purchase ONLINE 7%, Have not purchased in the last 12 months 49%

■ Some purchases ■ Around half of my purchases ■ Most of my purchases ■ Exclusively purchase ONLINE
■ Have not purchased in the last 12 months

Base = 892 (China), 23,848 (Global)
Source: PwC Total Retail 2017

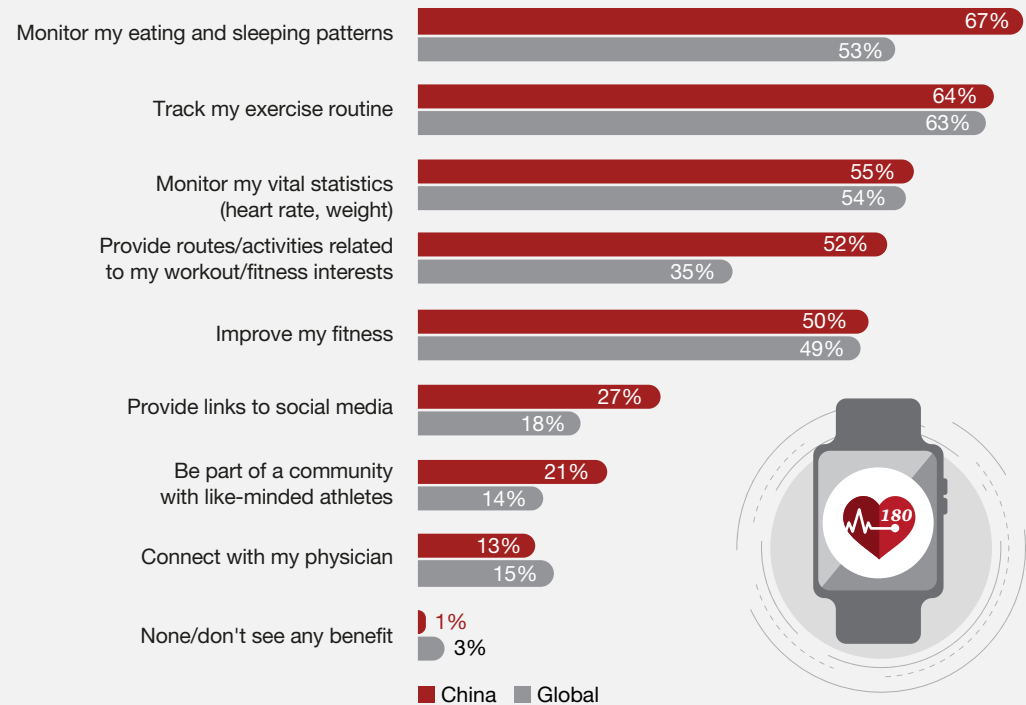[26] Euromonitor (2016)
[27] Euromonitor (2016)
[28] Anta, Annual Report (2016)

PwC's Total Retail survey shows that over 60% of Chinese consumer's research and shop online for sports equipment. In 2015, Alibaba launched AliSports to tap into the growing opportunity online. Alisports leverages the robust data gathered by the Alibaba group on Chinese consumers. Alisports uses this data to nudge existing customers to become sports fans and participants through tailored content, and then monetise this engagement through merchandise, events and media content. With Chinese consumers often at the forefront of digital trends, they have turned to smart devices to track their overall health and wellness. Our survey shows that 78% of consumers are wearing or planning to start wearing devices with the purpose to document their eating and sleeping habits (67%), to track exercise (64%), and to monitor their vital statistics (55%). Nike tapped into this trend to champion the emerging running culture in China. Nike created a WeChat platform and Nike app that allowed runners to track and measure their progress, and receive running tips like local routes or equipment recommendations. Moreover, as Nike recognised that runners often felt isolated, they provided recommendations to help runners join (or create) clubs, attend events, and find fellow runners in their local area by tracking their digital activities[29].

Chinese consumers often at the forefront of digital trends, they have turned to smart devices to track their overall health and wellness

Chinese consumers' reasons for wearing or planning to start wearing devices

Reason	China	Global
Monitor my eating and sleeping patterns	67%	53%
Track my exercise routine	64%	63%
Monitor my vital statistics (heart rate, weight)	55%	54%
Provide routes/activities related to my workout/fitness interests	52%	35%
Improve my fitness	50%	49%
Provide links to social media	27%	18%
Be part of a community with like-minded athletes	21%	14%
Connect with my physician	13%	15%
None/don't see any benefit	1%	3%

■ China ■ Global

Note: Respondents were asked to select all options that apply.
Base = 704 (China), 11,583 (Global)
Source: PwC Total Retail 2017

[29] Resonance, Nike Run Club digital ecosystem (2016)
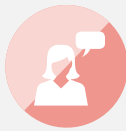
Strategic actions

Experiment with eCommerce formats

China's digital landscape is so dynamic that it is impossible to establish a single route to success. For categories, like food and luxury, where eCommerce is still in its infancy, the future is even more uncertain. We think the best way to find a model that fits is to participate. For incumbent retailers this could mean testing an online-only sub brand, flagship store on a third party platform, or an O2O model leveraging the physical store footprint. For brands, digital brings opportunities to experiment with direct-to-consumer sales, product development for online-only sale, and collaborations with eCommerce retailers to share data and customer insights.

Assess online only market entry models

For new market entrants, an eCommerce only strategy offers a relatively quick time to market with a low investment profile. That being said, the market is already highly competitive and many have found that top-line returns have fallen below expectations. To succeed retailers must follow the fundamentals. This means first understanding the target consumer, defining a distinctive value proposition, and then supporting it with investments in brand, multi-platform marketing, and merchandising and promotions.

Evaluate emerging technologies

Regardless of where the sale is recorded digital touchpoints are likely to have influenced the path to purchase. Innovative retailers are now considering how emerging technologies can play a role in enhancing these touchpoints to make them more personalised, meaningful or trustworthy. Where trust and traceability is important – as with food and luxury – blockchain solutions are already helping to strengthen authenticity of product and origin. The internet of things (wearables and sensors) enable a variety of possibilities including location-based personalisation, augmented physical environments, and enhanced analytics on product consumption and usage. However, emerging technologies should not be seen as a CIO checklist. We recommend businesses develop a rigorous approach to evaluation that includes: establishing a formal listening framework, learning the true impact of bleeding-edge technologies through pilots, and quickly scaling success cases throughout the enterprise.

Conclusion

Innovation in China's eCommerce market is a moving target and the digital natives are driving disruption. Internet giants like Alibaba, Tencent and JD are at the forefront of emerging technologies, and start-ups such as YY, XiaoHongShu or Mogujie pioneer new commerce experiences within lucrative niches. We also see the entire value chain being transformed through new direct-to-consumer engagement models, executed by brands like Three Squirrels, or individual key opinion leaders. In market with this level of dynamism, incremental change is akin to standing still.

In the near future China's eCommerce market is set to be driven by content-led experiences. The best will be designed to use brand storytelling to delight consumers at the key moments that matter, and exploit innovations that sit at the intersection of mobile and social engagement. As retailers and brands increase the sophistication with which they can interpret and execute on data, we will also see a greater degree of analytics enabled personalisation. We expect the role of emerging technologies to grow with mobile devices remaining the dominant platform for commerce.

China is already the largest retail eCommerce market in the world but with online retailing expected to represent 25% of total retail sales by 2020, significant growth remains. Mature categories like clothing, cosmetics/beauty and electronics will continue to see major growth from lower tier cities, while breakout opportunities are expected in the food and luxury segments. Despite the rise of eCommerce the physical store is not dead; it just needs to evolve. We expect to see internet players and traditional retailers make longer-term investments in omni-channel fulfilment and analytics in order to improve end-to-end customer experience, drive operational efficiency, protect market share and grow profitability.

eCommerce is witnessing a shift in its impact. From a sell side impact on marketing and sales channels to now an era of front to back retail transformation. As the lines have blurred between eCommerce, mobile and social, we will now see a broader convergence between online and offline retail. Omni-channel will increasingly characterise what it means to compete in China's new retail environment. Retailers and brands need to put customer experience at the core of how they consider their go-to-market strategy and underlying operating model. For a market where incremental change often means standing still, China's new retail environment could require many to embark on a full stack digital transformation.

Methodology

This report draws on insights from our study of the shopping behaviours of 905 Chinese consumers, and our experience working with retailers and brands across eCommerce, omni-channel and social initiatives in China. Our China survey sample was slightly skewed towards females who represented 53%. From a demographic perspective 62% were aged between 25 and 44, 69% have an annual household income above RMB 70,000 (US$10,000), and 64% are in full-time employment. From a regional breakdown, 43% live in Tier 1 cities, 38% in Tier 2, and 20% in Tier 3. The study is part of PwC's global Total Retail report, which in 2017 is our tenth consecutive study of online shoppers. This year is our most comprehensive to date, including 24,471 online shoppers across 6 continents and 29 territories.

Note: Not all figures add up to 100%, due to rounding of percentages.

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