

# CHINA'S E-COMMERCE MARKET

## - ONLINE RETAILING

China Retail Snapshot

Asia Distribution and Retail

April 2016



Note: Photos in this report are from official websites and official social media accounts, and freepik, if not otherwise specified.

- China has become the world's largest online retail market since 2013. Transaction value of China's online market reached 3.88 trillion yuan in 2015.
- Transaction value of B2C market exceeded C2C market in 2015 for the first time, with Tmall as the market leader in the B2C sector, followed by JD.com.
- Chinese consumers have adopted mobile connectivity as the dominant way to access the Internet. Transaction made on mobile platforms has already exceeded PC. Many traditional retailers deploy various O2O strategies via mobile devices.

### Trends

1. Rapid development of rural e-commerce
2. Mobile revolution continues at full speed
3. Social-commerce becomes more mainstream
4. Cross-border e-commerce import businesses register strong growth
5. Retailers increasingly adopt O2O strategies

# ONLINE RETAIL SALES REACHED 3.88 TRILLION YUAN IN 2015

## OVERVIEW

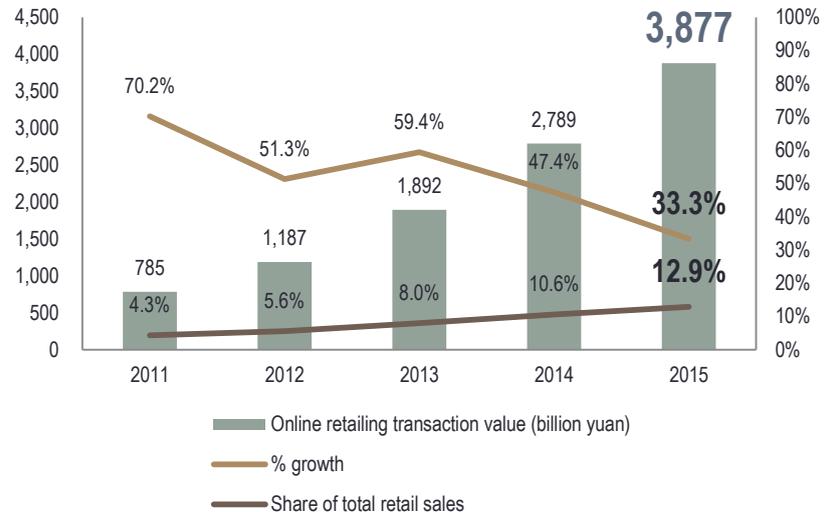
Transaction value of China's online market in 2015

- **3.88** trillion yuan up 33.3% year-on-year (yoy)
- **12.9%** of total retail sales



### Transaction value of online retailing in China

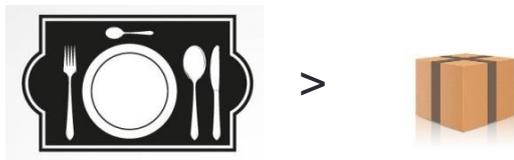
2011 - 2015



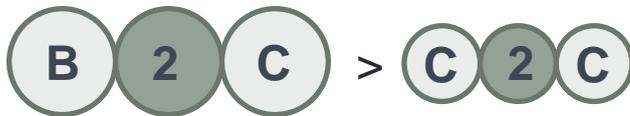
Source: iResearch Consulting Group, National Bureau of Statistics of the PRC

# B2C MARKET EXCEEDED C2C MARKET

- Growth of online sales of **services exceeded sales of goods.**

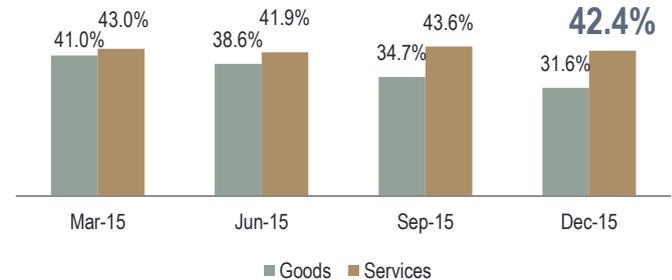


- Transaction value of **B2C market exceeded C2C market** in 2015 for the first time.



## Online retail sales growth: goods vs services

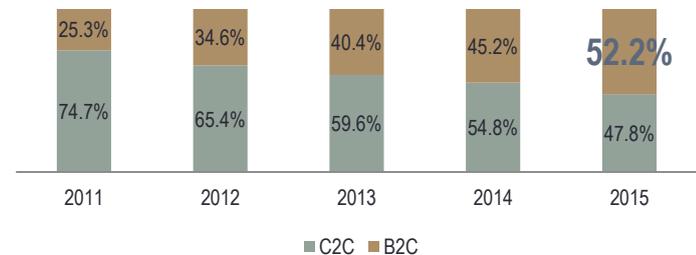
March 2015 – December 2015



Source: National Bureau of Statistics of the PRC

## Market structure of online retailing in China: C2C vs B2C

2011 - 2015



Source: iResearch Consulting Group

# TOP B2C PLATFORMS

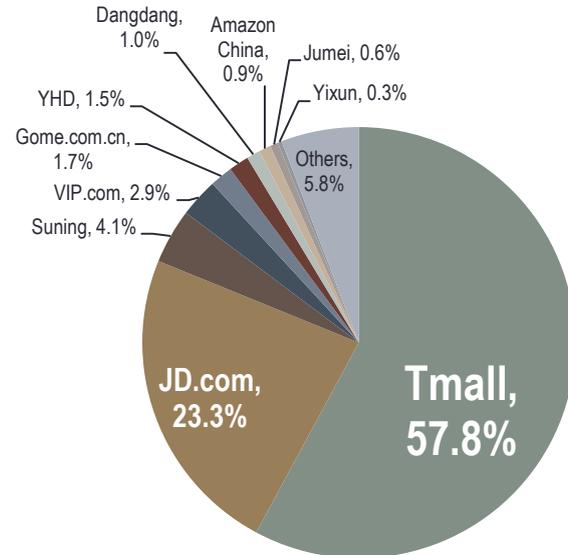
## OVERVIEW

- **Tmall** is the market leader in the B2C sector, followed by JD.com.



### Market share of top B2C players

3Q15



Source: iResearch Consulting Group

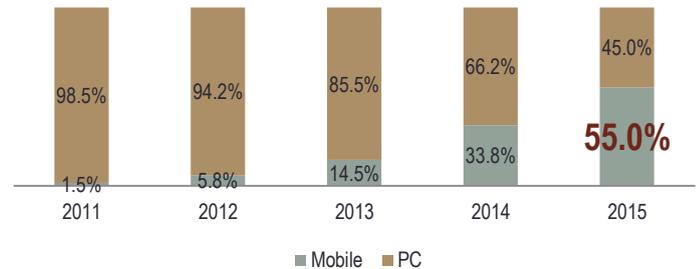
# TRANSACTION ON MOBILE PLATFORM EXCEEDED PC

## OVERVIEW

- For many Chinese consumers, smartphones are becoming an integral part of everyday life, and they have adopted mobile connectivity as the dominant way to access the Internet. Mobile-based sales have been increasing rapidly over recent years.

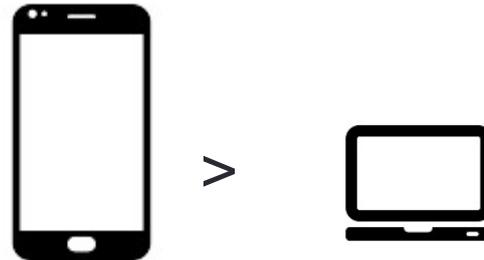
### Market structure of online retailing in China: mobile vs pc

2011 - 2015



Source: iResearch Consulting Group

- Transaction made on **mobile platform exceeded PC** for the first time in 2015.

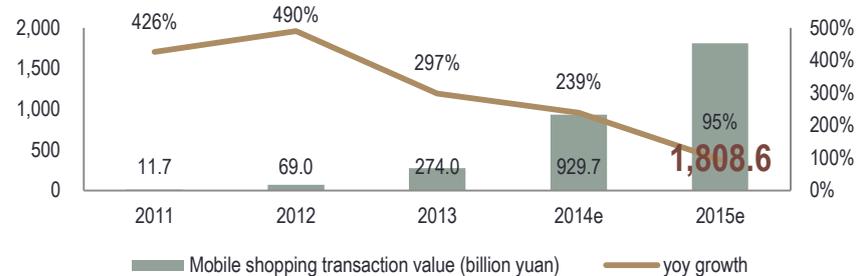


# MOBILE COMMERCE IS GAINING TRACTION

## OVERVIEW

- The rise of **budget smartphones** (e.g. Xiaomi, Oppo, and Meizu) has brought mobile connectivity to most parts of China. Mobile commerce (m-commerce) are gaining popularity across the country.
- Transaction of mobile shopping reached **1,808.6 billion yuan** in 2015.
- Many traditional retailers deploy various O2O strategies via mobile devices.

**Transaction value of mobile shopping in China**  
2011 - 2015



Source: iResearch Consulting Group



# BEST-SELLING ONLINE CATEGORIES

OVERVIEW

## Top 10 best-selling online categories

2015



Source: "Charting growth of e-commerce in rural China". China Daily. 9 March 2016; compiled by Fung Business Intelligence Centre

# INCREASING INTERNET PENETRATION AND GROWING DISPOSABLE INCOME

GROWTH DRIVERS

- **Increasing Internet penetration** and **growing disposable income** are the major driving forces of China's online retailing market.

## As of December 2015

Population that have access to the Internet

- 688 million (50.3% penetration)



Online shoppers

- 413 million (60.0% of Internet population)



Population that use mobile to access Internet

- 620 million (90.1% of total Internet users)



Mobile online shoppers

- 340 million (54.8% of mobile Internet users)



Internet population: 688 million

- Urban: 493 million (71.6% of total) (up 4.8% yoy)
- Rural: 195 million (28.4% of total) (up 9.5% yoy)



Online shoppers: 413 million

- Urban: 369 million
- Rural: 44 million



Annual disposable income: 21,966 yuan

- Urban: 31,195 yuan (up 6.6% yoy)
- Rural: 11,422 yuan (up 7.5% yoy)



# INCREASING INTERNET PENETRATION AND GROWING DISPOSABLE INCOME (CONT'D)

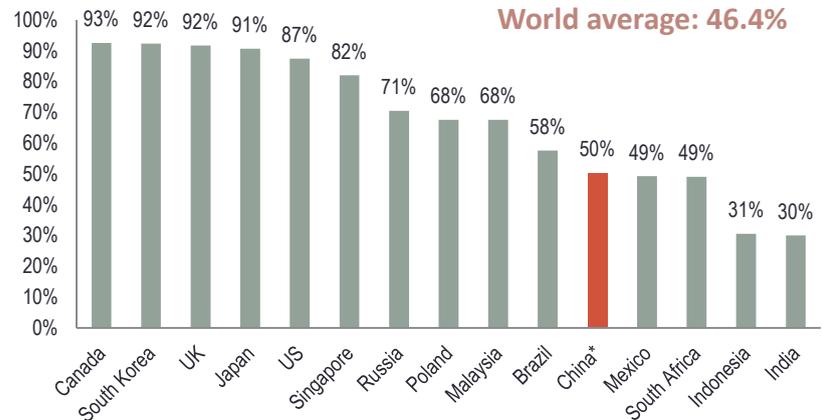
GROWTH DRIVERS

- That said, **China lags behind many countries in terms of Internet penetration**. Internet penetration rate in China was 50% as of December 2015, while Canada, South Korea, the U.K. and Japan have Internet penetration rates of over 90%.



## Internet penetration rate of selected countries

November 2015



\* December 2015 data for China

Source: Internet World Stats, China Internet Network Information Center

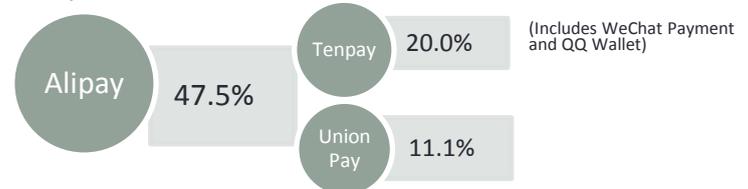
# WIDESPREAD USE OF THIRD-PARTY ONLINE PAYMENT AND MOBILE PAYMENT

GROWTH DRIVERS

- The widespread use of **third-party online payment** and **mobile payment** has driven the growth of China's e-commerce market.
- In 2015, third-party online payment services in China achieved a total transaction value of 9.5 trillion yuan, according to iResearch.
- The third-party payment market in China is **dominated by Alipay\***, followed by Tenpay\*\* and UnionPay\*\*\*.
  - 60% of the Top 100 retail operators in China accept Alipay.

## Market share of third-party online payment services

3Q15



Source: iResearch Consulting

## Number of registered users

June 2015

WeChat Payment	697 million
Alipay	400 million
Alipay Wallet	190 million

\* Alipay is a third-party online payment platform launched by Alibaba Group. In October 2015, Alipay's parent company was re-branded as Ant Financial Services Group.

\*\* Tenpay is a one-stop online payment platform launched by Tencent. It offers payment services including WeChat Payment and QQ Wallet via WeChat panel and QQ panel respectively.

\*\*\* China Union Pay is the only domestic bank card organisation in China.

# WIDESPREAD USE OF THIRD-PARTY ONLINE PAYMENT AND MOBILE PAYMENT (CONT'D)

GROWTH  
DRIVERS

## Case study: WeChat Payment



- **WeChat Payment** is bundled with WeChat, a popular free all-in-one communications app and social networking tool developed by Tencent. Leveraging on the large user base of WeChat, WeChat Payment is getting popular nowadays. Increasing numbers of retailers and commercial enterprises in China support WeChat Payment in their stores. Examples include:
  - Supermarkets: >35,000
  - Convenience stores: >60,000
  - Department stores: >1,500
  - Restaurants: >80,000
  - Hospitals: >1,200
  - Pharmaceuticals specialty stores: >28,000
  - Vending machines: >44,000
  - Hotels: >35,000
  - Car parks: >700
  - Tourist spots: >250



Source: Tencent

WeChat Payment has become a popular tool for people to give out lucky money (or “red packets”) during Chinese New Year (CNY)

- Number of transactions made during CNY 2016 (CNY's Eve to the 5<sup>th</sup> day of CNY):  
**32.1 billion times**  
(10 times the transactions in 2015)
- Participants: **516 million**

Source: Tencent



# WIDESPREAD USE OF THIRD-PARTY ONLINE PAYMENT AND MOBILE PAYMENT (CONT'D)

GROWTH  
DRIVERS

## Case study: China UnionPay



- **China Union Pay** is the only domestic bank card organisation in China. It has launched the Quickpass mobile payment service in December 2015 with over 20 commercial banks.
- China UnionPay's **Quickpass payment** is a new payment tool which provides more convenience for consumers. Quickpass is based on host card emulation (HCB) and token technologies, offering safe and convenient mobile payment service.
- Quickpass payment service is currently available in Pacific Coffee, McDonald, Costa Coffee, honeymoon-dessert, BurgerKing, Carrefour, StarBucks Coffee, FamilyMart, Haagen-Dazs, 7-11 Convenience Store, Circle K Convenience Store in China.



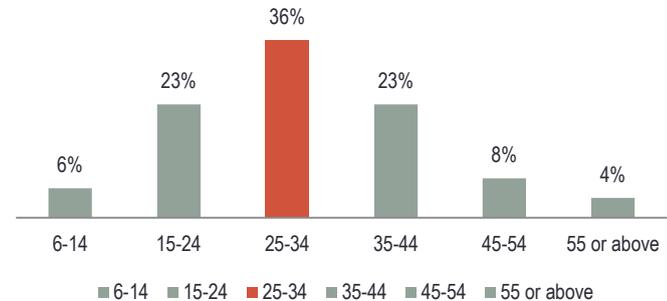
# CONSUMERS AGED 25-34 SPEND THE MOST ONLINE

CONSUMERS

- **Chinese millennials (those born in the 1980s and 1990s)** are the largest group of online shoppers in China. According to ComScore, consumers **aged 25-34** spent the most online among all age groups in 2015.
- Chinese shoppers are increasingly looking for products that help distinguish their personalities. They are buying more **high-price products** online. According to KPMG\*, the average amount spent by Chinese consumers on luxury purchases online witnessed a significant increase in 2015. Categories such as watches (+126%) and jewellery (+65%) have seen the most significant increase in online spending.

## Online spending per month by age group

2015



Source: ComScore



\* "China's connected consumers - When 10,000 Chinese shop..." KPMG. October 2015.

# PROFILE OF TOP INTERNET PLAYERS

## ALIBABA

### PLAYERS

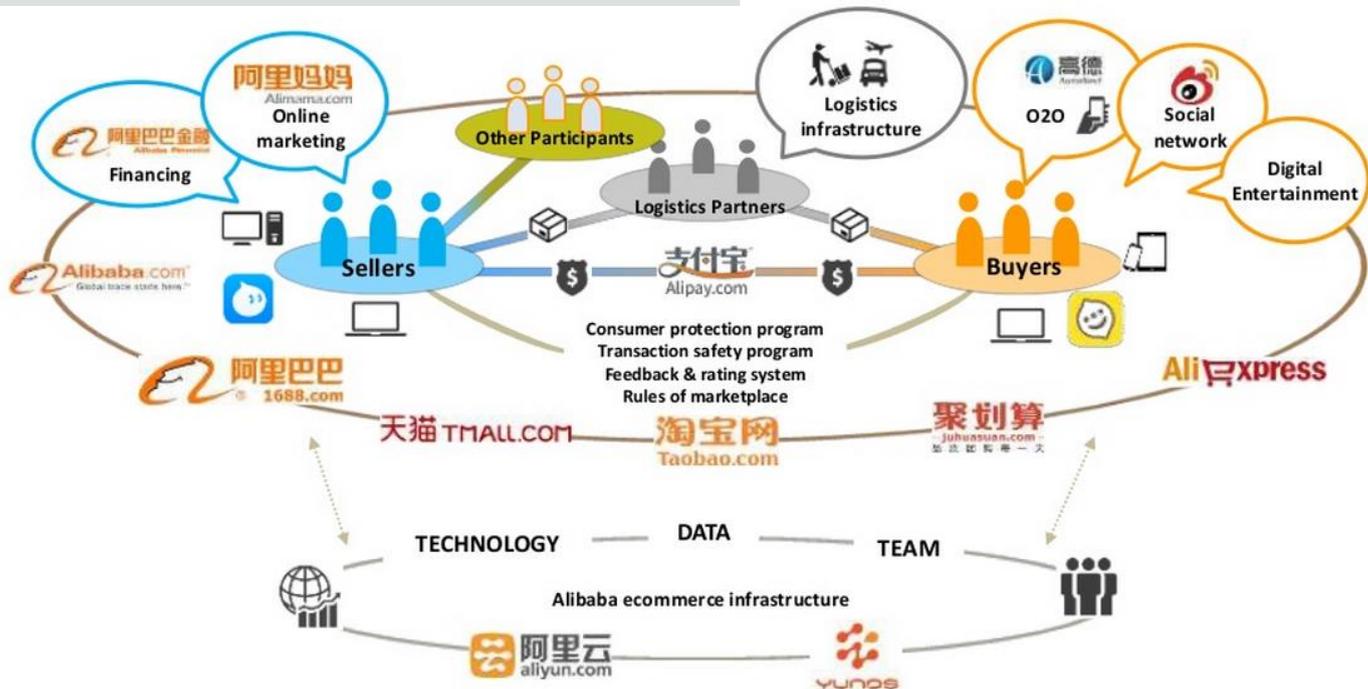
<b>Background</b>	Founded by Jack Ma in April 1999, headquartered in Hangzhou, China	<b>Profit model</b>	<ul style="list-style-type: none"> <li>• Commission</li> <li>• Value-added services fee</li> <li>• Advertising fee</li> </ul>
<b>Number of Employees</b>	2015: > 35,000	<b>2014 Financial and operating performance (US\$ billion)</b> Financial year: Apr 2014 – Mar 2015	<ul style="list-style-type: none"> <li>• Revenue: 12.3, +45%yoy</li> <li>• GMV: 394, +46%yoy</li> </ul>
<b>Core businesses</b>	<ul style="list-style-type: none"> <li>• B2B/B2C/C2C e-commerce marketplaces</li> <li>• E-marketing services</li> <li>• Cloud computing services</li> <li>• Financing</li> </ul>	<b>2015 Financial and operating performance (US\$ billion)</b>	<ul style="list-style-type: none"> <li>• <b>Quarter ended Dec 2015:</b> Revenue: 5.3, +32%yoy GMV: 149, +23%yoy</li> <li>• <b>Quarter ended Sep 2015:</b> Revenue: 3.5, +32%yoy GMV: 112, +28%yoy</li> <li>• <b>Quarter ended Jun 2015:</b> Revenue: 3.3, +28%yoy GMV: 109, +34%yoy</li> </ul>
<b>Other businesses</b>	<ul style="list-style-type: none"> <li>• O2O services platforms</li> <li>• Video and media</li> <li>• Social media</li> <li>• Travel and transport</li> </ul>	<b>Active monthly users of B2C business</b>	<ul style="list-style-type: none"> <li>• End of the Dec quarter 2015: 407 million (Mobile MAUs: 393 million)</li> </ul>
<b>Core competencies</b>	<ul style="list-style-type: none"> <li>• Eco-system</li> <li>• Payment</li> <li>• Logistics infrastructure network</li> <li>• Big data analytics</li> <li>• Financing</li> </ul>		

# PROFILE OF TOP INTERNET PLAYERS

## ALIBABA (CONT'D)

PLAYERS

Over recent years, Alibaba has invested or acquired companies in various sectors, with an aim of expanding its business territories and strengthening its eco-system.



# PROFILE OF TOP INTERNET PLAYERS

## JD.COM

### PLAYERS

<b>Background</b>	Founded by Richard Qiangdong Liu in July 1998, headquartered in Beijing, China	<b>Profit model</b>	<ul style="list-style-type: none"><li>• Commission (marketplace)</li><li>• Markup (self-operated platform)</li></ul>
<b>Number of Employees</b>	2015: > 105,900	<b>2015 Financial and operating performance (US\$ billion)</b> Financial year: Jan – Dec 2015	<ul style="list-style-type: none"><li>• Revenue: 28, +58%yoy</li><li>• GMV: 71.4, +78%yoy</li></ul>
<b>Core businesses</b>	<ul style="list-style-type: none"><li>• B2C e-commerce</li></ul>	<b>Annual active customer accounts from JD Mall</b>	<ul style="list-style-type: none"><li>• 2015: 154 million (+70%yoy)</li></ul>
<b>Other businesses</b>	<ul style="list-style-type: none"><li>• Financing</li></ul>	<b>Fulfillment capabilities</b>	<ul style="list-style-type: none"><li>• 213 warehouses in 50 cities (including 6 self-built “Asia No.1” warehouses)</li><li>• 5,367 delivery stations and pickup stations</li></ul>
<b>Core competencies</b>	<ul style="list-style-type: none"><li>• Logistics infrastructure</li><li>• Quality control (self-operated platform)</li></ul>		

# PROFILE OF TOP INTERNET PLAYERS

## JD.COM

### PLAYERS

JD.com formed a strategic partnership with Tencent in 2014, aimed at providing superior e-commerce services to mobile and Internet users in China.



#### E-commerce



- JD Marketplace
- Group Buying
- JD Worldwide
- Flash Sales
- Supermarket
- Auction

**京东团购**



**京东超市**



#### Logistics

**京东快递**  
EXPRESS

- JD Express
  - JD 211 Express
  - JD Next Day Express
  - JD Night Express
  - JD Lockers
  - JD Cold Chain

京东"211限时达"服务

京东"次日达"服务

京东"夜间配"服务

京东自助式自提柜

零运费, 24小时, 存单便捷, 隐私保护

#### Finance



- JD Finance
  - Savings
  - Crowd Funding
  - Insurance
  - JD Credit
  - JD Supply Chain Small Loans
  - JD Payment

**京东小金库**

**京东众筹**

JD INSURANCE  
**京东保险**

**京东白条**

**京东钱包**

**京东支付**

# PROFILE OF TOP INTERNET PLAYERS

## TENCENT

### PLAYERS

<b>Background</b>	Founded by Ma Huateng and Zhang Zhidong in November 1998, headquartered in Shenzhen, China	<b>Profit model</b>	<ul style="list-style-type: none"><li>• Value-added services fee</li><li>• Sales of virtual goods</li><li>• Advertising fee</li><li>• Commission (m-commerce)</li></ul>
<b>Number of Employees</b>	2015: > 27,000 (>50% are R&D staff)	<b>2015 Financial and operating performance (US\$ billion)</b> Financial year: Jan – Dec 2015	<ul style="list-style-type: none"><li>• Revenue: 15.8, +30%yoy</li><li>• Operating profit: 6.3, +33%yoy</li><li>• Profit for the year: 4.5, +22%yoy</li></ul>
<b>Core businesses</b>	<ul style="list-style-type: none"><li>• Social media</li><li>• Online/ mobile games</li><li>• In-app lifestyle services</li><li>• Video and media</li></ul>	<b>Combined MAU of Weixin and WeChat</b>	<ul style="list-style-type: none"><li>• 2015: 697 million (+39%yoy)</li></ul>
<b>Other businesses</b>	<ul style="list-style-type: none"><li>• M-commerce</li><li>• O2O services platforms</li><li>• Travel and transport</li><li>• Financing</li></ul>	<b>MAU of QQ</b>	<ul style="list-style-type: none"><li>• 2015: 853 million (+5%yoy)</li></ul>
<b>Core competencies</b>	<ul style="list-style-type: none"><li>• Mobile traffic volume from QQ &amp; Wechat</li><li>• Online entertainment, media &amp; mobile utilities</li><li>• Big data analytics</li></ul>		

# PROFILE OF TOP INTERNET PLAYERS

## TENCENT (CONT'D)

PLAYERS



QQ



Qzone



Weixin & WeChat



Moments

- **Successful transition from PC to mobile**
  - > QQ IM 853.1 million <sup>1</sup>
  - > Mobile QQ<sup>2</sup> 641.5 million <sup>1</sup>
- **Young, entertainment-oriented users**
- **Open Platform + groups**  
connect users to online content developers and interest groups

- **Mobile-centric creation for smart phones**
  - > Weixin & WeChat <sup>2</sup> 697.0 million <sup>1</sup>
- **White-collar users**
- **Official Accounts**  
connect users to content and service providers moving onto the mobile platform

### Online Games

- #1 in multiple categories:  
PC client / web / smart phone

### News

- #1 mobile app
- #1 PC portal

### Video

- #1 by MVV

### Music

- #2 mobile app; Top 3 on PC
- #1 master licensor of music copyrights

### Literature

- #1 on PC
- Largest digital publisher



**Mobile Security**  
• #1 by MAU



**Mobile Browser**  
• #1 by MAU



**App Store**  
• #1 by MAU

<sup>1</sup> Monthly active user accounts as of Dec 2015

<sup>2</sup> For smart devices

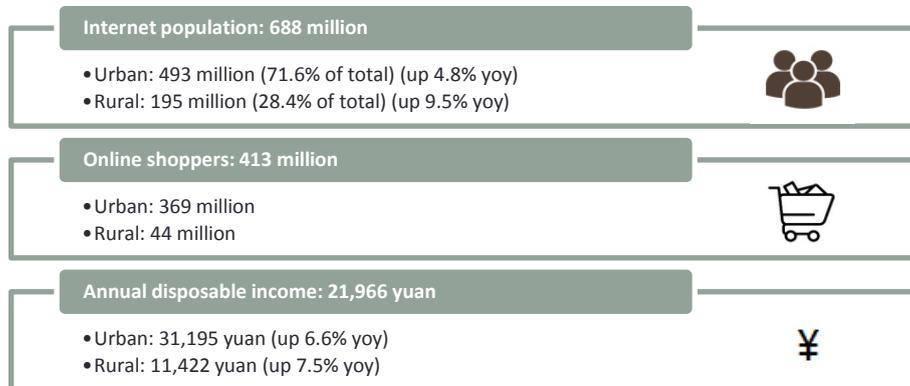
Source: Tencent

# TREND #1 RAPID DEVELOPMENT OF RURAL E-COMMERCE

## TRENDS

- As China's urban e-commerce market nears saturation after years of explosive growth, the **rural e-commerce market** is becoming the new growth engine for online sales.
- Consumers in rural areas continue to express strong interest in online shopping and the adoption rate gap between urban and rural areas has narrowed over time. Major drivers include the **rise of budget smartphones, rising income level, and increasing Internet and mobile penetration.**
- Moreover, the government has launched a series of policies to support rural e-commerce development over recent years.

### As of December 2015



Source: China Internet Network Information Center

# TREND #1 RAPID DEVELOPMENT OF RURAL E-COMMERCE (CONT'D)

## TRENDS

- A number of leading e-commerce players and retailers such as Alibaba, JD.com and Suning are adopting “**going rural**” strategies.



- In October 2014, **Alibaba** announced a plan to **invest 10 billion yuan** to build 1,000 county-level service centers and 100,000 village-level service centers in China over the next three to five years.
- The company has recruited and trained **local partners as Alibaba’s representatives** to run its service centers in rural towns. These local partners will assist rural shoppers to place online orders, especially those without Internet access, provide product information and promote popular products that are available on Taobao marketplace to rural residents.
- As of September 2015, Alibaba had **128 county-level service centres** and **5,600 village-level service centres** across 23 provinces.

# TREND #1 RAPID DEVELOPMENT OF RURAL E-COMMERCE (CONT'D)

## TRENDS



- **JD.com** rolled out an **online shopping mall for farm produce** (<http://nong.jd.com>) in August 2015, offering agricultural produce such as seed, pesticides, fertilizers and farming tools to millions of farmers across rural towns in China.
- Apart from working with third-party logistics carriers, the company operates its own **network of regional warehouses** and **thousands of smaller local delivery stations** across the country. In remote areas, JD.com has hired about 100,000 “brand promoters”, who work as a part-time courier at JD.com’s rural service centers to deliver goods to rural customers.
- It also tested out **drone delivery** as a possible means to reach out to outlying rural areas. According to JD.com, drones will be able to deliver to over 400,000 villages in the future.



- **Suning Commerce Group** has signed various **strategic partnerships with local governments** to introduce rural e-commerce initiatives.
- The company **opened 1,500 service centers** and **10,000 franchise depots** in lower-tier cities in 2015, and plans to open another 1,500 service centers in 2016.

# TREND #2 MOBILE REVOLUTION CONTINUES AT FULL SPEED

## TRENDS

- Chinese online shoppers are increasingly using mobile devices to make purchases. Singles' Day sales figures in 2015 showed the **growing trend towards m-commerce**. Alibaba's GMV on Singles' Day amounted to 91.2 billion yuan, total mobile GMV accounted for 68.7% of the total, reaching 62.0 billion yuan. 95 million people purchased items via mobile devices.
- To tap the huge potential of the m-commerce market, an increasing number of traditional retailers have strengthened their mobile presence. Many have **set up their own mobile apps**, while others have **partnered with mobile app developers** to deploy various O2O strategies with a hope to provide better shopping experience for customers.



Launching their own mobile app (some with transactional function)

OR



Partnering with mobile app developers

# TREND #2 MOBILE REVOLUTION CONTINUES AT FULL SPEED (CONT'D)

TRENDS

## Case study: Alibaba's Miao Street



- **Miao Street** is a one-stop shopping and **location-based mobile app** developed by Alibaba with the aim of enhancing customers' shopping experience in brick-and-mortar stores.
- Its customer service-oriented features include **free WiFi, indoor navigation, finding of car parking space, restaurant reservation and purchase of movie tickets**, etc.
- Miao Street allows stores to send **personalised messages** to shoppers based on their location or demographics.
- By the end of 2015, Miao Street has been expanded to **more than 10 cities** in China including Beijing, Shanghai, Shenzhen, Nanjing, Wuhan, Hangzhou, Ningbo, etc. **Over 60 department store operators** such as Intime Retail Group, Beijing Capital Retailing Group, Incity Mall, Wuhan Zhongbai Group support Miao Street.



# TREND #2 MOBILE REVOLUTION CONTINUES AT FULL SPEED (CONT'D)

TRENDS

## Case study: Wal-Mart (China)



- **Wal-Mart (China)** launched an O2O service platform for its hypermarkets in Shenzhen in May 2015, and in Guangzhou and Dongguan in December 2015.
- The three platforms each includes a mobile shopping app “**Wal-Mart to Go**”, a service center for products pick-up and multiple O2O e-payment options. Customers can shop online via the mobile app, and they can choose to have the online orders delivered to their home or self-pickup at selected physical stores.



# TREND #2 MOBILE REVOLUTION CONTINUES AT FULL SPEED (CONT'D)

## TRENDS

- That said, instead of using mobile apps, more brands and retailers are **leveraging social media platforms** such as WeChat to reach out to customers recently. These well-established social platforms allow brands to reach large numbers of potential customers more easily. Also, the cost of setting up accounts on Wechat is lower than launching self-operating apps from scratch.
  - According to iResearch, Chinese customers are using fewer apps now. 75% of users in China have installed less than 30 apps installed in their smartphones.



# TREND #3 SOCIAL-COMMERCE BECOMES MORE MAINSTREAM

TRENDS

- The use of social networks such as WeChat is becoming an integral part of Chinese customers' shopping journey. They **rely heavily on social media platforms** to discuss and research brands. At the same time, they like to post comments about a product or service.
- Brands are increasingly using social media to market their products, interact with customers, sell their goods, and provide various value-added services.



# TREND #3 SOCIAL-COMMERCE BECOMES MORE MAINSTREAM (CONT'D)

TRENDS

- Selected social platforms that facilitate marketing and brand promotion:



## WeChat

The most popular social media app in China. Brands can send messages to followers, share interesting posts, promote their events, and even allow customers to complete transaction via its own payment system.



## Meilishuo

Social-commerce platform that focuses on fashion; it facilitates communication between buyers and sellers via chat groups and communities.



## Red (or literally Little Red Book)

Social-commerce platform that focuses on overseas products; users can share comments on overseas products. Selected items are available for purchasing.



# TREND #3 SOCIAL-COMMERCE BECOMES MORE MAINSTREAM (CONT'D)

## TRENDS

- At the same time, **social shopping** is becoming more popular in China. Increasing numbers of brands now use social networks to actually sell their goods. Some have launched “Weidian” (or micro-store), mobile shopping platforms, to sell their products.
- The “**B2C2C**” model (recommended purchase by friends) is also gaining attention. Some retailers such as Gome have rolled out programs which allow employees to sell the companies’ products via micro-stores; and the employees can earn commissions for selling products.



- Chinese home appliance retailer **Gome** launched its micro-store app "Laigou" in December 2015.
- These micro-stores are **run by Gome's employees**. Employees can choose products from Gome to sell on their micro-store and recommend to their friends. They can earn 20-50 yuan commission for each transaction.
- As of December 2015, there were 92,000 Gome micro-stores run by Gome's employees.



# TREND #4 CROSS-BORDER E-COMMERCE IMPORT BUSINESSES

## REGISTER STRONG GROWTH

TRENDS

- **Cross-border import e-commerce** has been expanding rapidly over recent years. Nowadays, Chinese consumers are more sophisticated and quality-driven. They are willing to pay a premium for unique and better quality products. There is a strong demand for foreign products.
- In view of this, foreign retailers have started selling directly to Chinese consumers via registered e-commerce platforms such as **Tmall Global, JD Worldwide, Suning Global, Amazon Overseas, Jumei Global**, etc.



**JD Worldwide**, the cross-border e-commerce channel of JD.com, offers overseas products from over 3,000 brands. It has established Germany Mall, France Mall, Korean Mall, the U.S. Mall, etc. to sell products from respective countries to Chinese consumers.



**Suning Commerce Group** has established the U.S. Mall, Japan Mall, Hong Kong Mall, Europe Mall, Korean Mall, etc. on its cross-border e-commerce platform Suning Global to offer overseas products to Chinese consumers.

# TREND #4 CROSS-BORDER E-COMMERCE IMPORT BUSINESSES REGISTER STRONG GROWTH (CONT'D)

TRENDS



- **Tmall Global** is the cross-border e-commerce platform under Alibaba Group.
- 41 countries and over 2,605 overseas brands participated in Alibaba's Singles' Day online shopping festival in 2015. 30 million Chinese consumers reportedly purchased on Tmall Global on the Singles' Day.
- The best-selling product categories were baby and maternity products, healthcare, food, personal care, apparel and digital electronics.

## Top 5 countries of which consumers spent the most on the Singles' Day

2015



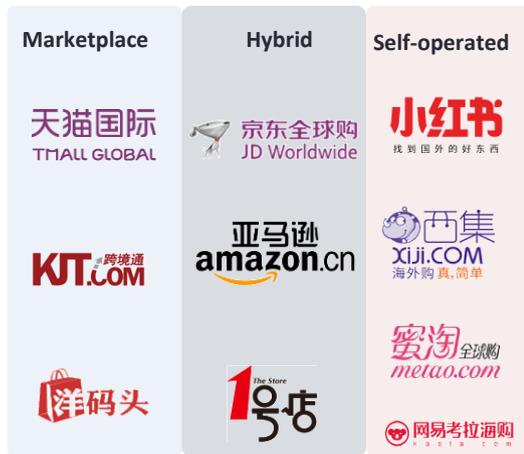
Source: Alibaba

# TREND #4 CROSS-BORDER E-COMMERCE IMPORT BUSINESSES REGISTER STRONG GROWTH (CONT'D)

TRENDS

- Selected integrated and vertical cross-border e-commerce platforms in China:

**Integrated** cross-border e-commerce platforms sell different categories of products:



**Vertical** cross-border e-commerce platforms focus on a few specialised categories:

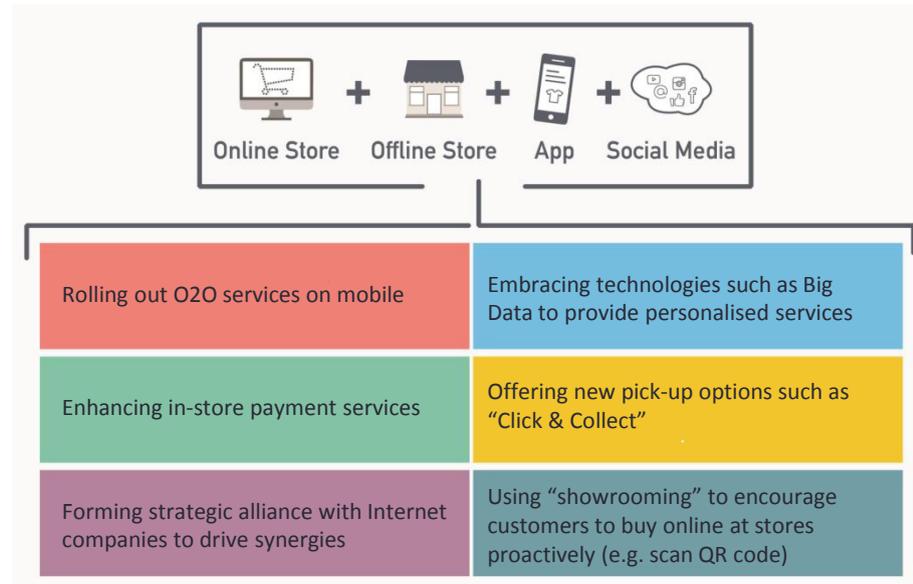


# TREND #5 RETAILERS INCREASINGLY ADOPT O2O STRATEGIES

TRENDS

- In the digital era, more retailers are leveraging advanced technologies to create a **seamless shopping experience** across all channels, including physical stores, online and mobile platforms, as well as social networks.
- While O2O has been a term in use over the past few years, it was not until around 2015 that this went mainstream.
- Many traditional retailers have launched various O2O strategies to keep pace with market needs.

## Major O2O initiatives adopted by retailers

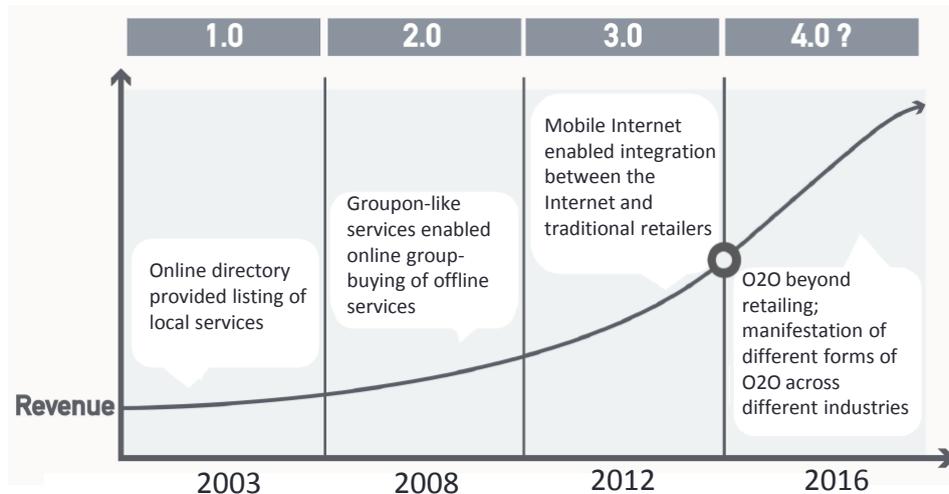


Source: Compiled by Fung Business Intelligence Centre

# TREND #5 RETAILERS INCREASINGLY ADOPT O2O STRATEGIES (CONT'D)

- A latest O2O development has been the manifestation of different forms of O2O business practices **across various industries**, particularly service subsectors such as catering, travel, education, and housekeeping. This trend has carried into 2016 and become a norm in the online retailing arena.

## Evolution of China's O2O business practices



# TREND #5 RETAILERS INCREASINGLY ADOPT O2O STRATEGIES (CONT'D)

TRENDS

## Case study: O2O catering

- Large food chains are offering new forms of catering services, either through their **self-developed mobile apps** or through partnering with **third-party platforms** such as group-buying websites and O2O catering platforms.
  - Some restaurants have launched dining apps that enable customers to make reservations, receive notification when their tables are ready, leave comments and pay bills.
  - Some O2O catering platforms such as Baidu Waimai, Eleme and Meituan Waimai provide group-buying catering and food delivery services.

### Third-party O2O catering platforms



### Growth drivers of O2O catering:

- Change in people's lifestyle: people have a lower desire to cook at home
- Strong demand for fast and convenient dining, especially for the younger generations
- Increasing popularity of online group-buying websites such as Dianping.com has fostered the development of O2O catering market and helped promote the habit of using online services.

# THE SURGE OF CONSUMER COMPLAINTS OVER ONLINE PURCHASING REMAIN A CRITICAL ISSUE

## CONCERNS

- The development of online retailing is not without challenges. The surge of **consumer complaints over online purchasing** and issues regarding shoddy and counterfeit products sold on online marketplaces are among the chief concerns for the sector.
  - According to China E-Commerce Research Center, the number of e-commerce-related complaints lodged by online shoppers with its public complaint website increased by 3.3% yoy in 2015. E-commerce platforms got the most complaints and accounted for 43.7% of the total. O2O local service e-commerce providers, such as Meituan.com, Dianping.com and Baidu Nuomi, ranked second with 24.1% of the complaints, followed by cross-border e-commerce websites and Internet finance service providers.
- Indeed, the government has stepped up efforts to regulate the market.
  - It has completed a draft version of the country's **first e-commerce law** to ensure the sector's sound development in March 2016. The new legislation is necessary to deal with data protection problems and infringements on customer interests.
  - The **new Consumer Protection Law** effective from March 2014 extends consumer rights protection to online consumers. It allows online customers to return products within seven days of purchase without giving a reason and allow them to claim compensation directly against e-commerce platforms if any disputes arise.
  - In addition, the **new Advertising Law** effective from September 2015 regulates online advertisements and clarifies the definition of false online advertisements to avoid online frauds.



- China is expected to overtake the U.S. to become the world's largest retail market by 2018; and attention within China's retail market is shifting **from physical retail towards the fast growing online retailing market.**
- The "**Internet Plus**" **concept** advocated by the government calls for a new model to propel traditional industries. This will provide myriad, new development opportunities for traditional enterprises.
- To adapt to the digital and O2O era, many retailers have increasingly leveraged advanced technologies to create a **seamless shopping experience across all channels** – online, mobile and brick-and-mortar. They are making efforts to revamp, upgrade and explore new business opportunities.

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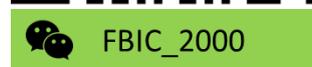
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