E-commerce in China: Driving a new consumer culture

January 2014

In China’s e-commerce 12th Five-Year Plan (2011-2015), the Chinese government’s Ministry of Industry and Information Technology unveiled policies to make China a global e-commerce leader, in line with China’s transition from an investment-heavy growth model, towards a more consumption-driven model.

Nonetheless, the speed at which the Chinese e-commerce industry has grown, and the way in which it is affecting businesses and consumers has come as a surprise to many: by the end of 2013, China will lead all other countries in B2C and C2C purchases.¹ Jack Ma, founder of Alibaba, was recently quoted as saying: “in other countries, e-commerce is a way to shop, in China it is a lifestyle”.² No matter how you slice the numbers, trends or forecasts, it’s clear that e-commerce is booming in China.

This month’s China 360 breaks down China’s explosive e-commerce growth within the business-to-consumer (B2C) and consumer-to-consumer (C2C) arenas. Of particular interest are the home-grown platforms underpinning the rise of on-line transactions, as well as the increasingly important roles of social media and mobile devices. These trends and others are fundamentally re-shaping the ways Chinese consumers purchase goods and services.

This article also highlights the importance of knowing exactly who your consumers are, how they make their purchases online, and highlights some foreign and domestic success stories in the market.


² ‘E-commerce in China: Gain entrance into a completely different world’. Group of Companies, June 16, 2013
http://www.ptl-group.com/blogs/e-commerce-in-china-gain-entrance-into-a-completely-different-world
The e-commerce explosion in China

A little over a decade ago, China’s path to e-commerce leadership would have been difficult to foresee, even as the tech boom in the US and other markets saw the development of e-commerce as an important B2C and C2C channel.

In 2000, China had yet to develop any e-commerce applications, and had only 2.1 million total internet users. Payment systems and physical delivery mechanisms to facilitate the development of e-commerce transactions were well-developed in other markets, but were simply lacking in China.

Fast forward to the end of 2013: with Chinese internet users quickly approaching 600 million, and e-commerce revenue growth (from 2009-2012) topping 70 percent compounded annually, China is on pace to pass the US and become the largest e-commerce market in the world.

Essentially, China’s large and growing middle-class have become accustomed to making frequent e-commerce purchases. Furthermore, as in many longer-standing e-commerce markets, they are also developing brand awareness, an increasing proclivity to purchase high quality and/or individually satisfying products, and showing a commitment to brand loyalty and repeat business: VANCL, a Chinese online clothing and apparel company, reported that 80 percent of its consumers had made repeat purchases in 2012.

The future development of China’s e-commerce channel is closely linked to technology developments and also the behaviors of Chinese consumers, including the way they research and order products online, and their preference for speed and convenience.

According to Mary Chong, KPMG Partner and Head of E-commerce and Payments for China, there are four drivers of e-commerce growth in China: e-commerce platforms, social media platforms, digital payments platforms and mobile devices.

Sources: KPMG analysis of US and Chinese e-commerce data from Statista, Bain & Company

By 2015, e-commerce transactions in China are projected to hit USD 540 billion, or approximately 10 percent of total retail transactions, and by 2020, China’s e-commerce market is forecasted to be larger than those of the US, Britain, Japan, Germany, and France combined.

1. China’s ‘Singles Day’ occurs on November 11 each year. The month and day are represented by ‘ones’ (11/11).
2. ‘11/11’ online sales rose by 80 percent from the previous year, to over USD 5.7 billion – more than tripling the amount of ‘Cyber Monday’ revenues in the US.
Two purchase platforms dominate the e-commerce landscape

Similar to China’s specialized social media platforms, China has its share of home-grown e-commerce players. Some of these competitors not only occupy a sizable share of the Chinese e-commerce market, but actually handle a greater number of transactions than their more well-known global competitors.

Alibaba is one of those home-grown companies. Perhaps not yet as well-known outside China as Ebay or Amazon, Alibaba is China’s undisputed market share leader of B2C and C2C e-commerce. Alibaba recently reported that the total value of merchandise sold in 2012 was greater than that of Ebay and Amazon combined. By 2016, Alibaba expects to pass Wal-Mart as the number one retail network in the world.10

Alibaba operates two distinct platforms:

- **Alibaba’s Taobao** – Taobao is a C2C site analogous to Ebay, and was created by Alibaba in 2003. Sellers are able to post new and used goods for sale or resale on the Taobao Marketplace, either at a fixed price or by auction. Taobao claims over 500 million registered consumer accounts, 800 million product listings, and holds a staggering 80 percent share of China’s C2C market. Like Ebay, Taobao's market is a place where many merchants sell their products directly to customers; however Taobao doesn’t charge any commission fees on transactions: its main revenue stream is from advertising on the site.

- **Alibaba’s Tmall** – In 2008, Tmall was created as a B2C site (similar segment as Amazon), to compliment Taobao’s C2C marketplace. Tmall is able to provide a unique ‘mall experience’ for brands to set up their own mall website. Sellers pay a deposit to list on the site, and Tmall earns a commission on each transaction. Popular domestic and foreign brands occupy ‘mall space’. Each brand can have its own virtual store in the mall, and for foreign sellers, a Tmall store avoids the requirement of obtaining an ICP license needed to sell on-line in China. The Tmall model has proven tremendously successful: in 2012, Tmall accounted for around 51 percent of China’s B2C online sales, up from 35 percent in 2010. Comparably, Amazon’s share of the market in the US is closer to 20 percent.13

Together, these two giants dominate China’s market, selling everything from Lamborghinis to shoe laces.

However, despite Alibaba’s market position, the e-commerce market in China is large enough for other competitors and niche players to thrive, including some regional platforms, such as Daminwang (大闽网) in Fuzhou, and Jingdong (京东) 360buy.com. Jingdong holds roughly 15 percent of the B2C market.14 It is primarily focused on electronic items, and is currently the ‘3C’ e-commerce sales leader in China (computer, communications, and consumer electronics).

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10. [Juro Osawa](http://blogs.wsj.com/digits/2013/10/16/alibaba-isnt-the-amazon-of-china/)
12. [Juro Osawa](http://blogs.wsj.com/digits/2013/10/16/alibaba-isnt-the-amazon-of-china/)
13. [Steven Millward](http://www.asia.cnet.com/blogs/a-guide-to-chinas-top-10-e-commerce-sites-62215025.htm)
14. [E-commerce giant will not list on Hong Kong exchange](http://www.scmp.com/business/china-business/article/1328993/e-commerce-giant-will-not-list-hong-kong-exchange)
Accompanying the rise of e-commerce in China is a clear trend towards mobile devices. In the space of a few years, China has emerged as the country with the largest number of mobile-based e-commerce transactions.18

In 2012, mobile transactions totaled USD7.8 billion,19 representing 3.7 percent of all e-commerce transactions in China. However, by 2015 mobile commerce in China is forecasted to more than quintuple, to USD41.4 billion,20 representing 8 percent of all e-commerce transactions.

Mobile purchasing aligns with the Chinese consumer’s desire for speed, and the convenience of ‘any time’ shopping. According to data presented by Taobao, the busiest time of the day for mobile shopping is 10pm, and purchases made by mobile devices are 67 seconds faster than purchases made on personal computers.22

The trend towards ‘smarter’ and more functional phones and tablets, coupled with the rising use of social media platforms to inform and connect consumers, is likely to fuel the continued rise in the number and proportion of so-called ‘m-commerce’ transactions in the Chinese e-commerce market.

For more on social media in China, see Issue [8] of China 360.17

Social media influencing consumer behavior

China’s social media platforms have become an important additional driver or facilitator of e-commerce activity. These platforms, such as Tencent’s We Chat or Sina Weibo (China’s leading Twitter-style microblogging platform) have been growing rapidly: Tencent’s We Chat reported over 600 million subscribers, up from 300 million in January 2013.15

With almost instantaneous feedback and easy-to-use interfaces, social media platforms have become a staple in the life of Chinese e-consumers. Consumers in China use these platforms for immediate ‘buy/don’t buy’ advice from friends, to post product reviews, and to seek product knowledge/advice from key opinion leaders. According to recent e-commerce statistics in China, 40 percent of China’s online shoppers read and post reviews about products – more than double the number in the US.16

These social media platforms are stepping up their integration into the e-commerce chain. Retailers are developing a more sophisticated social media presence, and some social media platforms – We Chat is a recent example – have added payment functionality, so users can make purchases directly from the application. These trends are fostering an environment whereby mobile devices are an increasingly crucial element in China’s e-commerce arena.

E-commerce going mobile

55 percent of China’s internet users have made a mobile payment, versus only 19 percent of internet users in the US.21

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http://technode.com/2013/10/24/wechat-reportedly-surpassed-600-million-users/

www.goglobal.com/blog/e-commerce-in-china/

17. KPMG. ‘Social media in China: Local innovation connecting the country’. April 1, 2013  

18. ‘China, South Korea Lead World in Mobile Commerce Adoption’, eMarketer. March 20, 2013  
http://www.emarketer.com/Article/China-South-Korea-Lead-World-Mobile-Commerce-Adoption/1009742


http://www.techinasia.com/china-mobile-commerce-q1-2013-

21. KPMG. ‘Social media in China: Local innovation connecting the country’. April 1, 2013  

Know your customer and market

As the e-commerce market in China matures, businesses must develop more sophisticated strategies to influence and reach target customers: a ‘one-size-fits-all’ e-commerce strategy is no longer sufficient. China’s on-line population is not only incredibly large, it is also highly diverse, in terms of consumer behavior. Businesses should not assume that the China’s consumer market is homogeneous.

Exactly the opposite in fact: sales vary widely by the different tiered cities China. In tier-1 cities such as Shanghai, many consumers are e-purchasing vacations, cars, or high-end personal care accessories, including cosmetics, handbags, and high-end fashion with greater transactional frequency than their counterparts in tier-2, tier-3, and tier-4 cities.23

Brand loyalty is also materializing at a markedly higher rate in tier-1 cities than anywhere else in China. In contrast, in smaller markets such as Dalian, Xi’an, or Fuzhou, one may find greater variability amongst what products and brands are favored – for example ‘last season’ items may sell poorly in Shanghai, but still sell well in other markets. Consumers from lower tier cities are still more focused more on basic value propositions when making purchase decisions.24

The methods of influence also differ between different markets: tier-4 cities tend to rely more on ‘key opinion leaders’ and less on word-of-mouth, or user reviews and blogs. Contrary to expectation, tier-4 city residents have relatively less discretionary income, yet they appear to be spending similar amounts on-line as consumers from tier-3 or even tier-2 cities.25

Overall, China’s e-commerce market does tend to be skewed heavily towards fashion and accessory purchases such as handbags, shoes, and cosmetics. Roughly 40 percent of all e-commerce transactions are fashion and accessories, purchased by younger, white-collar, urban female shoppers.27

The road to e-commerce success

Despite China’s e-commerce growth, success is certainly not a given; businesses need to do their homework to understand the target market, and how best to influence and direct their on-line purchases. A common model is to sell through established e-commerce platforms.

Uniqlo, a Japanese ‘brick and mortar’ retailer, chose to operate on Alibaba’s Tmall. Upon entry in 2009, Uniqlo set up two sites: a company-specific site that shows detailed information about the company as well as brand clothing offerings and price info, and another that is hosted on Tmall. The two sites use the same layout, categories, assortment, and pricing schemes, and because Uniqlo’s site executes purchases through Taobao, both of Uniqlo’s sites centralize ordering and payment with Alibaba.

There are many routes to success however, and many companies have had success without listing on an established platform.

Suning is one such example. Suning is a national ‘big box’ electronics retailer in China who entered the e-commerce arena relatively early, in 2009, and does not occupy space on Tmall. Their strategy called for the development of a user-friendly website, heavy in content and products. Suning also invested in technology to ensure seamless cross-channel fulfillment between their online store and their physical store. During the last four years, it expanded product categories online, as well as through mobile applications, to integrate its digital channel with its brick and mortar stores. From 2010-2012 online sales grew by a compounded annual rate of 190 percent,28 and Suning is now rated amongst the top three B2C e-tailers in China, by market share.29

Conclusion

China’s e-commerce landscape is still experiencing rapid growth. For any businesses seeking entry into China’s competitive e-commerce market, it would be advisable to develop a strategy that encompasses a thorough understanding of the target market, how consumers evaluate and purchase products, and how they prefer to utilize technology in the local market.

It is also important to devise strategies that not only cater to the needs of tier-1 consumers, but also those in other locations: these are important and growing markets for many businesses, but their purchasing behaviors are not uniform.

Finally, the approach toward and integration of social media should be a crucial element of any e-commerce strategy today, as consumers are increasingly integrating these applications into their every day lives.

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