

# Challenge the Perception of Chinese Retailers to Inspire Western Retailers' Focus on Ecosystems

Leading Chinese retailers are defining a new 'era of belonging' by forging stronger ties with consumers through an innovative buying experience. They are also reinventing their own business models by introducing innovative new revenue streams leveraging "retail-as-a-service" offerings. CEOs at Western retailers can learn from Chinese business practices how to combine seamless omnichannel experiences with predictive analytics, to develop customer loyalty and to innovate creatively to introduce new revenue growth.

### In 30 seconds

- New Chinese retailers have created strong relationships with consumers that are both physical and emotional by leveraging multiple connection points and personalized communication with highly-connected customers.
- Leading Chinese retailers are close to achieving an elusive goal in retail: “unified commerce”, a seamless blend of digital, products and customer service that is tailored to ever-changing customer needs and aspirations.
- Leading Chinese retailers are reinventing their business models, developing “retail-as-a-service” offerings to become the privileged partner in an evolving ecosystem.
- The combination of these efforts is blurring traditional barriers between players in the retail value chain. This new role is creating a sense of belonging for each of the players in the value chain whilst providing new revenue to their organizations.

**“Chinese retailers are re-inventing retail by using digital technologies to simplify and personalize the customer experience.”**

## Introduction

Have you ever wondered why Chinese tourists, who travel all over Europe with massive amounts of cash, are now becoming easy prey for robbers? This is not just because some Asian credit cards do not work in Europe. Chinese tourists are generally unable to pay electronically as they would do normally in their own market, using WeChat or Alipay on their smartphones.

Western retailers should look East. Unless they learn from China’s retail market (the world’s biggest and most innovative), they could face steady decline.

Chinese consumers are often perceived as the early adopters in retail. Although there may be some truth in this claim, it represents only part of the story. Chinese retailers, mostly driven by e-commerce giants like Alibaba or JD.com, are re-inventing retail by using digital technologies to simplify and personalize the customer experience. This is exactly what needs to be done so that consumers feel they identify with or belong to a particular brand or retailer.

In addition, the new era of retail goes beyond a perfectly fluid omnichannel experience with the retailer. With the goal of becoming essential to each partner in each link of the retail value chain, Chinese retailers are facilitating the entire purchasing experience, even including other merchants. To do this, they are leveraging the value of data: specifically, predictive analytics in addition to digital technologies.

First, Chinese retail giants aim to “accompany” their customers in many aspects of their daily life. Examples include using Alipay to pay for ‘anything, anywhere’; and WeChat, which incorporates among others messaging, social media and a mobile payment app. They are also very active in leveraging customers as brand ambassadors: consumers are encouraged to become the privileged partner of Key Opinion Leaders (KOLS) – namely, those who act as influencers with expert product knowledge, providing the retailer with live streaming platforms. In summary, Chinese retailers know their customers intimately. They have gained this knowledge from leveraging information from many sources to exploit customer influence in the market.

Second, these giant companies want to become the privileged partners of other current retail players. Alibaba is equipping small grocery stores in rural areas with a suite of mobile tools (Ling Shou Tong) to manage their points of sale. Thanks to these tools, they can supply merchandise from Tmall by benefiting from sales prediction systems followed by delivery within two days, even in remote areas. This is an example of leveraging information

## Findings

- China is a laboratory for retail innovation. In 2019, an estimated 57% of e-commerce sales globally will be transactions made by Chinese consumers.
- Leading Chinese retailers understand the technological demands of their consumers. Our study shows that 66% of Chinese consumers would like to have fully-automated stores and facial recognition to help them make buying decisions.
- Leading Chinese online retailers are tapping new revenue streams with innovative go-to-market strategies at record speed. JD.com was already planning the opening of hundreds of unmanned convenience stores in China when Amazon launched its first fully-automated store in January 2018. Now, they count over 20 unmanned stores in China, and started going international with an opening in Jakarta in August 2018. While Amazon has one in China and four planned opening in the USA.
- Leading Chinese retailers are creating a sense of belonging with customers by spreading economic growth to rural areas. Each new online store in an Alibaba “Taobao village” creates an average of 2.8 jobs. So far, 1.3 million jobs have been created.
- Leading Chinese retailers have developed powerful “ecosystem-plays”, which have strengthened their status as “privileged partners”. These ecosystem-plays are providing access to Chinese consumers, other Chinese retailers, and international brands. This opens up a realm of possibilities by introducing more data, more players, and more innovation into the retail market. For example, JD.com introduced a “retail-as-a-service” offering that hosts Walmart’s e-commerce platform in China, enabling Chinese shoppers to buy products directly from Walmart stores.

and predictive analytics at work, again, to understand the market demand for products. Close to 100,000 grocery stores were already in the Global Shopping Festival in 2017, Alibaba’s yearly three week of promotions and products offerings from around the world<sup>1</sup>.

Becoming the privileged partner for the different players along the value chain, Chinese retailers can be considered much more than simply excellent merchants. They are contributing as community facilitators, creating a sense of belonging towards all players in the retail value chain.

Western retailers may not be able to adopt many of Chinese companies’ most innovative retail business models since technology, customer behavior and consumer demands are simply too different. However, there are important opportunities to leverage some Chinese ideas selectively and adapt them to Western markets. One thing is certain: no Western retailer can afford to ignore the success of China’s retail market. They must learn from it and adopt techniques that can work in Western markets.

At one time, the USA was the most dominant player in the international retail market. However, in 2016, China overtook the USA to become the most innovative, largest and exciting player in retail market<sup>2</sup>. China has gone from being a copycat to becoming a leader of innovation, helped by a huge customer base (its population is about 1.4 billion) and the fast adoption of

new technologies. The pace of change in China’s retail market is astonishing, presenting both an opportunity and a threat for more sluggish Western retailers.

China’s retail market is a tempting target – and not just because of its size. Unlike Western markets where, typically, a handful of retailers dominate consumer goods and services, the Chinese retail market of physical stores is more fragmented with hundreds of department store chains, but none with major market shares.

Chinese retailers excel at using data to create an intimate connection with their customers. China’s huge e-commerce companies, such as Alibaba and JD.com, are often cited as exemplary data-driven companies that use customer and market data to personalize relationships with customers and increase efficiency. Yet few people seem to know that these new retail giants are also engaged in societal initiatives, for instance favoring the development of small businesses in rural areas - a new type of corporate social responsibility. They also have a strong emotional connection with customers.

Apart from that, Chinese retailers are distinguished by integrating themselves in the existing ecosystem more than imposing their way of working. This represents a true outside-in approach towards doing business. This approach is necessary for creating and reinforcing the sense of belonging that customers demand in today’s retail sector.

# “In 2025, 44% of worldwide luxury sector sales will be transactions made by Chinese shoppers<sup>9</sup>.”

## China: high connectivity leads to retail success

Although China is still classified economically as a developing country<sup>3</sup>, much has been written about its highly-connected rise. It is important to remember some key facts and figures to provide context.

### A highly-connected country<sup>4</sup>

- There were 772 million Chinese Internet users in January 2017, with only a 53% Internet penetration rate – so there is still high growth potential in the country<sup>5</sup>
- Of these users, 695 million Chinese accessed the Internet via a smartphone

### E-commerce: in numbers

- In 2017, China was by far the biggest e-commerce market in the world: it is 2.7 times bigger than the United States' e-commerce market (\$1,200bn vs. \$440bn)<sup>6</sup>
- In 2019, 27% of worldwide e-commerce shoppers will be Chinese. Nearly six in 10 (57%) e-commerce sales will derive from Chinese consumers
- Nearly one quarter (23.1%) of China's retail market was e-commerce in 2017, according to eMarketer. That share is forecast to increase to nearly 41% by 2021<sup>7</sup>
- In China, more than two in three (67.5%) people with smartphones use them to buy things online. And half of all smartphone owners use their phones to pay in stores<sup>8</sup>
- Chinese e-commerce is not just about cheap goods and services. In 2025, 44% of worldwide luxury sector sales will be transactions made by Chinese shoppers, according to one forecast<sup>9</sup>.

### Social media is shaping China's retail market

- 91% of Chinese internet users have an account with one or more of the biggest social media platforms – WeChat, QQ, Weibo and Youku
- 64% of Chinese millennials buy products on social media

The most influential media form in China is the internet, which has introduced video advertising and live-streams online that are very popular and effective in China. KOLS leverage videos, live streaming, and vlogs as marketing channels using tested marketing techniques such as sponsorship and discount codes to promote their own products and to influence the sales of existing brands.<sup>10</sup>

Alibaba and JD.com have launched their own live-streaming platforms so that brands and retailers can create partnerships with influencers to promote and sell their products to their followers.<sup>11</sup>

Alibaba has invested in a series of videos advertising their app, “2nd Floor Taobao”, which tells a new story on a weekly basis. All videos are commonly available in the evenings where studies have shown that people are more susceptible to influence. The stories are connected to the products and are highly interactive for the viewer.

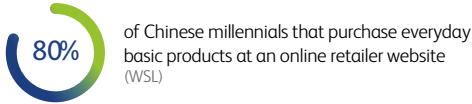
### Are the Chinese early adopters?

A previous WSL study for BearingPoint (research conducted in 2017)<sup>12</sup> found that Chinese consumers are willing to try innovative services to help them shop and make buying decisions. These include seeing a hologram or 3D version of a product online (77%), shopping in a fully automated store (70%), using facial recognition, fingerprints and/or voice to validate payments (67%).

## China, from copy cat to unrivalled leader in technology



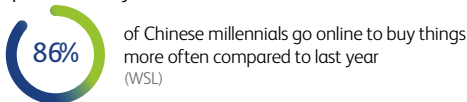
Where do you buy your everyday basic products?



How often did you go online to buy something last week?



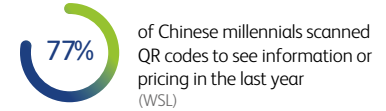
Do you go online to purchase more often, the same or less often than last year?



Which of the following digital services did you use in the last 12 months?



Which of the following digital services did you use in the last few months?



Source: BearingPoint and WSL study, based on respondents n (China) = 205

### Recommendations for Western retailers:

- Influencers are your first business partners. Leverage them by giving them a platform to speak their mind, by creating partnerships, co-creating new products, and/or simply recruiting them. L'Oréal Colorista has collaborated with the most influential KOLs in their market to co-create a new range of hair-dye colors.
- Become a media company. Start to produce and broadcast stories and videos: the language of millennials. This may involve setting up new teams with media expertise and being clear on the "personality" of the company.
- ... and adopt a mobile mindset. Retailers already know that the smartphone is the backbone of today's unified commerce. In Europe however, m-commerce (tablets and smartphones) was forecast to represent only 28% of total e-commerce (in value) for 2017<sup>13</sup>. Retailers' online presence should be quickly re-designed to become "mobile first", including all possible interactions using smartphone capabilities whilst customers are in-store or on the move: smartphones can be seen as retailers' first sales associate.

**“Retailers already know that the smartphone is the backbone of today’s unified commerce but don’t act enough on it.”**

# Expanding the new retail paradigm by unifying online, mobile and physical commerce, to leverage information

China's retail industry has developed in an inverse way to the retail sector in the West. In China, e-commerce and social media developed first whilst modern brick-and-mortar stores developed second. Consequently, China's first-generation of retailers have had more access to customer data than their Western counterparts, benefiting from the absence of barriers on personal data protection. They also benefit from the high aspiration of Chinese for new tech savvy services, as shown by the services desired by early adopters (source: BearingPoint WSL Study, 2017) They have also shown that they can leverage this customer data effectively to show the way on expanding the new retail paradigm: "unified commerce"<sup>14</sup>, to include the focus on leveraging information.

## Learning from WeChat: expand unified commerce through a mix of social and commercial data

WeChat is the clearest example of a unified commerce mix. Founded in 2011 and owned by Tencent, WeChat is a versatile social media and mobile app for sending text messages (SMS/ MMS) and for making voice and video calls. It is also used for sharing photos and games. Earlier than its Western counterparts, Tencent understood the benefit of mixing social and commercial data, so that customers can be supported not just on their shopping journeys, but more widely in their daily lives. This is why

WeChat, its major application, has been the first app to cover a wide range of services.

WeChat has reached the one billion account mark in the world, albeit mostly in China, where more than half of the population uses it: over 300 million people use WeChat's electronic wallet function online and offline on a regular basis.

Leveraging mobile payment capabilities and social data has proved crucial for retail commerce, hence the alliance being built by Tencent and JD.com, the second largest Chinese e-commerce platform in China. Both internet giants are making numerous co-investments in e-commerce (for example, the event-sales fashion site VIPshop, in 2017) and brick-and-mortar retailers (for example, Better Life, a conglomerate owning department stores, hypermarkets and convenience stores, in February 2018) to increase rapidly the number of physical and digital points of sale that use their payment and e-commerce capabilities.

## Learning from Alibaba: expand unified commerce by integrating online, offline, logistics and data in a single value chain

In 2016, Chinese e-commerce giant Alibaba Group Holding Ltd became the world's largest retail platform, with its total trading volume online in the fiscal year ending in March 2016 surpassing Walmart's annual sales.<sup>15</sup>







































Yet Alibaba's future is not just about e-commerce: it concerns what Jack Ma, its founder and CEO, calls "new retail" – the integration of online, offline, logistics and data in a single value chain. Jack Ma has been able to redefine shopping and leapfrog the USA and Europe in retail innovation, a feat closely tied to the company's research and development team, which makes up half of Alibaba's 50,100 workforce.

## Shopping Services Desired (% Top 3 Box; Base: Total)



Source: BearingPoint WSL Study, 2017

## WeChat, paving the way for unified commerce

Application	Company	Owner	Social Media	Messaging	Games	Booking Services*	Public Services***	Dating	Payments
 WeChat	Tencent								
 WhatsApp	Facebook								 **
 Messenger	Facebook								
 Facebook	Facebook								
 Instagram	Facebook								
 Skype	Microsoft								
 Viber	Viber Media								
 Line	Line Corporation								

Source: BearingPoint

\*booking services: taxi, private car with driver, restaurant, medical appointment  
 \*\* only person-to-person money transfers \*\*\* applying for visas, checking driving records

Alibaba is making life easier for customers, by providing services along the whole shopping journey, combined with operational excellence. In China, Alibaba operates its own version of Netflix, its own Spotify, and its own payment solution. After logging in once and verifying ID, a customer can use all of Alibaba's retail and entertainment services. Customers at KFC, the fast-food restaurant chain, can pay for their meals using facial recognition technology co-developed by Alibaba.

As part of a five-year plan to shorten delivery times to 24 hours nationwide, and 72 hours worldwide, Alibaba is investing heavily in logistics capabilities whilst also leveraging big data strongly. For example, anticipating order behaviors enables the company to relocate relevant products from multiple warehouses into one, so cutting down delivery time, packing, and pick-up costs. Using these assets, Alibaba is at the forefront of new retail, the blending online and physical commerce.

Other new retail giants such as JD.com are also heavily investing in these fulfillment capabilities, including drone deliveries to cover remote areas to the point that, today, over 90% of eCommerce orders in China benefit from same- and next-day delivery.

At Hema, a food supermarket chain owned by Alibaba, customers are offered "Easy select, easy pay, and easy enjoy" functionality in-store. In other words, customers scan product barcodes to discover products' origins or composition, and item suggestions are sent to their profile accounts. Customers can shop hands-free by scanning items using a mobile application, which can then

place orders to be delivered to their home address. Picking rails are hooked onto the ceiling to route online orders to scooters, enabling a 30-minute delivery fulfillment period within a three-kilometer distance. At the checkout, customers give a list of QR codes without having to show all their items, and can pay online using Alipay, Alibaba's online payment platform. Traditionally, Chinese like to have virtually anything delivered. Hema will be the basis for... coffee deliveries, according to a partnership between Alibaba and Starbucks announced in August 2018.

This new type of shopping experience is also available at Home Times, Alibaba's furniture and home-decor store chain, which opened a physical store last year in Hangzhou. Most products come from Alibaba's B2C shopping platform, Tmall,<sup>16</sup> which takes into account the behaviors and preferences of consumers within a radius of eight kilometers from the store to make the assortment. Prices are displayed on electronic labels and synchronized with e-commerce tags. Also, augmented reality is used: screens enable customers to test furniture in a virtual home.

### Automated stores give retailers better customer data and make shopping quicker and easier

The "unmanned store" is another model illustrating the merger between online and offline, and Western retailers are playing catch-up.

In January 2018, Amazon Go opened a supermarket in Seattle, America, with no checkout operators or self-service tills. It made headlines worldwide. Amazon's technology automatically detects

when products are taken from or returned to the shelves and keeps track of them in a virtual cart. When you're done shopping, you leave the store. The purchases are billed to a customer's bank card when the person exits the building. All you need is an Amazon account, the free Amazon Go app, and a "recent-generation" iPhone or Android phone.

China's retail industry is again ahead of the West. One month earlier, in December 2017, JD.com announced plans to open hundreds of unmanned convenience stores in China.<sup>17</sup> By August 2018, over twenty stores had opened in China, and one in Jakarta (Indonesia).

JD.com's "unmanned" convenience stores use facial recognition technology to register payment and product identity. Cameras attached to store ceilings recognize customers' movements and generate heat maps of their activity to monitor flow, product selection and preferences, which helps store owners to pick stock more efficiently. Through the use of big data, artificial intelligence, and other innovative technologies, "We know where the customer is and what they like and can ensure that the right products are in place", according to Bao Yan, Director of Planning, JD Logistics, in a recent media interview.<sup>18</sup>

JD.com claims it can better predict which of the products in its warehouses are suited to its customers according to demographics and tastes. By relocating relevant products from multiple warehouses into one, it reduces picking costs, packing, and delivery times. Plus, customers also receive fewer parcels per single order.<sup>19</sup>

## Leading Chinese retailers become community facilitators and privileged partners

Market-leading Chinese retailers are extending their traditional role beyond simply being excellent merchants. They have become privileged partners and community facilitators of the various players along the value chain, creating a strong sense of belonging towards each player. Western retailers should look towards the East to make this shift in their own strategy.

### New revenue streams: Chinese retailers and service providers develop "retail-as-a-service" offerings

Not only are leading Chinese retailers transforming their business operations, they are reinventing their entire business models by introducing new revenue streams.

### Recommendations for Western retailers:

- **Unified commerce is now!** Leading Chinese retailers are setting it as a new standard today. Continue your omnichannel initiatives but go further and start setting up a truly unified commerce IT architecture as an enabler to new services and concepts. Such architecture should leverage Big Data and Artificial Intelligence and enable interconnection between all systems: real-time flows for key data (customers, inventory, orders, pricing, IoT, behavioral data, external data), on the dimensions of customer experience, shopping, fulfillment and content management. The data should be powered by artificial intelligence for fully contextual and personalized interactions with customers across any touchpoint.
- **Leverage automated stores with better customer data to make shopping more efficient and effective:** Although it is difficult to predict the long-term success of such stores, retailers should test this format for selected product categories (especially the ones with recurring purchases), or design new store formats specifically designed to collect more customer data.
- **Transform stores into real fulfillment centers:** For better and quicker service to customers, leverage your existing assets. Introduce innovation and automation to speed up order picking and delivery, potentially partnering with third parties (for example, on-the-spot delivery using a bicycle or an electric car).

**“An effective and aligned online-offline strategy will help not only the retailers but also their suppliers and trading partners reduce costs and improve operational efficiency.”**



Both Alibaba and JD.com are developing bespoke “retail-as-a-service” strategy models, pioneered by Richard Liu, JD.com’s founder.<sup>20</sup> They are diversifying into becoming service providers for other retailers, brands and other types of partners, just as Amazon has become one of the world’s largest suppliers of web services in addition to its e-commerce platform.

This online-offline strategy will not only improve their business; it will also help their suppliers and trading partners reduce costs, improve operational efficiency, and reach new consumer groups. How? Through the company’s assets, including smart logistics and supply chain management as well as advanced Internet marketing tools, all powered by big data and artificial intelligence. More importantly, it introduces new revenue streams that are not based on inventory, rather on their own in-house IP assets. This translates into even more growth for these already successful organizations.

As an example, JD.com partnered in May 2017 with US retail giant Walmart, the largest retailer in the world. JD.com hosts the company’s e-commerce platform in China, enabling shoppers to buy products directly from Walmart stores, benefiting from JD’s same- and next-day delivery network that covers of a population of more than 600 million.

Partners may also be brands. Danone Waters China (DWC), a subsidiary of Danone Group, has opted to work with JD.com to distribute its products throughout southwest China. The companies will build a shared warehouse in Chengdu, the capital of China’s southwestern Sichuan province, which will use JD.com’s logistics to fulfill online and offline DWC orders for the region.

Other types of partners include automotive manufacturer, Geely, which uses a JD.com platform to enable users to control various aspects of their car remotely and also open up on-board e-commerce capabilities. They also include alliances, such as the

one between Walmart, JD.com, IBM, and Tsinghua University, which are all collaborating in a Blockchain Food Safety Alliance designed to enhance food tracking, traceability, and safety in China, a leapfrog to compensate for the Chinese state insufficiency on food security.

One way of adapting a business model could be to follow an ecosystem approach.<sup>21</sup>

Regarding Alibaba, a strong focus is to partner with brick-and-mortar retailers to leverage its expertise in the “stores of tomorrow”. In 2017, it announced the launch of franchises across China: 10,000 small convenience stores will become official Tmall franchises by the end of the fiscal year 2018.

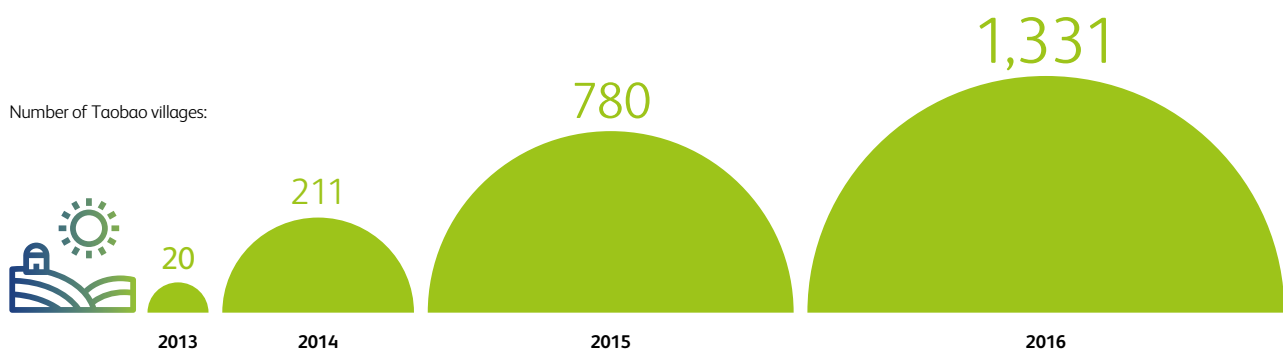
Alibaba also signed partnerships with French retailer Auchan (November 2017). Other large Chinese retailers have since announced similar plans and partnerships with foreign retailers.

### A new societal role for Chinese retailers: integration in the ecosystem helps the community

Leading Chinese retailers go beyond the simple mercantile relationship. “Our true legacy will not only be how many consumers we reach, but the overall impact we have on society”, according to Richard Liu, JD.com’s Chairman and CEO.<sup>22</sup> This mindset has materialized in several places at multiple levels.

In Western countries, historically, the opening of supermarkets and shopping malls killed city centers and accelerated the decline of convenience stores in rural areas. However, in China, leading Chinese retailers such as Alibaba or JD.com have focused on the disadvantaged rural market by becoming the privileged partner of small grocery stores in these remote areas, creating wealth in areas that, until now, did not benefit from the famous Chinese

## Alibaba, more than a seller, a committed retailer



Source: China Perspectives, BearingPoint

growth curve. This new role of the retailer, assuming a social, even societal, responsibility, creates a strong 'sense of belonging' towards customers.

Alibaba has developed an initiative called "Taobao villages", which support communities in rural areas to develop e-commerce activities. This is done with the connection to its e-commerce platform and a set of online services, including e-learning, medical services and a travel agency, supported by e-commerce training. Thus, e-commerce in may help ease poverty in China, or at least bring more jobs to rural China, which comprises 45% of the population. It is estimated that each new online store in a Taobao village creates 2.8 "direct" jobs. In total the online stores have created 1.3 million jobs.<sup>23</sup>

JD.com is also investing in mainland China. In April 2017, it announced a five-year business plan, to open one million physical convenience stores. These convenience stores are almost exclusively franchise-based and operated by independent investors, to which JD Finance provides loans. Half of these stores will be in China's countryside, and the applicants are mostly migrant workers who have returned to their villages or small towns. JD.com has also leveraged a drone-delivery program in remote areas to continue to provide products to those who might otherwise not have access. In addition, they have formed a partnership with farm owners to develop sustainable farming leveraging technology and a reliable farm-to-table delivery.

**“Retailers should go beyond the simple act of selling goods and services and develop a ‘connection’ with their customers.”**

#### **Recommendations for Western retailers:**

- **Revisit your mission statement and evaluate your true assets.** In an environment of increasing complexity and “investment intensity” for retailers (multiple touchpoints, strong pressure on operational excellence, constant need for innovation, new expertise to develop), it is extremely hard for most retailers by themselves to be in the lead and stay there. More than ever, they should define which activities they should conduct with partners and which ones they should keep under direct control.
- **Increase partnerships with technology companies.** In today's data-driven retail sector, working with tech partners can help augment appropriate connection points with customers by enriching retailers' data with other data sources, and better exploiting them with artificial intelligence. Also, retailers should investigate strategic partnerships with companies from complementary sectors, in order to generate new opportunities by further enriching and cross-analyzing customer data.
- **Develop “soft power”.** Customers are looking for more than a simple mercantile relationship. Retailers should go beyond the simple act of selling goods and services by offering their customers the opportunity to make a meaningful purchase that fits their needs and brings back something to society (help to specific communities, environment protection, etc.) Moreover, they should all leverage KOLs to promote their company and products on social networks, through specific or long-term partnerships or cocreation.

# Conclusion

China's new retail giants and customers are eager to adopt new and sophisticated shopping and relationship mechanisms. It is a special – and perhaps unique – retail model.

They are now going beyond simple merchant-to-consumer relationships to creating emotional connections with their customers by leveraging data and social networks to develop their soft power and by committing to social roles, such as developing commerce in isolated rural areas.

More than the consumer relationship, Chinese retail giants are building their own new model of retail. Providers and other retailers are not necessarily direct competitors anymore; they may be privileged partners, using their collective skills in data and artificial intelligence to retrieve consumer data and share them with the different players, so that they can offer the customer a personalized experience. They also take into account that lines are increasingly blurred between retailers, brands and customers, which is why they become more than sellers: they evolve into platforms of expressions for KOLs, the best way to promote products while increasing consumer trust degree. As privileged partners, Chinese retailers become community facilitators by creating a strong sense of belonging with every player in the value chain.

This model cannot be replicated as such in Western countries. China benefits from the critical mass of its 1,4 bn inhabitants, a strong government support, and a lack of regulation on personal data. Conditions that Western countries cannot match.

However, Western retailers (who are mostly trailing China's innovative retailers) should be inspired – and no less worried: for example, JD.com are investing EUR 1 billion into their expansion into France, to being to realise their European ambitions.<sup>24</sup> Western retailers should up their game and learn from China, adapting their most innovative retail technology and strategies for Western markets. One priority should be to use social media and alliances with non-retailers to create more “customers for life”, leveraging upcoming retail-as-a-service offerings.

Western retailers have already discussed many of these pivots to strategy. However, as the pace of change in retail accelerates, continued inaction could cause serious harm to their profits and reputation. Our next report will focus on Japan, to understand how digital technology can help retailers improve the experience shopping in a country with a very mature retail market and a tradition of superior customer experience.

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## Key markets

**China** is a potentially lucrative target for foreign retailers, due to the size of its population, its growing and increasingly affluent middle class, its rapidly changing retail environment, and technological and retailing innovation. There is plenty of room for further growth because China's retail market is much less crowded than in the West. With around 10% of the store density of the US market, it is still considered relatively undeveloped.

**Nigeria** shares some characteristics with the Chinese market. For example, it also has a rising middle class. In addition, there is a shortage of physical retail infrastructure – an issue that's often resolved through the smart use of technology.

**South Africa** is another country with a rising middle class, and an undeveloped physical retail presence. However, as a more established market, it lacks the unbridled potential of China or Nigeria.

**Japan** has been a highly-developed market for much longer than the other three countries, focused on the latest personal technology, and offering a superior customer experience.

# Methodology

The target group for our research was early adopters of technology for shopping. To qualify as an early adopter, a person must have completed four of the following actions within the last 30 days:

- Ordered something online for home delivery or to someone else at another address
- Ordered something online to pick up in a store
- Downloaded a coupon onto mobile
- Paid for a product or service with an app on a mobile
- Bought something through a link on a social media page, such as Facebook, Instagram, or Snapchat
- Watched YouTube videos that demonstrate things the person wanted to buy
- Kept a "wish list" on a retail website of things things the person may want to buy in the future
- Ordered from a kiosk in a store

Other survey details:

Fielding period: September 5-19, 2017

Sample Specification:

- China: 205
- Japan: 218
- South Africa: 212
- Nigeria: 207

Shopping criteria: responsible for at least some consumer product shopping for the household

Affinity for technology: early adopters of technology for shopping

Age: Millennials, 20-36, born between 1981 and 1997

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