



**China, by design: World-leading connectivity nurtures new digital business models**

The Deloitte Consumer Review

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### Deloitte Global's predictions

- China's communications infrastructure will provide a foundation for the emergence and growth of multiple new industries, each of which could generate tens of billions of dollars in revenue annually by 2023.
- 600 million people in China will use their phones to make mobile payments by the start of 2019.
- Approximately 550 million people in China will regularly use their smartphones to shop online in 2019.
- E-commerce in China has grown to be worth over \$1 billion, overtaking the US as the largest e-commerce market in the world.

### World-leading connectivity

China currently has the world's largest base of fixed and mobile internet users, with more than 825 million people projected to be online at the start of 2019, and nearly all of them (97.5%) using the mobile web. With a population of 1.4 billion, there is scope to connect several hundred million more users.

With so many people online, China needs to deliver world-leading fixed and mobile telecommunications networks. Investment in these areas over the years should now enable it to become the leading location for developing and deploying applications requiring hyper-fast speeds of 500 megabits per second or more.

The strength of China's connectivity will likely be a key factor in enabling it to diversify from manufacturing technology to developing and executing – new and disruptive digital business models.<sup>1</sup>

Of course, connectivity alone is not enough to support new business models; a base of users – potential consumers – must also exist. But the recent upgrades to China's telecommunications networks have already provided a foundation for massive digital user bases, which are the largest in the world by a significant margin.

### Mobile commerce built on payments infrastructure

Our prediction that 600 million people in China will use their phones to make mobile payments by the start of 2019 compares with 531 million mobile payment users at the end of 2017 and 474 million at the end of 2016. The largest platforms are WeChat Pay (owned by Tencent) with over 1 billion users worldwide and AliPay (an associated company of Alibaba), which had 700 million users worldwide as of September 2018.

The value of mobile payment transactions in China reached 81 trillion yuan (£10.1 trillion) in the first ten months of 2017. This compares with an estimated £39 billion worth of mobile transactions in the US during the same period. In 2013, 3.8 billion transactions in China took place via nonbanking apps – in 2016, the volume was nearing 100 billion.

In 2017, 506 million Chinese regularly used their smartphones to shop online, a 15% increase over 2016. This positions China as having the largest base of mobile commerce users in the world.

Increasing use of mobile payment technology has fuelled the growth of e-commerce in China and it is now the largest e-commerce market in the world having overtaken the US in 2018. It is also highly concentrated with the two leading players Alibaba and JD.com accounting for just under three-quarters of the market (74.5%).<sup>2</sup> The two Chinese retail market leaders have helped consolidate their positions by creating new sales events which we expect to become increasingly influential in the global retail marketplace. Alibaba transformed 'Singles Day' into a major shopping event in 2009 and in just under 10 years it has grown to represent \$30 billion in revenues. JD.com launched its own anniversary promotion '6.18' that runs over a period of 18 days at the start of June and generated over \$25 billion in 2018 both of which dwarf the sales generated by the UK's sales on Black Friday and Cyber Monday combined.

### 'New Retail' puts the consumer at the centre

The rate of adoption of mobile payments and the growth of e-commerce are transforming the Chinese retail sector. Online and offline channels are increasingly being joined up with the supply chain to create fully integrated businesses that use large data sets and artificial intelligence to deliver a 'New Retail' experience.<sup>3</sup> The benefits to retailers and brands are efficiency gains and deeper insight into their consumers. For consumers the benefits are a seamless shopping experience allowing them to shop when, where and how they like. For retailers around the world there are lessons that can be learned from how Chinese retailers are embracing technology to serve the mobile consumer.

The 'New Retail' concept relies on large volumes of data. China's strength in connectivity, the growth of mobile commerce and mobile payments are providing the likes of Tencent, Alibaba, and JD.com with an unprecedented volume of data and insight into consumer behaviour and purchasing habits. This in turn is leading to innovation in the form of new retail concepts, new business models and the development of AI-based solutions.

An example of an innovative e-commerce app is Pinduoduo, a business now valued at \$35 billion, that has managed to reinvent an old idea: consumers grouping together to make purchases and get a better deal through using social media and mobile payment technology (see case study).

Logistics is another area where Chinese companies are investing in innovation. For example, JD.com has over 7,000 delivery centres across China, a fleet of autonomous delivery vehicles and more than 100 drone bases as it continues to push the boundaries in terms of faster and more flexible fulfilment. This infrastructure has been developed to support a '2/11 promise' which means that any order placed before 11.00am is guaranteed to be delivered by 11.00pm the same day.<sup>4</sup>

### Other consumer markets

Companies like Tencent are also having an impact across other consumer sectors. One example of this is how WeChat and WeChat Pay have transformed the \$26 billion Chinese gaming industry by adding a social dimension to their platform where friends can team up together and to facilitate micropayments.<sup>5</sup>

Automotive is another sector that is being disrupted by increasing connectivity. The development of electric vehicles (EVs) has prompted car manufacturers and distributors to rethink the way that they engage with and sell to consumers. Chinese automotive brand NIO is an example of a brand that has an innovative approach to selling cars. For NIO the customer experience is built around its social network app. To reinforce the sense of community it has also opened NIO houses – its interpretation of the traditional car dealership – that features charging points for the cars but also working spaces, kitchens and childcare facilities.<sup>6</sup>



#### Case study Pinduoduo develops social commerce

Pinduoduo is a business that combines social media and e-commerce into a 'social commerce platform' allowing consumers to use social media to share product information with friends and family and group together into 'teams' to buy the product.<sup>7</sup> Teams can also receive discounts of up to 90% on their purchases. Tencent, whose app WeChat is the primary driver of traffic to the site, now backs Pinduoduo. The majority of payments are made through WeChat's payment system WePay. Compared to other e-commerce sites and apps, which have designed their user-experience around searching for products, Pinduoduo has built a user-experience based around sharing and interaction between consumers. Pinduoduo has been particularly successful in targeting consumers who have traditionally been harder for e-commerce companies to reach, namely price sensitive consumers from the lower tier cities in China, as well as older demographics.



### Bottom line

The Chinese market is becoming increasingly influential on the global stage both as a test bed for innovation and as a market for Western products and brands.

China is now the largest e-commerce market in the world and one where mobile dominates, for example during Singles Day 2018, 94% of sales were generated via mobile phones. Instore retail is also dominated by technology thanks to the popularity of mobile payments. Therefore the leading mobile payment players Tencent and Alibaba are key players within both the retail sector and the wider consumer industry. Partnering with these organisations, along with large retailers such as Tmall, Taobao (both owned by Alibaba) and Baidu.com, is essential for brands looking to enter the market. For example, major brand owners such as Unilever and Mars are working with these organisations to develop and distribute products for the Chinese market.<sup>8</sup>

Mobile technology plays a key role in both the online and offline shopping experience in China. Alibaba (Hema) and JD.com (7Fresh) have both developed grocery stores that are designed to mimic online shopping by making the app a key part of the in-store shopping experience both as a way to access product information and to pay for purchases.<sup>9</sup> The impact of connectivity on innovation and the development of new business models are being felt across the consumer market, with disruption occurring across the leisure, hospitality and automotive sectors. This will only increase with the growth of 5G networks which will facilitate the development and use of connected cars and the use of augmented reality and virtual reality across many areas of the consumer market. Therefore, brands are increasingly looking at the Chinese market as a place where they can test new concepts, learn and collaborate with Chinese companies. With arguably the most connected consumers in the world, China is also a market where brands can begin to understand more about the consumer of the future.

# Endnotes

1. Deloitte TMT Predictions 2019 – The UK cut, Deloitte LLP 2019. See also: <https://www.deloitte.co.uk/tmtpredictions/predictions/china-by-design/>
2. <https://www.marketing-interactive.com/alibaba-tops-e-commerce-market-share-while-facing-fresh-competition-in-china/>
3. <https://www.forbes.com/sites/deborahweinswig/2017/04/14/alibabas-new-retail-integrates-e-commerce-stores-logistics-is-this-the-next-gen-of-retail/>
4. <https://multichannelmerchant.com/operations/jd-com-cutting-edge-delivery-technology-china/>
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7. <http://investor.pinduoduo.com/company-profile>
8. <https://digiday.com/retail/alibaba-gets-brands-design-products-primed-tmall-customers/>
9. <https://www.thedrums.com/news/2018/09/24/jdcom-expands-7fresh-stores-across-china-it-takes-alibabas-hema-stores>



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