



Global E-Commerce Leaders Forum

2017

CATCHING THE CHINA
ECOMMERCE WAVE:
A GLOBAL ECOMMERCE
LEADERS FORUM STUDY



TotalRetail

2017

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Catching the China Ecommerce Wave: A Global Ecommerce Leaders Forum Study

Founded in 2014, the Global Ecommerce Leaders Forum (GELF) is the largest community of digital commerce executives focused on growing cross-border and international ecommerce retail sales. GELF's overarching goal is to tackle the tough questions facing ecommerce executives tasked with growing global sales.

Our Chinese ecommerce research originated when the GELF community challenged itself to look beyond the dizzying online sales and growth stats that often consume the discussion about China. Leaders in our community want to better understand what is working – and isn't working – in China. Equally important, they wanted to know what other ecommerce leaders were and were not doing in China – and why.

The opening assumption of this research study is that the vastness of the Chinese ecommerce (e.g., desktop and mobile sales) opportunity is by now a given. What to do next in China – and why – is less clear. This study attempts to frame a set of answers to these questions.

We are not providing the definitive ecommerce playbook for succeeding in China. GELF is a community of global ecommerce leaders; not a collection of ecommerce experts on China. GELF strives to facilitate a valued conversation and provide basic building blocks upon which an ecommerce strategy focused on China can grow and evolve.

Our study provides benchmarking data collected from over 60 executives active in the GELF community. This report includes quotes and insights from ecommerce leaders who shared their perspectives on what works and what doesn't in China. We look forward to continuing this conversation in the coming years.

We want to thank our community for pushing us to research this topic. We also want to express our appreciation to those executives who graciously share their experience and expertise – not only for this study but in our many open forums for discussion. We also want to thank Worldpay for sponsoring this study. Without their support we could not provide the benchmarks and insights so critical to planning one's Chinese ecommerce journey.

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Retail Brands Seek Balance in China

The prominence of the Chinese ecommerce opportunity (e.g. Alibaba's Singles' Day in 2016 obliterated Cyber Monday's sales total in less than two hours) has been a constant in recent years, with mind-blowing statistics of growth and scale unprecedented in digital retailing.

As the middle class in China continues its explosive growth, Chinese consumers seek a modern lifestyle, engaging experiences and genuine products from cherished global brands. For years, the GELF community has witnessed how this "quest for authenticity" has translated into growing sales on Western ecommerce sites and on Tmall, JD.com and a growing number of digital platforms based in China.

Our research focused beyond the obvious "China opportunity." Key findings delve into why and how leading retail brands are growing their businesses in China. This paper underscores the challenges and pitfalls to be wary of, regardless of a company's tenure in the region. We offer insights into how U.S. retailers and brands selling direct-to-consumer (D2C) have responded to these challenges and how they plan to grow their ecommerce business in China in the years ahead.

Key findings from the study include:

- Competition is growing quickly as the number of domestic Chinese sellers, global brands and innovative entrepreneurs explodes. Leaders are responding with better managed and more diversified ecommerce growth strategies.
- U.S. retail brands' business models are at a key inflection point, and are poised to evolve. Although marketplaces remain the dominant digital commerce channel in China today, brands are pursuing balanced growth portfolios. Business models are evolving to include more Chinese ecommerce partners and increased investment in their own direct-to-consumer ecommerce operations. In turn, leaders are preparing for the challenges of managing a broader portfolio of revenue sources and partners.
- Among the top digital platforms, WeChat is captivating the GELF community. Although Tmall is where the Chinese shop online, WeChat is where they live. WeChat offers a valuable opportunity to connect and communicate directly to Chinese shoppers. As one executive explained, "Today WeChat feels like the early days of Facebook marketing."
- Influencers and Key Opinion Leaders ("KOLs") also live on WeChat. They are authentic voices that Chinese consumers trust. Both help retail brands bridge the "trust gap" and drive customer acquisition, a top ecommerce challenge they face in China.
- Tmall Partners and other technical partners, remain valued business partners in China. However, as the solution provider ecosystem evolves in China, U.S. retail brands' expectations are rising. As they seek to scale ecommerce in China, many are revisiting relationships with "TPs" and seeking more value. Retail brands want more control and more direct access via closer relationships with the Chinese ecommerce platforms.
- Overall our research participants cited a vast array of challenges in China, with overlapping priority based on tenure, size and business model. Simply put, retail brands need to be prepared to address many challenges. These include balancing customer acquisition and brand marketing; localizing payments and the shopping experience; fulfillment and last mile delivery; regulatory uncertainties; data access and analytics and strengthening digital teams.

Although the first wave of ecommerce growth in China is ebbing, it's still relatively early for U.S. retail brands in China. Now is the time to plan for the next three years of success. Start by looking for partners that can provide richer insights about how the Chinese consumer's quest for authenticity can frame short-term ecommerce success in China. Longer-term China offers a vision of the future of global retail. Join us as we continue the conversation about how to succeed in China.

METHODOLOGY

Our study is a combination of a quantitative survey and in-depth executive interviews. Members of the Global E-Commerce Leaders Forum participated in the study, representing the retailers and branded manufacturers who form the community. Some of the executive interviews were conducted with seasoned solution providers who are key contributors to our community and often the most experienced with cross-border and international ecommerce.

The survey and qualitative interviews were conducted from July through September, 2017. In total, 56 companies participated in the survey, along with dozens of executive interviews.

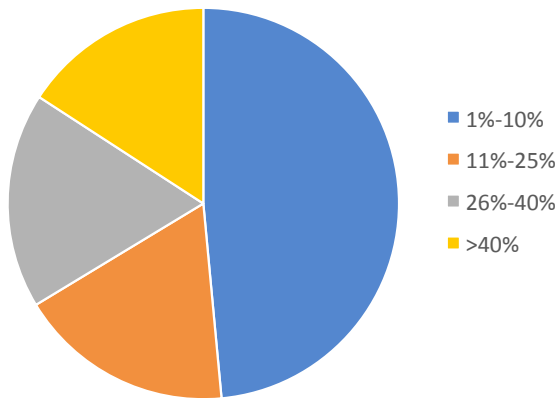
In addition to the two primary research methodologies, other key insights were gained from our conferences and forums where executives and ecommerce leaders gather on a regular basis to exchange ideas and the challenges they are facing. Our intent is to continue this dialogue, and provide insights and analysis, such as this study, as our community asks us to.



Profile of the GELF Community – The Age of Digital Commerce Globalization Looms

Global ecommerce, not just in China, has been rising in prominence among retail leaders. Ecommerce executives participating in GELF’s study rated international ecommerce as a “7” on a scale of 1 to 10; landing squarely between *Our Top Strategic Priority* (“10”) and *Of Rising Importance, But We Lack Resources* (“5”). China is increasingly a top priority for online sellers and global brands, yet clearly the largest ecommerce market in the world remains a new frontier.

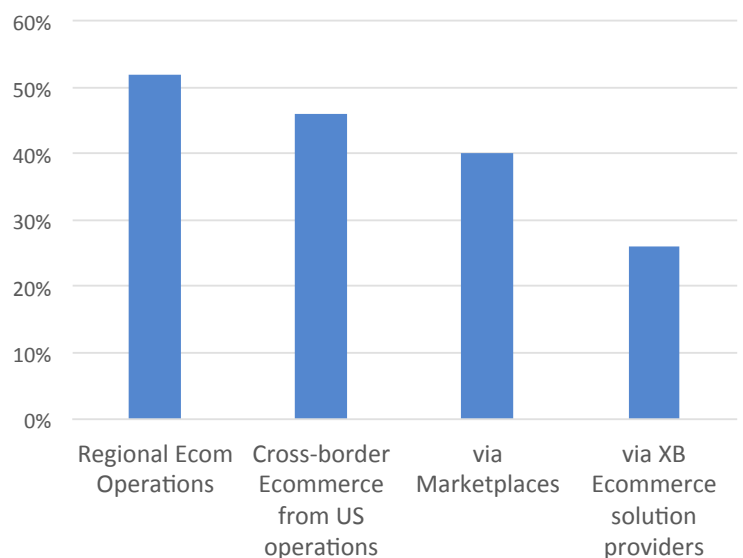
Figure 1. % of Total Ecom Revenue from International



Source: GELF China Ecommerce Study, November 2017

As the chart above highlights, approximately one-half of retail brands are in the nascent stage of generating revenue growth internationally, with less than 10% of total ecommerce revenues outside of their domestic market. In contrast, more than one-third now see over 25% of their total ecommerce revenues coming from outside the U.S.

Figure 2. International Business Models



The diversity of the international ecommerce business models deployed by the GELF community is shown in the chart on the right. No one model predominates all companies or all markets, as China’s unique ecommerce market, where marketplaces currently dominate, demonstrates.

The GELF strategic framework below illustrates this diversity. The framework has three stages, not mutually exclusive, of cross-border and international ecommerce expansion:

- 1. Passive Selling**, where sellers capture orders on their U.S. ecommerce site and fulfill from US based operations
- 2. International Growth**, in which the ecommerce sales focus broadens from cross-border to include international marketplaces like Tmall in China and Flipkart in India
- 3. Global Regional Build**, where retailers and brands selling D2C build localized ecommerce sites and often fulfill within the region or country where the order originates

It is important to note that not all retailers and brands evolve in a linear fashion from Passive to the Build stage. Some start by serving cross-border shoppers via international shipping and then progress to selling through international marketplaces before investing in regional brand and ecommerce sites. Others leverage existing global operations to start their international ecommerce programs with localized sites, then enter new markets via marketplaces and/or international shipping. This approach especially holds true with larger regional retailers and global brands.

Our study only emphasizes the uniqueness of digital retail in China, where marketplace models drive a large percentage of ecommerce sales today. However, we envision other business models gaining traction over time.

GELF Strategic Framework

View: Customer Experience



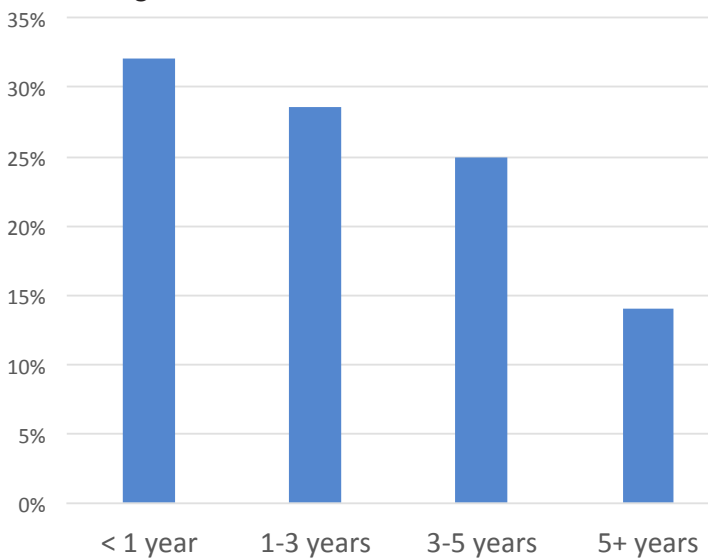
U.S. Retail Brands Are in Early Stages of Chinese Ecommerce, But Veterans Are Barreling Ahead

Regardless of the country in which they live, today’s digital shoppers don’t expect channels or borders to prevent them from getting what they want when they want it.

Cross-border and international ecommerce are increasingly important components of sustainable and diversified retail growth strategies. In China as well as in other international markets, our global ecommerce research finds universal growth drivers that include:

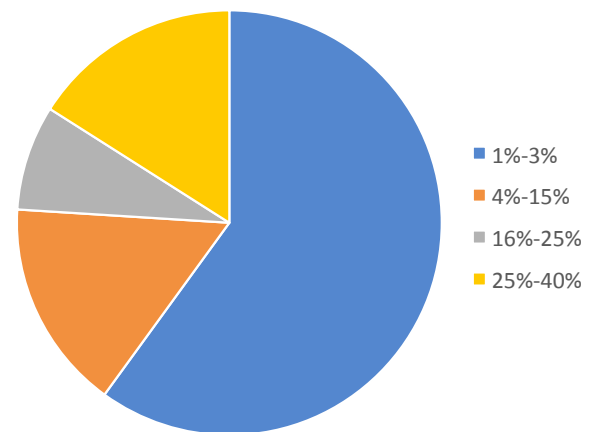
1. An accelerating shift of worldwide retail sales to ecommerce/digital channels
2. Adoption of mobile commerce by younger, often digital native, consumers.
This behavior is especially prevalent in Asia-Pacific (APAC) and emerging markets
3. Pent-up demand for well-known global brands in markets such as China, where a booming middle class is increasingly comfortable shopping across borders online

Figure 3. Chinese Ecom Tenure



Source: GELF China Ecommerce Study, November 2017

Figure 4. China % of Total Ecom



How does China compare to the global benchmarks highlighted previously? A clear majority of retail brands are still early in their China journey.

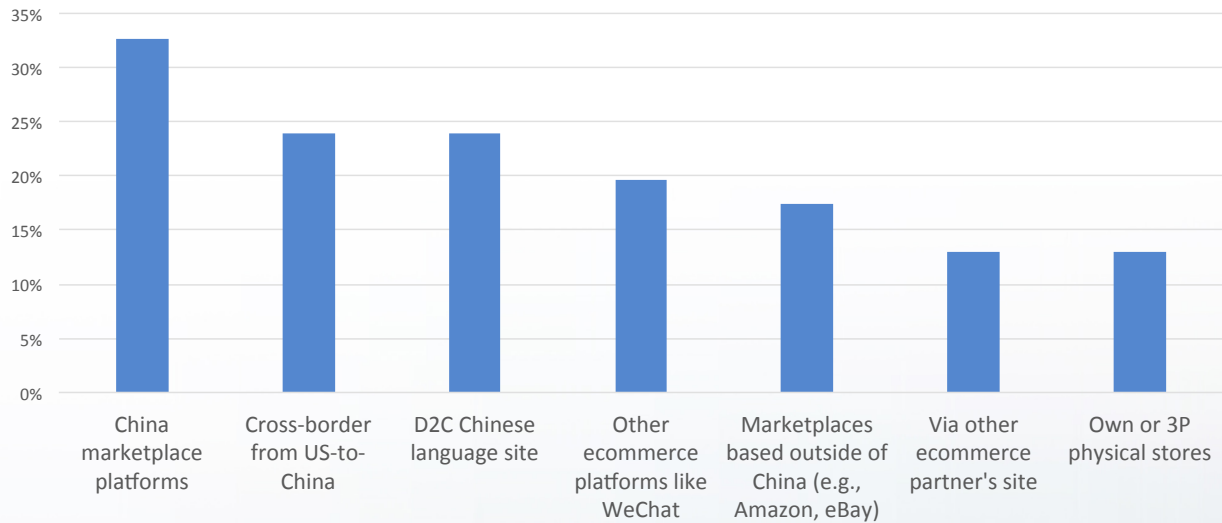
- 60% of survey respondents are seeing 1% to 3% of their company’s total international (non-domestic) ecommerce/digital sales revenue originate from shoppers in China.
- Another 16% see China ecommerce revenues in the 4% to 15% range.

However, the data also show that those retail brands that have committed to China have found success. Roughly 15% of the GELF executives polled said they are now seeing 25% to 40% of their international ecommerce revenues coming from online consumers in China. Perhaps it no coincidence that approximately the same 15% have been investing in China ecommerce for five or more years.

Marketplaces Make Chinese Ecommerce Unique. Will Other Business Models Gain Traction?

Figure 5. Ecommerce Models Deployed by US Brands in China

Are you currently selling via ecommerce/mobile commerce to China? Select all models/channels that apply.



Source: GELF China Ecommerce Study, November 2017



DETAILED FINDINGS

To understand the uniqueness of the China ecommerce opportunity, compare market entry and growth models between China (**See Figure 5**) and other markets where the GELF community sells online. For countries other than China and India, the predominant international ecommerce model in years past has been cross-border shipping, followed closely by international marketplaces.

China is different – a recurring theme from our executive interviews, regardless of the topic of discussion. It's no secret that marketplaces are the predominant ecommerce channel in China or that Tmall and JD capture the bulk of ecommerce sales. Global brands continue to open branded stores on Tmall and JD properties while more niche, vertical Chinese marketplaces gain traction.

Yet Chinese marketplaces aren't for everyone. In fact, more online sellers of well-known consumer brands tell us that they feel pushed out of large Chinese marketplaces by global brands and the "traffic cops" at Tmall.

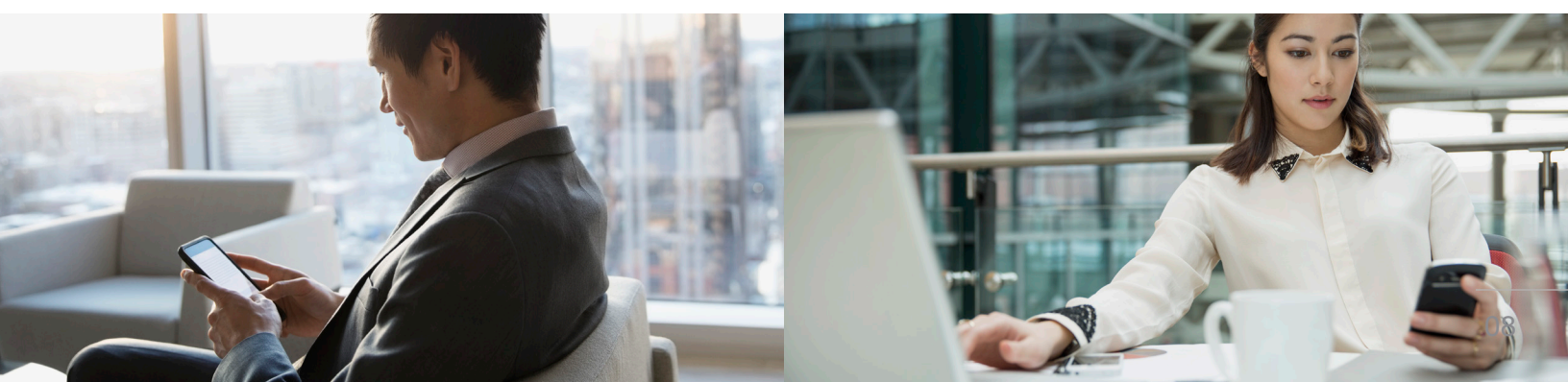
Increasingly the same branded products these retailers successfully sell in markets outside China are now available directly from manufacturers' branded Tmall stores. As one retail executive explained, "It was good in the beginning since we were one of the few baby retailer ecommerce sites on Tmall and they sent a lot of traffic our way. But Tmall shifted to embracing the brands – and when the brands got on Tmall, we saw a lot less traffic."

Fortunately, the Chinese ecommerce market is large enough for multiple models to work successfully. After marketplaces, the second area of investment by the GELF community is cross-border shipping followed closely by investment in Chinese language direct-to-consumer ecommerce sites. Rounding out the top five China ecommerce models are other Chinese digital platforms (like WeChat) and cross-border marketplaces based outside of China.

What is the China ecommerce channel of the future? Clearly, WeChat is opening new opportunities. eMarketer reports that one third of China's 768 million daily users spend over 2 hours per day on WeChat chatting, sharing and transacting, while 17% spend over four hours. Meanwhile, Alibaba's Tmall and JD continue to evolve and will remain forces to be reckoned with.

Less clear is whether the evolution of ecommerce in the US will provide insight into the future of China's ecommerce growth. As ecommerce became more strategic in the US after the dotcom implosion, we saw a move away from first-generation marketplaces like eBay. Outsourced, turn-key ecommerce partnering models based on performance-revenue-share also lost favor. Retail brands sought to connect directly with consumers by leveraging hosted ecommerce solutions to build D2C sites. More recently, omnichannel strategies sought to break down channel barriers and blend the offline and online worlds.

We see these dynamics at play in China, but we don't expect China to evolve in lockstep with how U.S. ecommerce has evolved. As the GELF community reminded us consistently throughout our research, China is different.



Top Ecommerce Challenges in China

Learning how to seize the day in China has been crucial for retail ecommerce leaders for years. Alibaba's IPO in 2015 and the staggering online sales on Singles Days has made China impossible to ignore. As one executive stated, "What was the trigger for Tmall? \$11B in one day captured our attention."

The ecommerce complexities and challenges related to China seemed overwhelming to many leaders who got a relatively early start in China. Today the list of challenges continues to grow as consumers expect more engaging shopping experiences. To help the GELF community prioritize the top challenges to address in China, we asked our survey participants to choose the top five challenges they have encountered in China.

As **Figure 6** highlights, the three top challenges include inability to sell direct, reliance on partners and customer acquisition. All three reflect the predominance of marketplace selling in China, where success is heavily dependent on in-country partners. The entrenched Chinese marketplace model is the primary source of many challenges facing Western retail brands in China.

A key take-away from this study reflects the breath of challenges in China. Simply put, retail brands should expect to face many challenges in China across all facets of their business.

“This year we got hit by competition – and especially by domestic competition – in a way we never suspected. Others came into the market with a broader offering and were nimbler and just better. And I said, “Oh my God, what just happened?””

– Senior VP of Ecommerce

› CHALLENGE #1: Rising Competition Demands Portfolio Strategies

Before diving deeper into the survey's top challenges in China, we start the discussion by addressing the elephant in the room; the explosion of ecommerce competition in China, especially in the last two years.

Competitive intensity in China is rising as a more global brands and domestic Chinese ecommerce platforms offer Chinese consumers more choices. One executive, who stressed his company's strong commitment to China, said his firm has plenty of internal resources to invest in China, "So the real challenges for us are external. Compared to two years ago, there are now many more brands selling directly through different platforms."

Competition in China will only increase. In response, leaders in the GELF community are broadening the portfolio of channel partners in China while also pushing ahead on D2C initiatives.

> CHALLENGE #2: Heavy Dependence on Partners Hampers Ability to Control Ecommerce

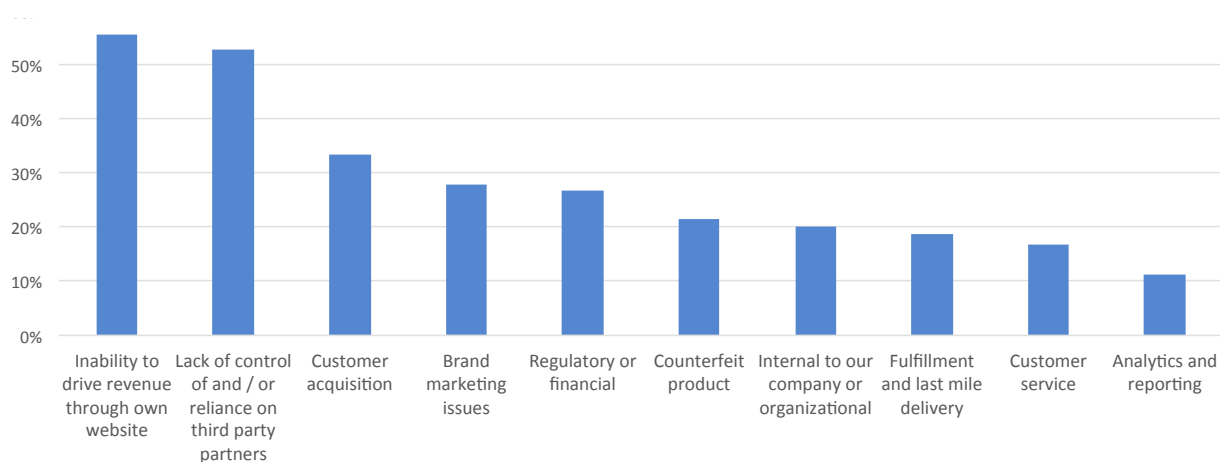
Although China’s online marketplaces command significant market share¹, leaders tell us that scaling ecommerce in China requires more than just selling through marketplaces. U.S. retail brands appear committed to driving revenues through their own ecommerce sites as well. This commitment requires building direct relationships with Chinese online shoppers, in and of itself a significant challenge. It also underscores a longer-term vision where D2C sites will play a more strategic role in China than they do today.

The top two challenges from our survey and executive interviews overlap significantly. Conversations focused on leaders’ respective desires to scale their ecommerce operations in China; first via marketplace channels and longer-term via D2C sites. Regardless of the model they prioritize in China, challenges related to the lack of control and/or reliance on third party partners came through loud and clear in our interviews.

Figure 6. Tackling Top Challenges Requires Revisiting Strategic Relationships with Chinese Partners

Rank the five toughest challenges your company is encountering related to current Chinese ecommerce?

Toughest Ecommerce Challenge in China



Source: GELF China Ecommerce Study, November 2017

GELF leaders spoke of the crucial role that partners play in China; more so than other international markets. They stressed that patience is required to deal with the many frustrations (e.g., physical distance, lack of transparency, challenging deal structures, language and cultural barriers, etc.) related to their dependence on these partners. More than once they restated the “China is different” mantra.

As one executive put it, “In other countries, you turn on Borderfree and some marketing channels and go. Yet in China, many of the proven levers and channels don’t exist, so we must look at different channels and partners.”

¹ Alibaba’s B2C marketplace Tmall holds 56.6% share of retail ecommerce sales in 2016. JD.com ranked second with a 24.7% share, followed by Suning (4.3%) and Vipshop/vip.com (3.5%). <https://retail.emarketer.com/article/alibabas-tmall-maintains-reign-over-chinas-retail-ecommerce/58ada2369c13e50c186f6f32>

> CHALLENGE #3: Shifting from Top-line to Bottom-line Strategies Requires Closer Partner Relations

Frustrations with marketplace partners were discussed at length in our executive interviews; many tied directly to first-generation Tmall partners.

Retail ecommerce leaders tell us that the business interests of these first-generation middleman have often been misaligned with retail brands' desire to profitably scale their Chinese ecommerce sales.

The reliance – some said over-reliance – on Chinese ecommerce partners started during the explosive hyper-growth days of Chinese ecommerce. As Tmall sales began skyrocketing, U.S. retailers and brands jumped on for the ride and what a ride it was. The #1 priority was capturing sales, so closeouts and last year's hot products sold quickly in China's booming online clearance channel. For many, a drive-sales-at-almost-any-cost mentality meant embracing crazy promotions and steep discounts.

“ We had a different Tmall Partner at first and they were great in the beginning. But they didn't have the ability to scale and didn't have really strong relationships with Tmall.”

– U.S. Ecommerce Leader

By and large, U.S. retail executives let their Chinese ecommerce partners call the shots. They weren't exactly in a strong position to do otherwise, so they turned loose their Chinese ecommerce partners to sell through regardless of cost. This hands-off management style fostered a lack of focus on profits. Often the brand got “thrown out with the bath water.”

However, times are changing. U.S. retail executives tell us they are taking a time out to focus on scaling profitably instead of just growing ecommerce sales in China. “We are taking a step back and asking ‘How do we do it profitably? How can we scale smarter as the ecosystem and landscape changes around us?’”

This “time out” prioritizes revisiting relationships with Chinese ecommerce partners. What kinds of partnerships are in vogue? Two areas of conversations with executives we interviewed centered on traditional retail distribution partnerships and first generation Tmall partners.

Digital commerce and physical stores are both part of the formula for retail success in China, so traditional distribution partners are crucial to balanced retail expansion strategies. But increasingly these partners must also provide digital expertise. As one global ecommerce leader put it, “With our last partner, digital was an afterthought vs. the store. This time [our new partner] is very focused on a digital storefront plan too.”

Our conversations about the evolutions of relationships with Tmall partners were more in-depth and nuanced. In general, the GELF community offered up mixed reviews on Tmall partners. Although early partnerships clearly favored the TPs, many leaders know they couldn't have succeeded without them. Partnering has been a necessary part of the learning curve.

DETAILED FINDINGS

Executives admit that their own learning curves contributed to early issues with TPs. As one executive put it, “We didn’t know what we didn’t know back then. We were at the mercy of our TP. Now I’m seeing that we need to have more control.” Another added, “Our first TP (at the time) didn’t seem to have it together; they were very ‘willy-nilly’ and lacked any kind of business flow. It was almost like they didn’t know what the hell they were doing.”

When China becomes a retail brand’s top strategic ecommerce initiative, it is critical to have the right Tmall partner at the right time. GELF leaders suggest retail brands do their homework carefully because TPs vary greatly in services and capabilities. Leading TPs provide more sophisticated service offerings and more of them now specialize in verticals like fashion.

“In the U.S., we’ve gotten comfortable leaving our ecommerce partners on auto-pilot. But in China, the more you give the more you get. We have found that doing the small things can really speak volumes.”

– Global Ecommerce VP

The winners to date in China are the retail organizations that have put more “skin in the game.” Overall, our interviews found that recent partnerships with TPs appear to be better balanced, in part because leading retail brands are also asking for and receiving more value from partners.

U.S. retail brands have learned that “you get what you give” when it comes to working with Tmall.

One executive drew a parallel to working with Amazon. She said that their recent successes selling products on Amazon have required a lot of time and investment. Their key learning is that success is often about getting in front of the right people, whether it’s at Amazon or Tmall.

Simply put, building stronger, more direct relationships with Tmall will result in more resources from Tmall. Retail leaders recommend that a retail brand’s due diligence when selecting a Tmall partner must include strong vetting as to whether the TP can build a strong bridge between the retail brand and Tmall. As one exec put it, “If your TP can’t do this, then why bother?” Don’t accept whatever help comes your way. Push your TP for help cultivating deeper relationships with Tmall and other leading platforms.



> CHALLENGE #4: Stronger Partner/Platform Relationships Demand Larger Local Teams

Are TPs getting the message that they need to add more value? In general, our research says yes.

U.S. retail organizations are also stepping up their game. To facilitate stronger relationships with key teams at China marketplaces, they are growing the headcount of their China-based teams.

They are also pushing their own organizations to think of TPs as partners instead of unavoidable costs of doing business in China. Of course, this re-think must go both ways. As one retailer told us, “In China, it’s [got to be] a strong working relationship both ways. [The TPs’] opportunity is to become less of a vendor and more of a partner.”

“Now I have a Tmall specific person in China and they work directly with our TP. I envision a full team in mainland China that knows the market in and out and works closely with Tmall; not just selling in, but working on all fronts more closely.”

– GM of Ecommerce

The partner ecosystem in China is evolving to meet this opportunity. Leading TPs know that US leaders must expand their portfolio of partners in China to respond to intensifying competitive pressures. They need partners that can help them expand beyond Tmall to work with JD.com and other ecommerce channels as well as help with D2C ecommerce sites.

This dynamic is showing up in the ecommerce industry vernacular. “TP” has evolved to mean “technical partner” instead of “Tmall partner.”



> CHALLENGE #5: Acquiring Customers Means Putting More “Skin in the Game”

As highlighted in **Figure 6**, customer acquisition and brand marketing challenges are becoming more significant challenges, especially among those that have been selling in China for more than three years. Two-thirds of retail brands with Chinese ecommerce operations in place for more than three years cited customer acquisition as their toughest challenge. This follows a familiar pattern in many international markets, where during the initial years retail brands focus on operations. Once retailers gain confidence in capturing and fulfilling organic demand, they broaden their focus to demand-generation, often relying on significant levels of investment in marketing to accelerate growth.

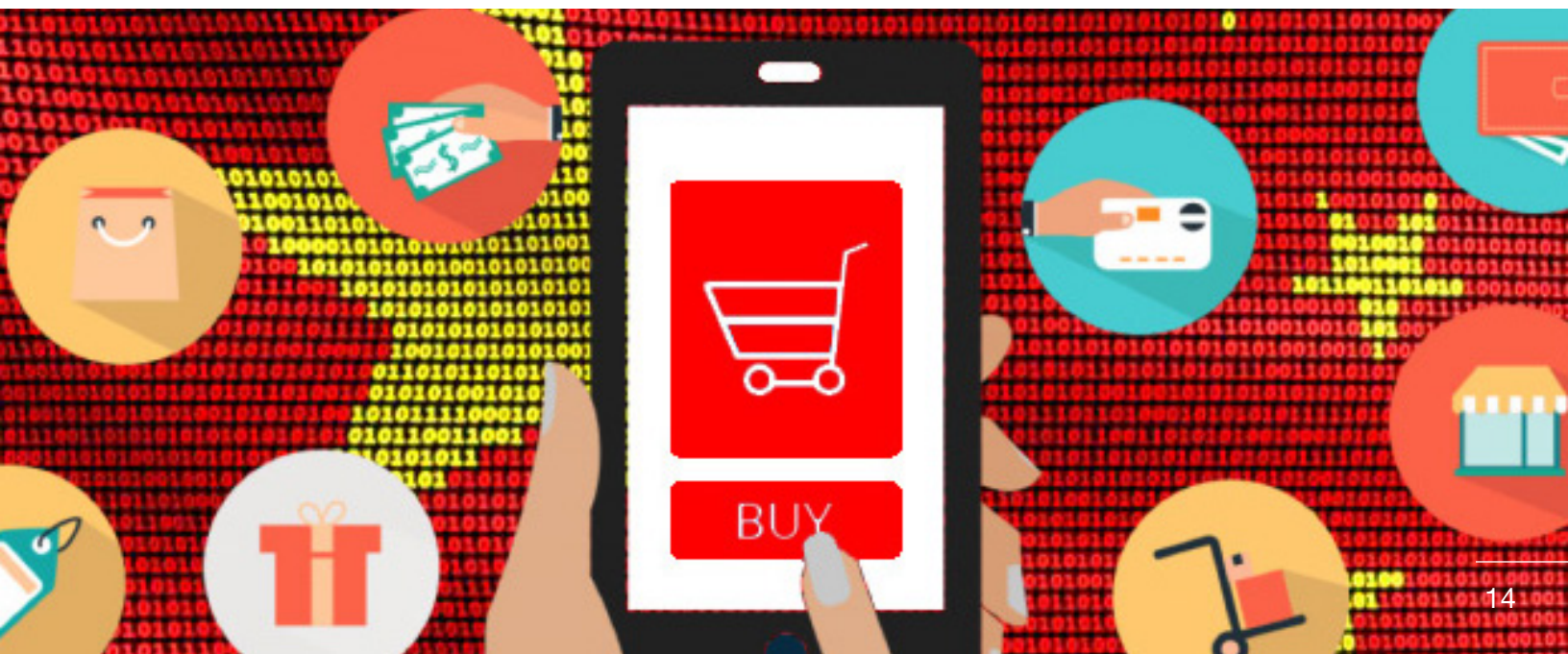
Intensifying competition means online sellers have to differentiate their brands in the eyes of the Chinese consumer. Senior leaders told GELF this in turn means doing a better job telling their brand story. Telling the brand story requires getting in front of the right audience.

No one questions that Tmall is still where the traffic is. Retailers and D2C brands are prioritizing agency partners that can build stronger marketing relationships with Alibaba. They are also growing the size of their in-country brand marketing and digital teams and investing more in relationships with Tmall and other leaders in China.

Senior leaders are also putting more skin in the game by spending time working in China. You must really experience China “first-hand” to appreciate the shopping behaviors and expectations that make China such a compelling view of the future of retail.

“As one international digital marketing lead points out, “Tmall is amplifying your products, so you need to put skin in the game. You have to ask, ‘What you can do for Alibaba?’”

Executives tell us that a side benefit of “being there” and absorbing the on-the-ground insights is that they learn how to better differentiate their brand story. Again, we emphasize the prevalent theme from our interviews; China is different.



> CHALLENGE #6: Optimizing WeChat and Influencer Marketing to Connect Directly with Shoppers

Chinese consumers aren't just at Tmall. They live on WeChat and western retail brands realize WeChat is the place to be if they want to build closer connections to Chinese shoppers.

Forward-looking global ecommerce leaders are investing in WeChat to connect directly with Chinese consumers. Retail brands see WeChat as an open platform, especially when compared to the "walled garden" of Tmall, where joint ventures and exclusive distribution deals proliferate.

Our survey asked participants to select their highest priority digital initiatives over the next two years (**Figure 7**). WeChat is clearly the #1 digital commerce priority among retail brands. Longer-tenured brands in China in particular are devoting resources to WeChat, with nine out of ten citing this priority.

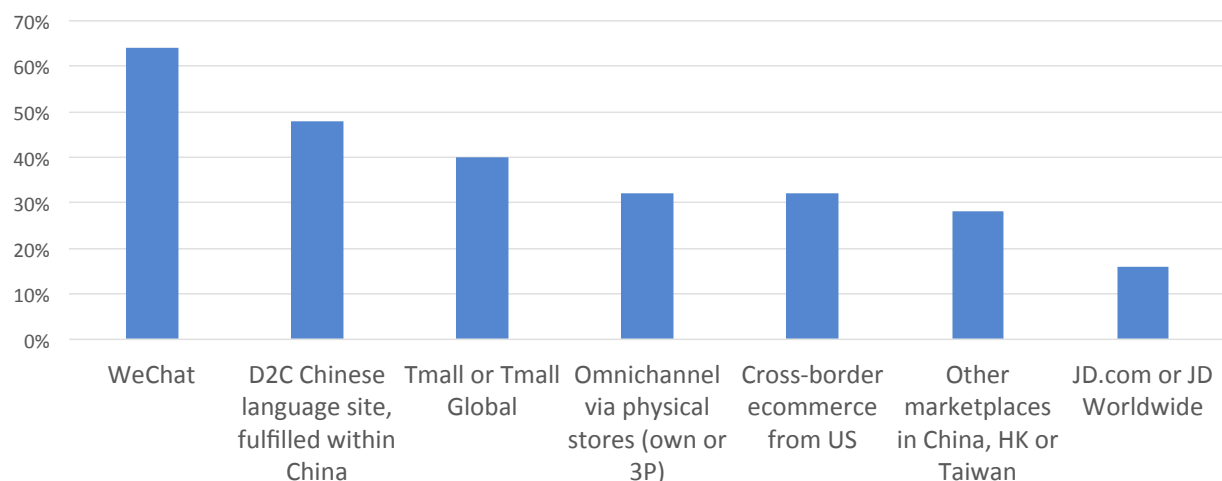
Although many tell us that WeChat commerce is going to be a big deal, most are not sure if it will be in one year or three years. Many admit "we haven't figured out WeChat" so they are "dabbling" and just getting their feet wet exploring what works. Retail brands that have launched on WeChat tell us they have spent about a year working with a WeChat agency before launching.

Part of WeChat's appeal is that the platform can help retailers and brands address many of the challenges they face in China. For instance, customer acquisition; where they see a chance to connect with new Chinese customers who opt-in to conversations on WeChat.

Figure 7. WeChat is One of Many Digital Channel Initiatives in the Horizon

What ecommerce/digital commerce initiatives do you plan to launch OR relaunch in the next 2 years to/in China?

WeChat is Top-of-Mind: Planned Digital Commerce Initiatives in the Next 2 Years



Source: GELF China Ecommerce Study, November 2017

DETAILED FINDINGS

The Chinese consumer expects to be able to reach a retailer or brand on WeChat. The question facing executives is less about having a presence, but instead deciding the right kind of presence.

WeChat plays a key role in the consumer purchase decision process. Since trust is hard-earned in China, Chinese consumers tend to ask more questions of a seller before they are comfortable purchasing online. WeChat is a natural forum for these conversations. One executive explained that their use of WeChat blends customer service and marketing. Another uses WeChat to guide the selling process via chat-based Q&A with Chinese online buyers.

WeChat has also emerged as the platform of choice for influencers and Key Opinion Leaders (KOLs) in China. GELF had many rich conversations with marketers about how they view influencers and KOLs as the best customer engagement investments that retail brands can make in China; if done right.

“What are we doing on WeChat? 24/7 customer service, although I’m not sure if you can call it that. For us, WeChat is really more like a platform for community engagement and sales.”

– U.S. Digital Lead



Social and Influencer Marketing in China: Advice from the GELF Community.

The importance of word of mouth marketing cannot be understated in China. “Word of mouth is just how it happens in China. Chinese consumers are very community-oriented and community-focused and they have very little trust in marketing.”

The media mix is different in China. “You can’t just throw money at an opportunity, it is more nuanced.” Instead of planning big media buys, the trick lies in understanding Chinese consumer culture and integrating your message into it.

Retail brands building Chinese marketing plans should plan to dedicate significant budget towards influencers and KOLs. However, executives in the know suggest not spending big money on Tier 1 influencers, “It is easy to overspend and have too high expectations.”

Although it takes a lot of research and sometimes “an upfront leap of faith” to find an up-and-coming influencer or KOL, investing in Tier 2 and 3 influencers can often be the best tactic to cost-effectively boost conversion and gain awareness in China.

Video streaming fashion influencers and KOLs is another successful marketing tactic according to marketing execs in the GELF community. ShopShops was featured at a recent GELF innovation showcase where several executives spoke to the ease of livestreaming from their Manhattan boutiques to thousands of consumers watching – and buying – back in China.



> CHALLENGE #7: Accessing Data, Insights and Analytics to Drive Strategic and Operational Planning

Whether building their first Chinese ecommerce plan or taking a time out to recalibrate their China strategy, retail brands face challenges finding market insights and data analytics. They know the data is there, but accessing it is difficult. “We know via our own data that there is a market. But accessing the data there isn’t like what we have here in the U.S.”

Adjusting to a very different data environment in China has been difficult, especially for ecommerce “quants” that have come to demand rich data to drive decisions. Suggestions include leveraging U.S. insights as available, such as using traffic data and in-store insights from U.S. based outlets that are popular with Chinese tourists. Others are working hard to integrate CRM data from U.S. stores with data from Chinese cross-border ecommerce transactions.

Testing and measuring interactions with ecommerce site content and learning from the site navigation paths of cross-border shoppers from China are two other DIY ways to harvest crucial insights. Veterans of Chinese ecommerce tell us retailers should expect to find Chinese shoppers spending extra time on product detail pages.

Take advantage of learnings you can gain from these pages explained one executive. “In comparison to the U.S., the typical Chinese web site is very busy, especially the home page. The detail pages on Chinese web sites have a lot more info; images, video and rich media are [important] because of the trust issue.”

Analyzing what works on popular Chinese web sites and competitive sites in China can also provide rich insights.

Don’t overlook insights and market intelligence from trusted retail partners operating in China, suggests another GELF conference presenter. “In fashion, you need a very clear idea of [what’s hot] due to rapid fashion cycles in China. We can’t easily predict what will sell well, so we stay in close touch with our wholesale partners over there.”

Discussions at recent GELF Forums have focused on whether to build three-year or five-year ecommerce plans for entering China. Flexible three-year plans allow retail brands to adapt to the inevitable changes they will face in China. Many brands plan for break-even after the first year and for accelerated growth by year three.

“I can’t understate the importance of the plan. Fundamentally, we are looking at China as a long-term five-year plan – and we spent a year building the plan.”

– U.S. Senior Director of Global Ecommerce

> CHALLENGE #8: Localizing the Chinese Shopping Experience Requires Prioritizing the Basics

Most of the early customer experience challenges have been at U.S. based websites where the Chinese shop cross-border. Leading retailers have, for the most part, used data and insights to improve the cross-border shopping experience. More recently we have seen leaders launch localized Chinese D2C sites. What can we learn from both of their localization priorities?

Start with the basics. Localizing pricing and payments is step one. Don't overlook WeChat advises one executive with whom we spoke. "WeChat Pay has caught up to Alipay. Alipay is still the big player, but now WeChat Pay is at 35% share for us [because] its convenient and social. It's really just the two of them."

Figure 8 shows how leaders are localizing across all stages of the shopping experience. As mentioned earlier, Chinese shoppers expect richer visuals and robust merchandise/product content. Another smart way to boost conversion is by adding a local touch to the post-order process via chat-based customer service and by highlighting the local delivery agent.

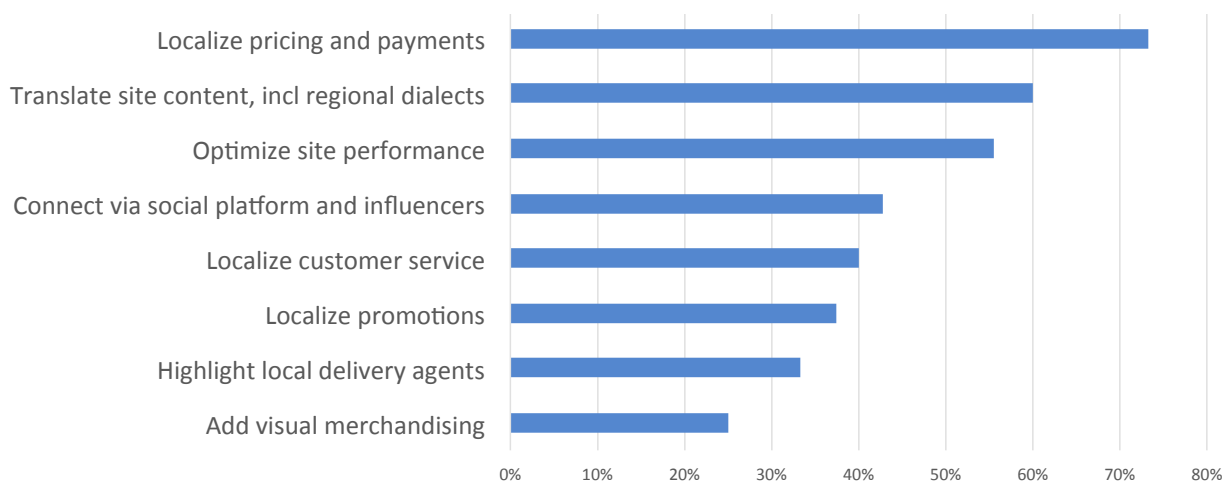
Top of funnel localization matters too. Localizing promotions and SEO can help address customer acquisition challenges and the "trust issue." But don't expect search marketing to work in China like it does in other markets, according to a seasoned Chinese marketing expert.

"Paid search and SEO are typical U.S. methods that do work in China, as do affiliate and email marketing. But paid search is different. On one hand, you can do a lot working with Baidu, like full-page search takeovers. But on the other hand, you have to realize that Chinese consumers don't trust search results to be untainted. Consumer discovery is just different in China."

Figure 8. A Focus on Great Fundamentals to Differentiate the Experience

Rank the top five localization practices you have prioritized/are prioritizing to improve the shopping experience for Chinese ecommerce shoppers?

Work-in-Progress: Top Localization Priorities to Improve the Shopping Experience



Source: GELF China Ecommerce Study, November 2017

DETAILED FINDINGS

Localizing the shopping experience also benefits greatly from being on the ground in China. The need to connect with Chinese consumers is driving digital organizational design and restructuring efforts. The consensus from our research is that teams in China – be they marketing or operationally-focused – must be empowered to execute independently at the local level while also aligned to work closely with U.S. based senior management teams.

There is less consensus as to whether Asian teams based in Taiwan, Hong Kong or Singapore can effectively run marketing and operations in China, compared to teams based in mainland China. However, the tide seems to favor a push to expand the in-country China team. As one executive put it, “Our Taiwan (Asia) team is spread too thin and always a flight away. They are simply not as ingrained in, or as close to, the market as I’d like them to be.”

However, the demand for digital talent in China constrains many US retail brands from acquiring the right managers and specialists. We anticipate this supply shortfall of experienced digital commerce talent to be a persistent problem in the foreseeable future – in turn placing greater emphasis on key business partner relationships.

› CHALLENGE #9: This is China. Expect No Shortage of Challenges

One seasoned logistics expert in China reminded us of a popular saying among expats working there, “We say TIC a lot, meaning ‘This is China.’”

As mentioned in the executive summary, one headline finding from GELF’s China ecommerce study is that retailers and brands selling D2C in China face a broad array of challenges – more challenges than we can hope to dedicate enough time and space to discuss and analyze here.

For all the TLC (tender loving care) retail brands are giving their ecommerce operations in China, TIC is an omnipresent reality. “China is a brave new world for us, but the government could shut it down at any time,” cautions another senior ecommerce operator.

Retail brands must accept that regulations can change at any time. They must be comfortable understanding that the related uncertainty elevates risk.

Uncertainty can be especially challenging from a cross-border logistics perspective. For instance, one start-up entrepreneur explained that U.S. law is the same for all its ports, but that in China, different ports have different tax rules and rates.

“ In China, the regulatory environment is changing all the time, especially the duties and taxes. You never know what they will change and when. So, you roll with it. ”

– U.S. International Ecommerce VP

Retail executives would be well-advised to “roll with” the other challenges they face in China. Counterfeiting at a massive scale is no less prevalent today, even with the concerted efforts made by Alibaba and other Chinese ecommerce leaders as well as the U.S. government and many others.

DETAILED FINDINGS

Protection of intellectual property is a huge issue that we will continue to tackle at GELF community events. The lack of transparency in the business world often clouds operations and finance alike — and is yet another topic of discussion at our future forums.

Regardless of the challenge, ecommerce executives would be smart to realize that China is too big of an opportunity to ignore. When we asked those not yet in China “Why not?” the top answer was that they haven’t analyzed the opportunity. The second most cited reason was regulatory complexity followed closely by lack of time and resources.

Retailers should find the time and the resources to not just analyze the China ecommerce opportunity, but to learn from the lessons learned by leaders in the GELF community.

> CHALLENGE #10: “In China, Everyone’s Eyes are Open.” Understanding How China Frames the Future of Retail Takes Patience and Persistence

China is the future. In China, ecommerce is different. These recurring sentiments came up consistently in our interview process.

However, one thing about Chinese ecommerce is not different. Whether Chinese consumers are living in Tier 1, 2 or 3 cities, they will pay a premium to acquire goods and services associated with a western lifestyle. As one China observer said, “China is about good food, a healthy lifestyle and an insatiable interest in high-quality Western products.”

“China is one of the top markets for all our brands. Chinese buying behaviors are different, so the platforms drive things for different reasons. The underlying theme is that China is different in every way.”

– U.S. Retail Ecommerce Leader

US retail brands should also remember that the Chinese consumer will have a much more intimate relationship with the product and therefore will demand “a ton more information.”

Succeeding in China takes hard work and patience. Doing your homework is important but don’t plan to simply wait and watch others. Our community tells us it’s very hard to succeed when you’re not making the effort that others are making. To thrive, you must be a student of the market, and as previously mentioned, do whatever it takes to experience it first-hand.

You must prioritize tailoring the experience and your products to local tastes. You must be patient. Leaders stress that it will take more time to do business in China than you think.

However, those retail brands willing to invest patiently for the long-term will be positioned to reap rewards not only in China, but globally. “What we learn from China is helping us understand what’s next in the U.S. and other Western markets,” shared a long-time ecommerce executive. “In China, everyone’s eyes are open.”

Catch the Next Wave in China

At a recent GELF conference, our keynote session on China quoted a common theme from our executive interviews, “In China, it feels like we’ve just been riding the wave.”

Those online retailers and consumer brands that dove in early and caught the first ecommerce wave in China have had an epic ride so far. But no one questions that the China ecommerce market is getting crowded. For some, an endless summer of strong ecommerce growth in China may be winding down.

“We got lucky with the culture in China. They were seeking new, trendy products. Tmall had just launched. So, we rode the wave.”

– U.S. VP of International

For most, the next chapter awaits and the journey continues. Competition for the next wave of growth will intensify. Challenges loom on the horizon and no one can be certain what lurks beneath the waves.

Yet uncertainty should not prevent retail brands from analyzing the opportunity. You won’t drown by dipping your toe in the water. The lessons learned in China may serve as a buoy as your brand navigates the increasingly treacherous waters of global retail. China ecommerce will help chart the course for success in other global markets.

Don’t be overwhelmed or deterred by early setbacks. As one executive looking back on his initial foray into China commented, “There are three rules for success: customer service, payment in Chinese currency and final mile delivery. Those are the three basic things to solve for — and we didn’t do any of them well at all.”

As is the case in many countries, the trick to succeeding in China is finding the right balance. It’s all about going global by being local. That may sound like a cliché, but it is true.

If you’re not in China yet, start building a plan today. If you’re ready to catch the next wave, invest in building closer relationships with a growing number of commerce platforms in China. Expand your own team’s headcount in China and keep your eyes wide open.



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