

# GELF China Research Study Topline Findings

In collaboration with Sunrise International



GELF LA 2020 – February 13th

New York City '19 – September 19th

#GELFCHINA19

# Methodology

- The 2019 GELF China Research study is the result of a collaboration with Sunrise International, a Beijing-based marketing and event management company. This report expands upon our 2017 China Research study, noting differences in the approaches of US brands and retailers.

This study has 3 information sources:

- Chinese consumer survey of purchasers of foreign brands – 800+ completed surveys among those who had bought foreign brands
- Executive interviews (ongoing) – qualitative, in-depth interviews with executives within the GELF community— primarily brands and retailers, as well as some solution provider executives
- Secondary research in China, including field visits to New Retail stores in China. Ecommerce structure, regulatory changes to cross-border ecommerce, emerging commerce platforms and holiday shopping were among the topics researched.

# Executive Summary

- **Global “multi-platform” digital retail is bigger than brands’ China strategy.** Global ecommerce is evolving from multichannel to multi-platform, leveraging the digital platforms’ reach, selling and fulfillment capabilities. Inside and outside of China, brands will use multiple platforms to reach the global shopper, creating a complex environment to manage and optimize.
- **Consumers: Many platforms for predominantly young, female shoppers to discover and purchase foreign brands.** Much more diverse than today’s ecommerce market share story, including buying brands via WeChat, Kaola, Daigou and brands’ Chinese DTC ecommerce site. And the good news is these foreign brand buyers are looking to buy more in the future.
- **Brands: “We’ve got to be there”** China is still a long-term priority, but many short-term challenges are creating strong headwinds. The need for a China ecommerce champion reminds us of many previous digital retail strategies. The impact of macro trade friction is mixed, with B2B and distribution levels most affected. Less obvious benefits include the rise of DTC ecommerce and enhancing global supply chain outside of China. DTC ecommerce remains nascent; viewed by some as a hedge against marketplaces, and clearly from a cross-border perspective, the preferred digital channel to drive “authentic product” sales. manage



# Executive Summary (continued)

- **Chinese Ecommerce Titans: Tmall, and to a lesser extent JD, are still dominating,** especially with the biggest global brands, but emerging platforms will erode their share as underserved niche brands “find their own platform”. Early adopter brands are fully utilizing the leading platforms, but mid-market brands may face high customer acquisition costs to get noticed.
- **Emerging Chinese Ecommerce platforms:** Multi-platform global ecommerce, especially the blurring lines of social commerce. **WeChat, including commerce-enabled mini programs, is the biggest growth opportunity** as investment flows to mobile and social platforms. TikTok and Red are rapidly growing and gaining attention of brands, as these specialty platforms evolve to serve their respective communities.

# Initial Findings From Executive Interviews on China Ecommerce

DRAFT #1



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# China Ecommerce Opportunity: Exec POV

## **Short-term POVs are mixed. Longer-term: “We’ve got to be there”**

- Short-term, many are challenged by org issues, trade friction/uncertainty
- Early entrants (mostly bigger brands) now seeing strong sales growth
- Mid-market retail brands w/o global equity “caught in the middle”
- China ecommerce is still new for many brands with sales potential
  - However, if not a fit for major Chinese ecommerce platforms (Tmall), prospects for growth/sales are less certain. Cross-border and specialty platforms offer opportunity
- Long-term, many, if not most, brands remain committed to China ecommerce
- State of Partnering? Whether established or newer entrant, rethink underway
  - Reassessing china agents/distributors; more are taking back brand ownership

# China Ecommerce Constraints: Exec POV

## **External challenges/complexities remain front and center**

- External constraints continue to revolve around communication challenges – differences in time, language and cultural dynamics.
  - Lots of education – and patience - required (externally and internally)
- Trademark/IP issues remain difficult to overcome
- By and large, Tmall (and JD) only feasible for top global brands
- Although Tmall is better re: counterfeits, gray market problems remain (especially w/“low-brow, low-price Taobao sellers”)
- Lesser known brands that want to enter China face difficulty (and high costs) attracting traffic. Acquisition costs continue to grow



# China Ecommerce Constraints: Exec POV

## **Internal issues include “organizational buy-in,” branding and pricing**

- Setting up shop/getting the right org structure in place is challenging
- Brand protection growing in urgency
  - “The people at Tmall are focused on product and promotional pricing and logistics issue more so than whether we have a strong brand”
- Pricing (and arbitrage) continue to challenge ecommerce leaders
  - “We had to increase UK prices in order to launch into China ...”

# Organizational Dynamics: Challenges

## **The ecommerce champion needs a China champion**

- Internal constraints have grown as orgs get more serious – more hands on if you will - about executing on opportunities in China
- Making the business case for China ecommerce investment is challenging but doable
  - Except when there is a lack of organizational buy-in; often a deal-breaker
- Many retailers are “caught in the middle” organizationally
  - Not big enough to have global office network that can support the HQ team
  - Not small enough wherein one or a few people “wear many hats” and can make decisions and execute quickly

# Org Dynamics: China Ecommerce Operations

**Although operations and corporate POVs on China have matured, familiar partnering, org/business model and tech challenges persist**

- China partnerships (TPs and others) remain unique and often perplexing
  - “Talking to people informally told us the partnerships are so different there”
  - “Vetting was long process due in part to our internal constraints”
- Cannot fit a Western or European model on China; nor can you depend 100% on a Hong Kong presence. You must invest in a mainland team
  - “Patience is the rule; don’t try to swim upstream”
- As global ecommerce strategies shift and org design accommodates these shifts, enterprise technology will be the “whipping boy”
  - It is “human nature” (or simply easier) to blame the technology - or lack of robust data management - than leadership. Dynamic seems unlikely to change



# Impact of Trade Friction is Mixed

## **B-to-C impact limited. Looking beyond China can benefit supply chain**

- Friction hasn't had strategic impact for many US ecommerce cos yet
  - Trade friction is mostly just positioning; it will work itself out
- 3P Amazon sellers from China are seeing some negative impact on sales
- “Talks” coupled with new law should expand cross-border opportunities
  - Yeah, but: “Having said that you cannot ignore China’s Communist Party ...”
- Tariffs may be temporary, but the focus on having to develop resources outside China brings upside benefits

# Impact of Trade Friction is Mixed

## **Impacts on B-to-B seen as being more immediate, painful and cyclical**

- Tariffs have hit the distribution level hardest so far and the negative (even recessionary) impacts are worsening
- The supply chain isn't equally absorbing these costs as manufs/OEMs start squeezing their distribution partners. And retailers push back upstream
- Trade frictions have exasperated the already challenging task of making the business case for China – especially from a short-term perspective
- Hidden (or less obvious) impact of tariffs:
  - 1) “Rocket fuel” for manufacturers (foreign and domestic) to accelerate their DTC ecommerce strategies that target distributors “cash cows,” and
  - 2) Downstream cost pressures coupled with a lack of future visibility stifle investment in new product innovation, further reducing growth projections

# Impact of Trade Friction is Mixed

## **Impacts felt on tourist spending in stores. Chinese aren't "anti-USA"**

- “We see travel decreasing and that hits the physical retail stores ...”
- Q: What about Chinese national pride being offended?
  - Seeing some impact – and on UK brands too – but most people selling into China aren't seeing much at a country level
  - Chinese national pride (from a branding perspective) should be overlooked
  - Chinese people are not anti-US. Mistrust of Chinese authorities remains
- Like others, Chinese consumers are everywhere; they are global shoppers
  - “We're taking a global approach to engaging the Chinese consumer all over the world, so doing lots of UK and Canada influencer and ambassador activations”

# State of Chinese Ecommerce Platforms

## **Opportunities revolve around Alibaba, WeChat and specialty platforms**

- “Marketplaces still rule”: Alibaba and WeChat are the two main players
  - Short-term JD has plateaued but remains a significant player especially with logistics
- Early adopters are aggressive and are more fully utilizing the leading platforms
- WeChat is the biggest area of growth as more dollars flow to mobile and social platforms that dominate China (more to come on WeChat)
- Different specialty platforms are a niche opportunity to serve different categories & customer segments; but overall, the relative reach is limited
  - “B2B platforms like Zhihu which offer segmentation opportunities”
  - “Secoo is newer player – pure luxury focus and competing against the Tmall Luxury Pavilion - and building offline stores too”

# State of Chinese Ecommerce Platforms

## Challenges? Higher costs esp re: connecting with Chinese consumers

- Reality setting in
  - “One of the biggest challenges facing brands is surviving (and ideally thriving) ‘once the honeymoon is over’ with the top China ecommerce platforms”
- Challenges are shifting from establishing a presence on the key platforms to making meaningful progress with consumer engagement
  - Creating the right content for the Chinese consumer is a growing priority
- Luxury space has become very competitive
  - JD merged Toplife with Farfetch (which acquired Curiosity China - a WeChat agency)

# State of Chinese Ecommerce Platforms

## **Move from Multi-Channel to Multi-Platform is “Bigger than just China”**

- Global ecommerce is evolving from multichannel to multi-platform
  - Leading global distribution platforms now offer brands more sophisticated selling & fulfillment capabilities. Provide global reach with one partnership
- Inside and outside of China, brands relying on multiple platforms to reach the global shopper. These platforms include a company's:
  - Commerce platform (from SF Commerce Cloud to Shopify)
  - Cross-border platform & int'l marketplaces connections
  - Major “marketplace platforms” (Amazon, Alibaba, others) as well as smaller or targeted platforms (e.g., specialty/product category, social, communications)



# China Platforms – A Closer Look: WeChat

## **WeChat is the biggest growth opportunity as investment flows to mobile and social platforms**

- But still early for many:
  - “We use WeChat in the US but not in China yet”
  - “Work with influencers via WeChat but won’t look at mini-programs this year”
  - “Really interesting time and we are keeping an eye on WeChat for now; [lack of current commitment] is mostly because we don’t have the resources”
- Mixed views as to whether WeChat is open vs closed platform
  - In 2018 people could start using a foreign entity to work with WeChat
  - “WeChat is becoming more and more important but is a very different ecosystem so people need to learn differently”
  - “WeChat is pretty damn effective whereas TikTok is too early”
- Losers as WeChat thrives? Weibo on the wane?



# China Platforms – A Closer Look: Alibaba

## The “Age of Alibaba” shows no signs of slowing

- Alibaba still the biggest player by far. Past issues remain (counterfeits, high costs, communications, TPs) but Alibaba addressing many concerns
- New challenges emerging (no more exclusives, content APIs, etc.) but
  - Strategic importance of the global relationship is growing both inside in China and outside of China (often as a hedge on brands becoming overly dependent on Amazon)
- Other gripes?
  - Interplay of brand control and content stifles brand control and marketing creativity
  - “Alibaba is way more expensive ... especially for customer acquisition”
  - “I want to see more brand quality focus from Tmall”
  - “Trademark issues continue to be our biggest issue”
  - “Want to see then partner with us more”

# Social Commerce & Influencer Platforms Emerge

## **Consumer trust issues remain at the forefront; influencers hold sway**

- Social commerce platforms attract brands seeking “long-tail influencers” to share real personal experiences/preferences and build a tighter connection with followers/consumers
  - “Not using VIP influencers as much”
  - “Influencers are more and more like resellers”
- Influencers are proven “consumer conduits” yet social platforms are still early in the adoption curve with many brands
  - “Would I love to make a big splash on all these platforms? Yes, I would, but we aren’t there yet. So we’re focusing on nurturing the influencers”

# Little Red Book (“Red”) Gaining Influence

**Viewed as “easier and more open”, Red has weathered recent scrutiny to gain traction**

- WeChat’s rapid growth has opened the door for Little Red Book
  - ‘Red is the platform that we will aggressively use since we see WeChat as being more closed’
- Benefits include being easier w/which to work, user-friendly and more affordable for smaller brands without a huge name or lots of followers (but seeking both)
  - “It’s like Instagram mixed with affiliate marketing”
  - “We are active on Red to tap into those influencers”
  - “Red? We don’t have a relationship yet and don’t know if we will in the next three months. So working with the people talking about us on the platform is the near term focus”
- Red’s growth not without challenges however. Certification process to address recent controversy resulted in “certified influencers”
  - “Seeing some of the bigger brands testing the LRB platform but rules and policies are changing a lot”
  - “Even the best agencies struggle to keep up with policy changes”



# TikTok: Next big thing? Or niche consumer play?

## **TikTok buzz reflects the incredible popularity of video usage among young Chinese consumers**

- Like WeChat in '17, TikTok attracting a lot of recent attention
  - “Everyone is talking about - and nervous about –TikTok”
  - “WeChat sees them as a big threat – even though they’re not really close”
  - “TikTok? You need to have really engaging content; its a young persons focus”
- The results to date have surprised some
  - “We were testing with TikTok and we didn’t think there would be much impact coming. But we looked at the data and saw a 10X increase in volume”

# Nearing a DTC tipping point in China?

**Q: Are we approaching a tipping point where more Chinese shoppers will buy directly from retail brands' DTC sites?**

Will global ecommerce leaders invest more in China-facing DTC sites in anticipation of Chinese shoppers buying more via DTC sites?

- By and large we heard, “China’s marketplaces will continue to dominate.”
  - “The tipping point argument gives [brands] the opportunity and interest in investing [in DTC]. But the big difference is that the maturity curve argument is backwards. People will go to the DTC site less and the marketplace is where people will go ... marketplaces will win.”

# “DTC vs Marketplace - Does it matter?”

**Is focusing on this “choice” an example of forcing “Western thinking” on China’s unique market?**

- Some see the “richer DTC site shopping experience” collapsing into China ecommerce marketplace platforms
  - “Can’t force DTC models. Will see more of integration of DTC & marketplaces as opposed to separate and distinct DTC vs marketplaces strategies”
  - “The Chinese consumer is buying from our site, but its just hosted by Tmall.”
- Yet consistent demand for authentic goods purchased cross-border via “foreign” ecommerce sites suggests continued role for DTC sites
  - Unclear whether cross-border growth will continue as domestic options increase. Other forces are at work (Jan 1 2019 laws, trade issues, etc.)



# Global multi-platform trends suggest both matter

**Chinese govt regulations, preference for keeping strategic options on the table & “its still early in China” suggests no clear answer yet**

- New China cross-border ecommerce law (Jan 2019) tightened clearance and seems to be encouraging more direct selling into China
  - “Shipping into China is more regulated, so more people are shipping directly”
  - “The average ticket price is getting higher”
- Experienced sellers hedge China bets by “keeping the DTC lights on.”
- Newer entrants into China use cross-border ecommerce to better understand demand & inform investment decisions
  - “We know we could do the back office [fulfillment] so we’re selling cross-border to establish the demand”



# Competing priorities will tip the balance for many

**Cross-currents of 1) companies seeking more control of their brand China, 2) content-centric consumer engagement and 3) data/content syncing issues further complicate whether a “clear choice” will exist for most**

- Those that see brands’ DTC sites collapsing into Tmall as a single branded experience, question whether content syndication challenges will be insurmountable. Company size/brand equity key factors as well
  - “Some PIM tools help publish content on Tmall, but don’t typically provide enough support and/or control to satisfy both the brand and ecommerce teams.”
  - “Mid-market brands are especially challenged because they are not on the more robust solutions like Salesforce Commerce or their commerce platform doesn’t offer the necessary tools (Shopify).”
  - “Even the more robust enterprise solutions tend not to provide enough support for Tmall, so for now DTC and Tmall experiences will remain separate.”



# Applying lessons learned in China elsewhere

**China reinforces the risk of trying to “template” what works in one country to another international market. Global strategies must be a priority**

- Balancing the ability to prioritize local needs on a platform built for global remains a challenge for most brands
  - “First and foremost, I see the need to approach a platform-build with a global audience front and center; success is no longer about just localizing the US site for other markets”
- China is unique: Fulfillment – especially demand for same day delivery – is just one example of how China is different.
- Challenges remain in China, but the learnings are valuable and many will be applicable to other markets



# The Future? Clearer for some than others

**Future viewpoints aligned with exec POVs on the opportunity: Short-term; a lack of clarity. Longer-term; China is key to the future of digital commerce**

- “The Chinese consumer market is still emerging”
- “Future? Hard to see too far but know we must mature. Short-term we need to do more of same but need to do it better”
- “The future isn’t murky; US and China’s economies are too intertwined”
- “Much like the economies – the leading platforms will intermix”
- “China is still huge market force and it’s the future of ecommerce - and eventually we have to get back in”
- “We are betting on this future and there will be more growth selling into China. Short-term we’re targeting tier 1 and tier 2 cities”



# Consumer Survey Results

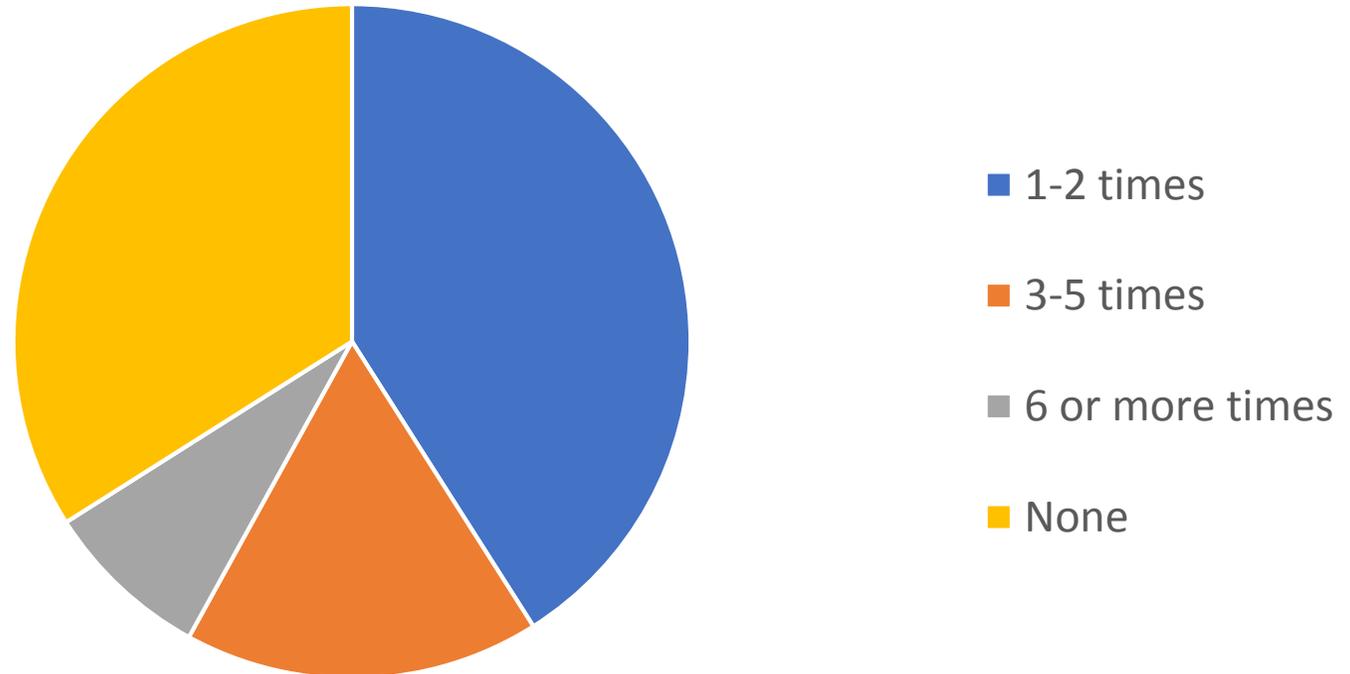
803 Chinese consumers, ages 16+, completed a survey in July and August 2019 on their attitudes and shopping behavior as it relates to foreign brands. All respondents were screened for purchasing foreign brands.

# KOLs and Influencers are the top source of “Discovery” of Foreign Brands



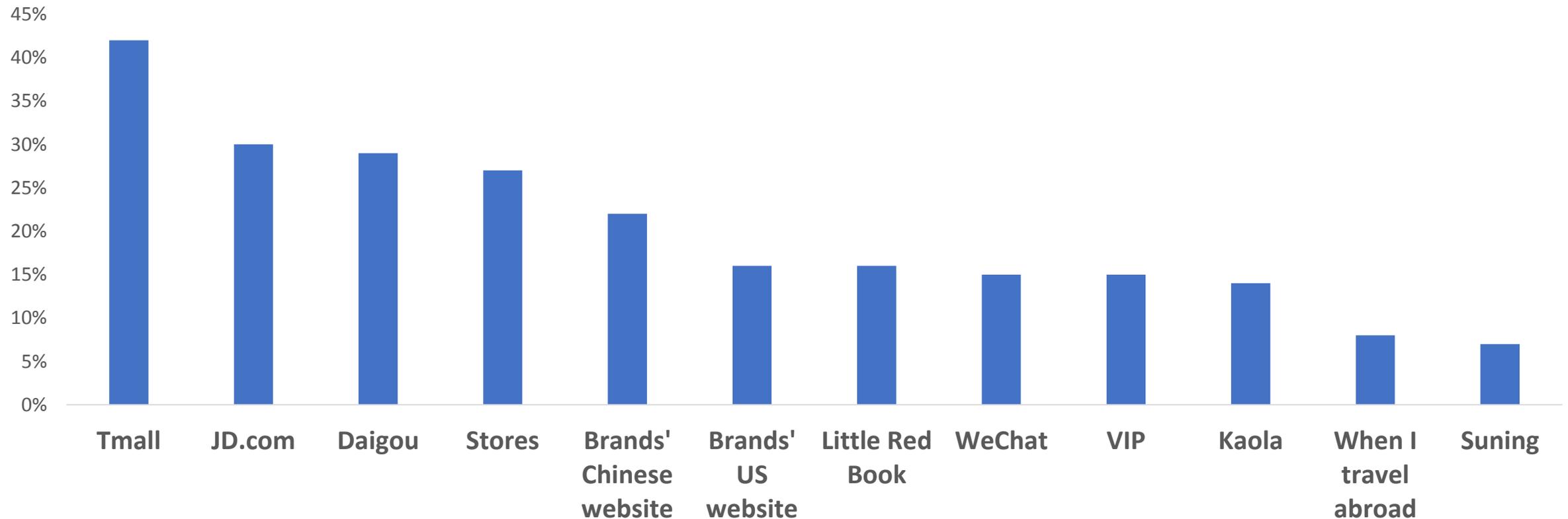
# KOLs and Influencers are driving purchase frequency for Foreign Brands

Frequency of KOL-influenced purchases in past year



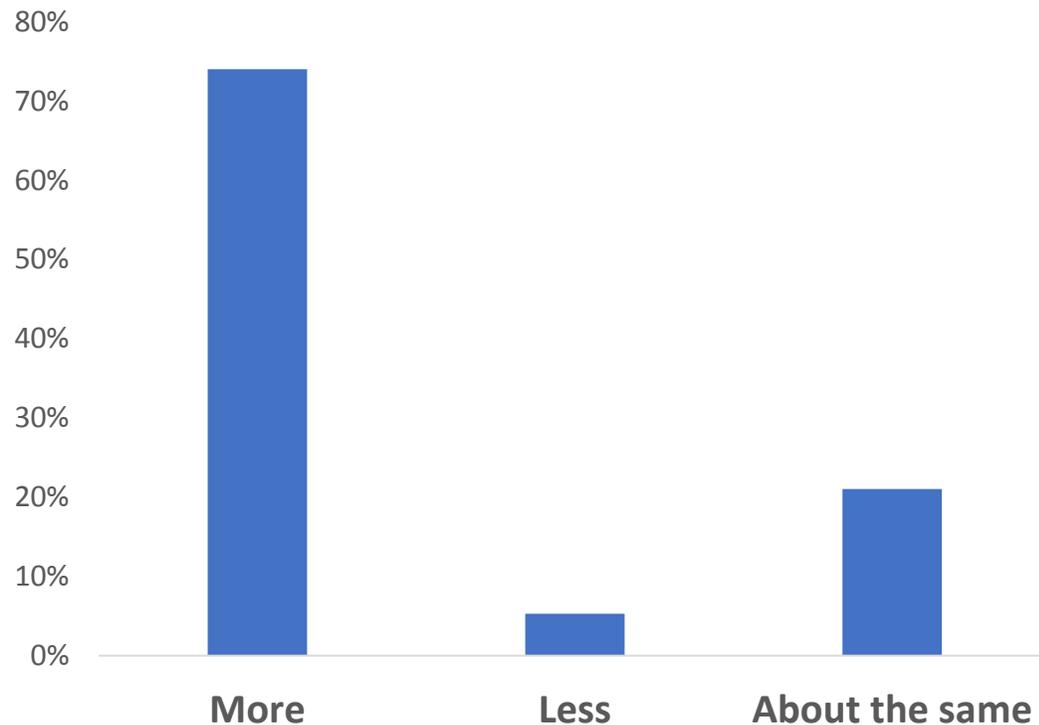
# Purchasing Foreign Brands extends far beyond the leading marketplaces

In the past 12 months, where have you purchased foreign brands?

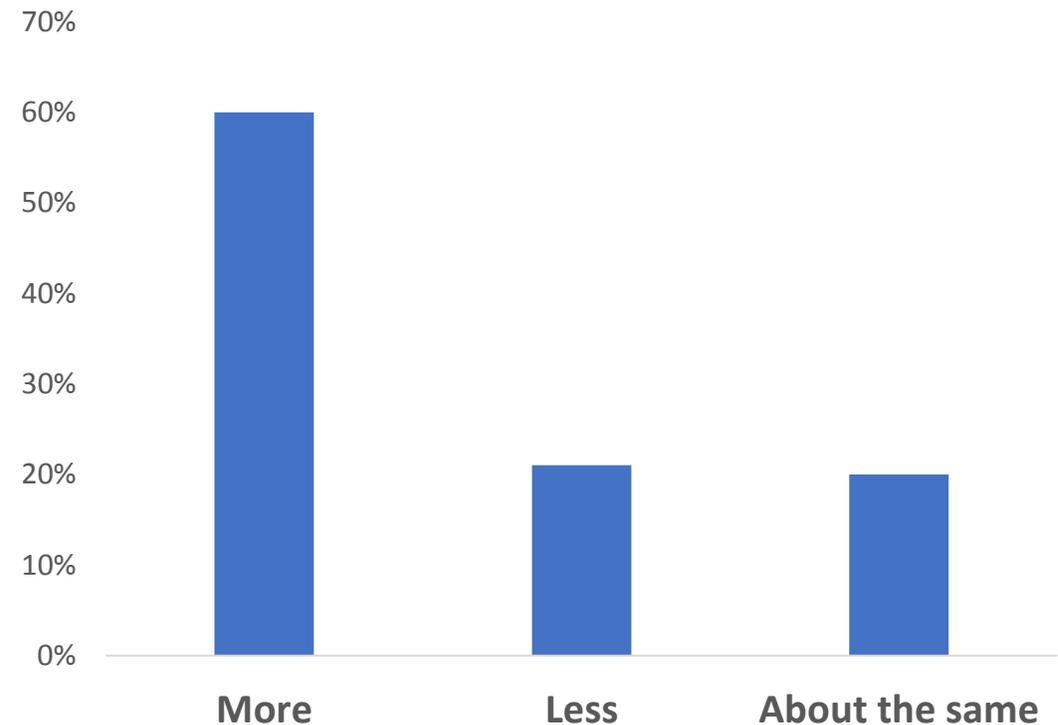


# Domestic Brands are building trust, but demand for Foreign Brands is growing

Compared to the past, do you trust domestic brands?

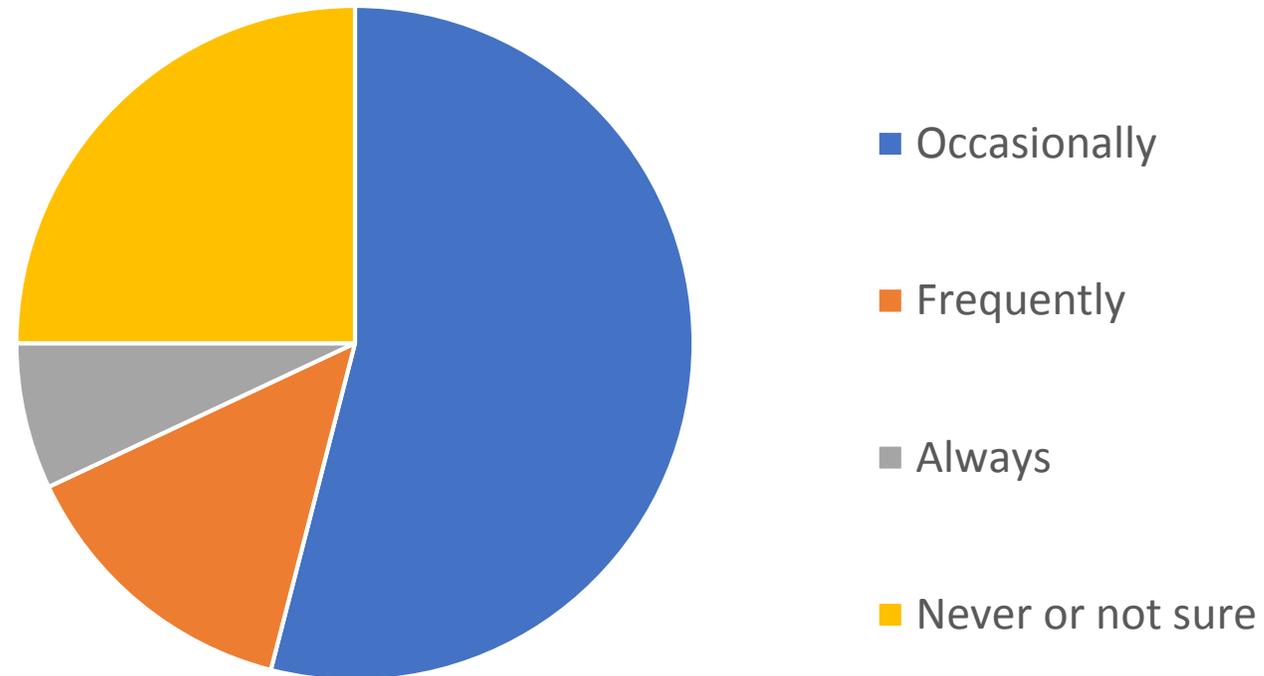


In the future, will you buy more or less foreign brands?



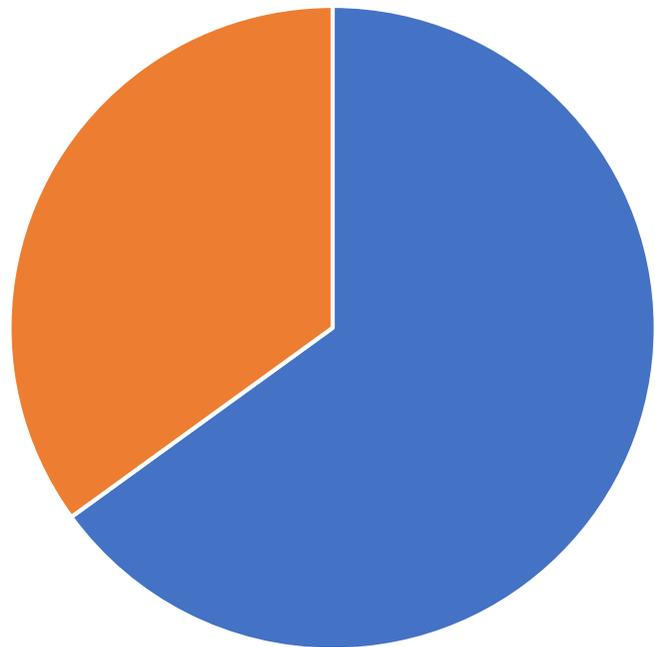
# Pre-shopping online before visiting a store is a common behavior...

Frequency of pre-shopping online before visiting a store



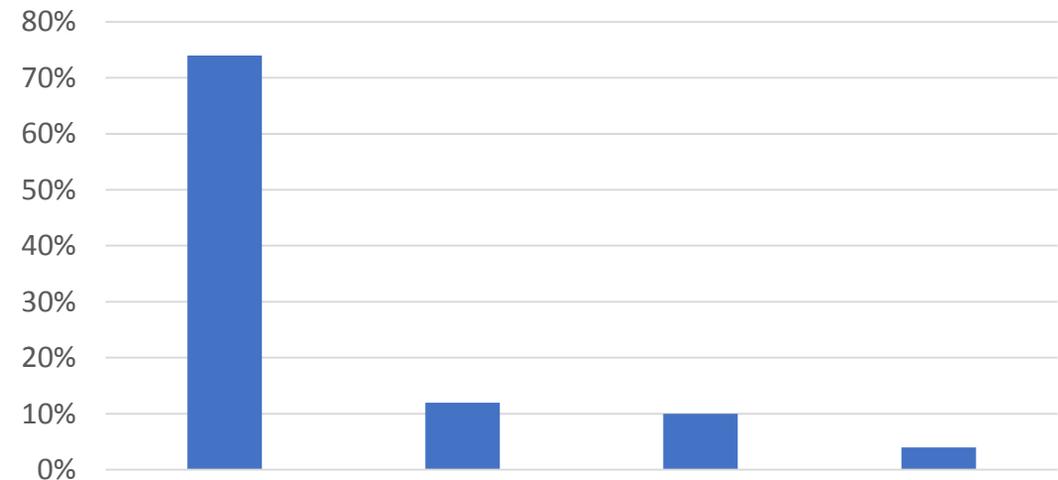
# ... but two-thirds of Foreign Brand Purchasers are online only shoppers

Last Purchase of Foreign Brand



- Shopped and Purchased Online Only
- Visited a Store--Before During or After Purchase

Of those who shopped stores, most were satisfied with the technology and customer service received



- Store provided the right technology and customer care
- Store did not provide technology to help me shop
- Store helped resolve my post-purchase problem
- My own mobile was most helpful technology

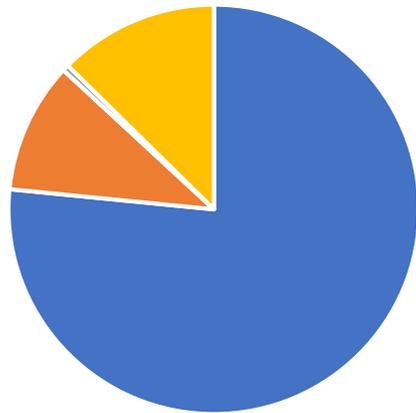
# Multichannel Shoppers Use of Stores Is Less Dependent on BOPIS vs US Consumer Behavior

Which statement best describes how you used your store visit in the shopping for your last foreign brand purchase?

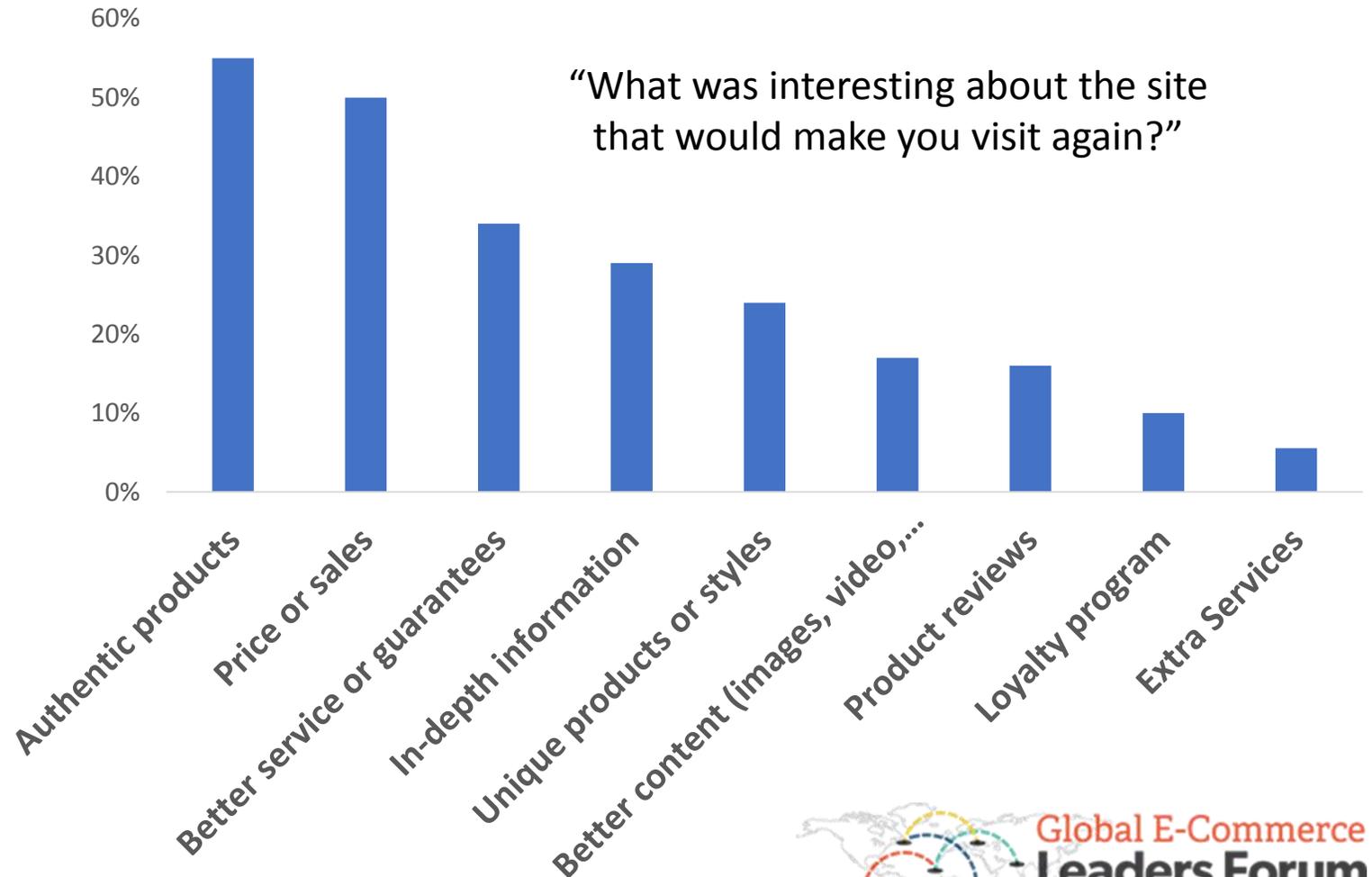


# Shopping Foreign Brands' Chinese websites: Product authenticity is important

For your favorite foreign brands, how frequently do you visit their Chinese website?

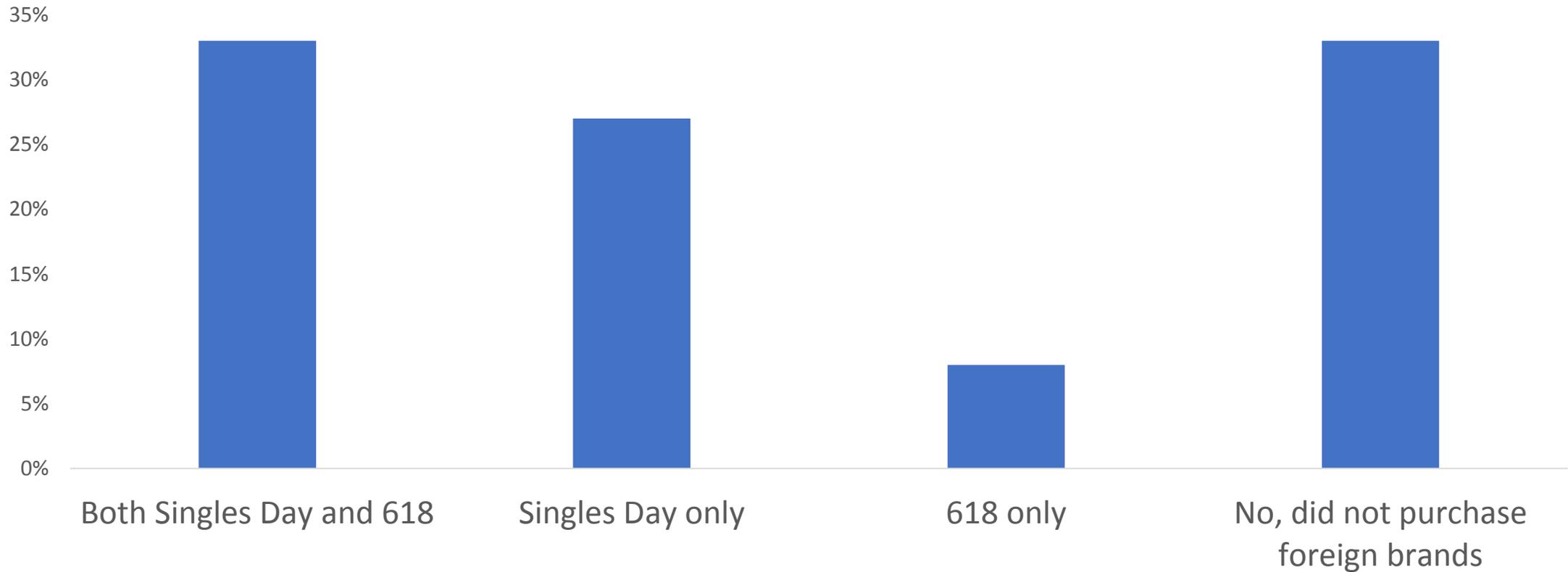


■ Occasionally    ■ Frequently  
■ Always    ■ Never/not sure



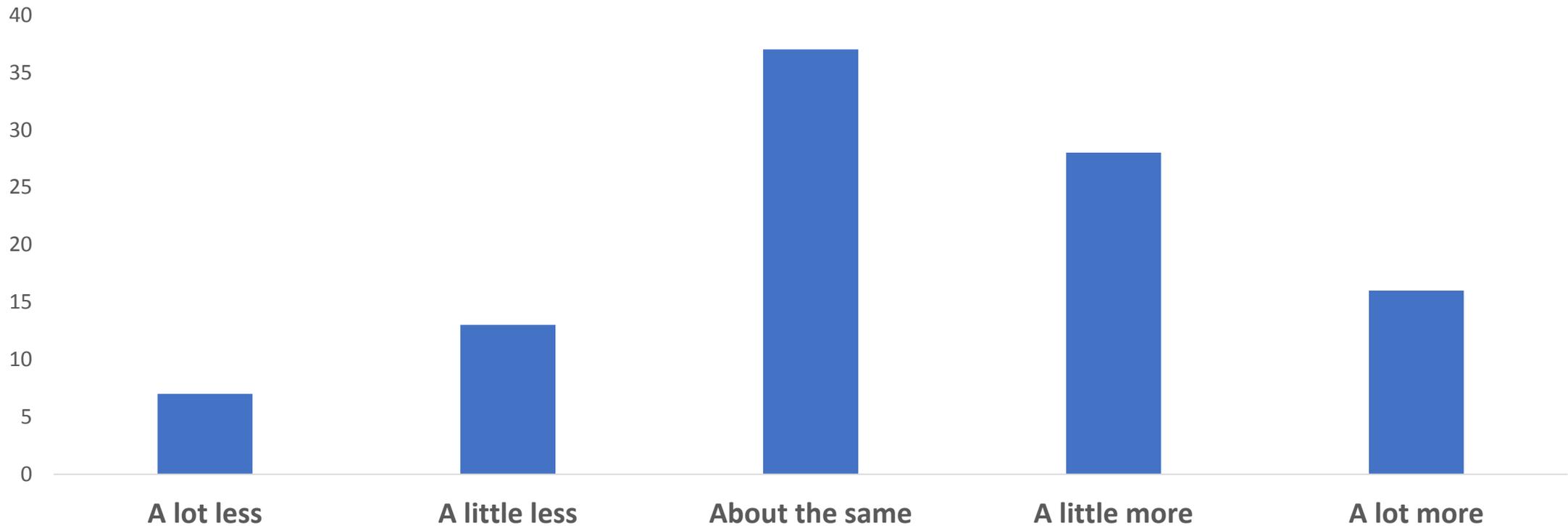
# Foreign Brands on Major Shopping Holidays

Have you purchased any foreign brands on Singles Day or 618 Shopping Holidays?



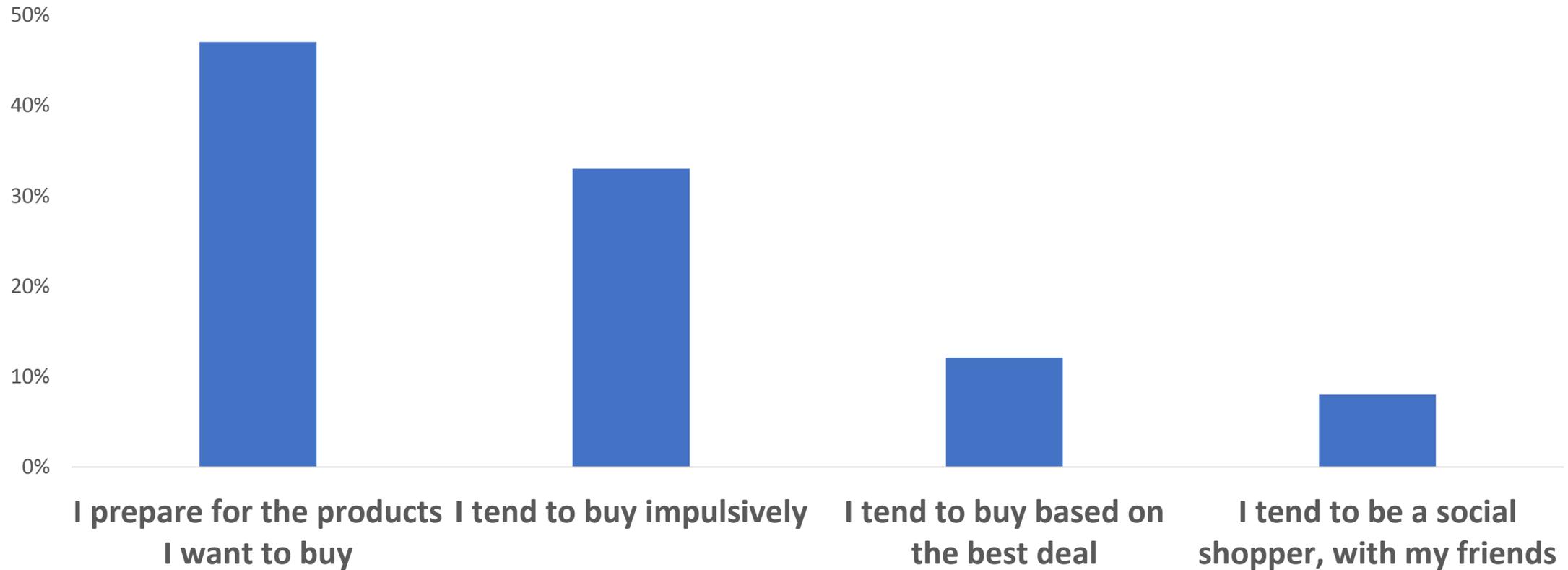
# Foreign Brands Are Being Purchased More on Major Shopping Holidays Compared to the Past

Are you buying greater or fewer foreign brands on these Chinese shopping holidays compared to prior years?



# Almost One-half of Shoppers Like to Prepare and Plan for Desired Foreign Brands on Major Shopping Holidays

Which statement best describes how you like to shop on these shopping holidays?



# Demographics (n=803)

- Gender

- Female 65%
- Male 35%

- Age:

- 19 and under. 27%
- 20-25, 43%
- 26-35, 28%
- 36+, 2%

- Income (RMB)

- 30,000-100,000, 36%
- 100,000-250,000, 45%
- 250,000+ 19%

- Education

- Bachelors degree, 49%
- High/middle school or vocational, 45%
- Post-graduate degree, 6%