

PRESS RELEASE

CHINA: E-commerce market is exploding

Opportunities and challenges for foreign investors

E-commerce market development worldwide

Worldwide Business-to-Customer (B2C) e-commerce sales have now reached 1.5 trillion US\$ per year. As one of the fastest growing sectors in recent years, it has seen annual increases of around 20%, compared to global retail sales growth of around 6%¹. And not just established retailers such as Amazon are profiting from this trend; the Internet has low market entry requirements and is attractive for start-ups. One example is the remarkable rise of German shoe and apparel retailer Zalando in Europe, starting from scratch and becoming a 1.2 billion euro business in only five years – and leaving market experts wondering why they didn't see it coming². But the wave of growth is not only continuing in developed markets such as the US and Europe. A key driver of the worldwide trend are emerging markets, led by China, combined with the push into new markets by international brands³.

China's e-commerce market is exploding

In China's 12th Five-Year-Plan (2011-2015), the government unveiled plans to make China a leading global e-commerce market, driving a transition from an investment-heavy growth model towards a more consumption driven model. Only two years later, in 2013, China became the largest e-commerce market worldwide in B2C and C2C purchases, overtaking the United States. Jack Ma, founder of Alibaba, has said: "In other countries, e-commerce is a way to shop; in China it is a lifestyle."⁴ Even in comparison to China's huge overall growth rate, the ecommerce market is topping the list, offering huge potential for foreign investors, too.

But how could this happen? While many western countries are largely saturated, China is still a developing country with a gigantic potential of 2nd and 3rd tier cities, many of them reaching a population of more than 10 million. Since they are not yet penetrated by organized retailers and consumer brands, e-commerce can become a mainstream retail format for these cities. Hand in hand with China's overall economic development, the growing middle-class' demand for consumer goods is enormous, followed by the development of brand awareness and brand loyalty as well as the increasing tendency to purchase high quality and individually satisfying products. In addition, China's crossprovince express delivery capability has become No. 2 worldwide on the basis of its very low cost, while the cost for commercial property is rising significantly.

1999 can be considered as the opening of Pandora's box, the birthday of almost all leading players of China's internet industry, including Alibaba, Baidu, Tencent, Sina and Sohu, etc. Before 2000 there were basically no E-commerce applications. With a total number of 2.1 million internet users, the market lacked payment systems as well as physical delivery mechanisms which are the two major requirements for the development of E-commerce transactions.⁵ However, up to the year 2014, the number of internet users is quickly approaching 642 Million and the western counterparts are outlined in number of users and purchases, Ebay by Taobao, Amazon by JD.com, Walmart by Suning and the worldwide biggest online platform Alibaba invented a successful business model, not comparable to any western enterprise.⁶ Outside of China not yet as well-known as Amazon and eBay, Alibaba is market leader in B2C and C2C with a market share in 2012 bigger than Amazon and Ebay combined. However, despite this dominating position there are many other Chinese young home-grown platforms having success, such as Daminwang and 360buy.com.

Chinese' affinity for electronic and mobile devices

Besides these home-grown companies, social-media have become an important actor in the Chinese market. Ahead of western society, in China you can discover a higher affinity for digital devices and marketing, being reflected in the rise of online transactions as well as in the increasingly important roles of social media and mobile devices.⁷ Although outside of China barely known, Tencent's innovative business models WeChat or Sina Weibo are driving Chinese E-commerce activity. Originally starting as a communication mobile application for chatting with friends via your phone, comparable to WhatsApp in the USA and Europe, WeChat successfully integrated E-commerce. Within just a few years China became the country with the highest number of mobile-based E-commerce transactions worldwide outlining the USA by the factor three. However, specialists say this is just the beginning, predicting a rapid growth of this so-called 'M-commerce' in the Chinese E-commerce market.⁸

It also seems like all kind of industries are successfully using online platforms, from clothing and electronic products to furniture as well as the travel and even food industry. China's 'Single's Day' shows the potential of online marketing in China. This record-breaking 24-hour online shop fest rose the 2013 online sales by 80% compared to the year before, outlining Amazon's Christmas boom.⁹

What it takes to win

All these trends show, in order to reach Chinese clients the platform internet is arising to an instrument of high importance for all kind of industries, bringing challenges but also opportunities. But what does it take to successfully making use of China's gigantic potential in online sales. Many western internet and E-commerce giants such as Google, Yahoo, eBay, Amazon, Groupon, and others already failed due to heavy entry barriers to the Chinese market. No matter if entering the market by themselves, through acquisition or through Joint Ventures with local players, disadvantages in their supply chain coupled with a consumer behavior differing from the western target group they are used to, or being subject to government regulations and restrictions as well as the strong presence of local competition in the slowly maturing E-commerce market in China remain difficult. On the other hand, the ongoing massive growth of the E-commerce market makes it still very attractive for foreign companies

to invest. As always, doing your homework is crucial if you want to be successful! Adopting the Marketing strategy to Chinese' consumer behavior, intelligent marketing, optimizing online shopping platforms for tablets and mobile apps, Chinese search engine optimization, as well as analyzing the numerous social networks which consumers exchange their experiences on and adopting to the consumers' decision making process when online shopping, are a must and can be considered as the key to success.

Be innovative to stay competitive! However, market experts predict that this was just the beginning. The second boom of China's E-commerce did not even happen yet. While electronic products conquered the market already and cosmetics are on the rise, other industries, as for instance the food as well as the service industry are just about to get started.¹⁰

¹ marketingcharts.com

² *KPMG 2014: E-commerce in China: Driving a new consumer culture*

³ emarketer.com

⁴ *Inside Retail Hong Kong: E-commerce "a lifestyle" in China*

⁵ cnn.com

⁶ internetlivestats.com

⁷ *KPMG 2014: E-commerce in China: Driving a new consumer culture*

⁸ *emarketer.com: China, South Korea Lead World in Mobile Commerce Adoption*

⁹ *thediplomat.com: J.T. Quigley: Singles Day in China Decimates Online Shopping Records*

¹⁰ *KPMG 2014: E-commerce in China: Driving a new consumer culture*

¹¹ *McKinsey*

"The Chinese market for e-commerce is expanding at an incredible rate – and a second growth explosion is expected soon." Richard Hoffmann, ECOVIS R&G Consulting Ltd, Beijing P.R. China

Tip

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