Introduction

China’s e-commerce sector continues to gain the world’s attention with its explosive growth and transformative effect on the commercial landscape. E-commerce is now a major driver of growth in China’s “new normal” economy. The announcement of the “Internet Plus” initiatives by the government 19 months ago has made e-commerce development a national priority. Changes in consumers’ preference and the emergence of innovative technologies and new business models have provided a strong impetus for the growth of the sector. Total transaction value of China’s e-commerce market is forecast to surpass 30 trillion yuan in 2018, up from 16.4 trillion yuan in 2015.

Fung Business Intelligence has identified ten major trends that are shaping the development of two of China’s hottest sectors – the e-commerce and the Internet sectors. Global brands and retailers looking to tap the China market via e-commerce channels should stay on top of these trends.
This issue of our China E-commerce and Internet Series provides a brief account of the hottest issues in two of China’s hottest sectors – E-commerce and Internet sectors. These should be on your radar for the remainder of 2016 as we heading into 2017. More in-depth analysis of selected individual trends will be covered in forthcoming issues.

1. E-commerce gives way to m-commerce. Mobile is the future of e-commerce, but customers also demand a seamless shopping experience across all sales channels. For brands and retailers, mobile should be part of a more comprehensive omni-channel strategy.

2. Rural e-commerce is the next big thing. With an ever-growing rural Internet population and online shoppers, coupled with the rapid development of rural logistics, the rural e-commerce market will continue to offer ample growth potential for global retailers in the coming year.

3. Serviced-based O2O proliferates and moves beyond retailing. O2O will continue to be a strategy for retailers and brands to integrate online and offline resources. At the same time, O2O is quickly extending to services beyond retailing of goods.

4. Cross-border import e-commerce changes China’s import trade. It provides a relatively cheaper and faster way for international brands and retailers to test the China market.

5. Cross-border export e-commerce – an upgraded version of China’s export model – alters the trading landscape. Export e-commerce is now at the helm of a significant transformation and is set to affect how traditional trade companies and global retailers run their businesses.

6. Internet finance is a fast-growing sector to watch; industry consolidation is expected. Development momentum of the Internet finance industry is and will keep rolling, but from rapid growth to orderly growth.

7. Social media increasingly becomes the new marketplace for commerce. Social media platforms and live streaming provide a fast and effective way for businesses to attract and grow their target audience, and increasingly to sell their goods.

8. Internet giants continue to expand their ecosystems, while putting more focus on e-commerce. A recent trend observed is that Internet giants are trying to strengthen their e-commerce capabilities by acquiring or investing in exiting e-commerce players.

9. E-commerce and Internet players speed up investments in logistics and strengthen last-mile delivery. To cope with the needs of e-commerce, Internet giants and e-commerce players continue to expand their logistics capabilities and service offerings.

10. Chinese Internet companies and e-commerce players jump on the VR and AR bandwagon. The technology breakthrough is set to revolutionize the retail industry. Companies have started to adopt VR and AR technologies in-store with a hope to enhance customers’ shopping experience.

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1 The information and analysis in China E-commerce and Internet series are largely based on contents provided in Blue Book of China’s Commercial Sector (2016-17), Fung Business Intelligence.
Words of advice for global retailers...

Global retailers who want to enter or consolidate their presence in China’s e-commerce market are advised to keep a close eye on the following areas:

**Mobile, mobile and mobile.** China is a mobile-first nation, and Chinese consumers have adopted mobile connectivity as the dominant approach to accessing the Internet. Mobile-enabled websites or mobile apps with location-based and interactive functions can enable consumers to do all their shopping, payment, etc. are essential.

**Social media strategy is a MUST; integrating e-commerce with social selling.** The power of social media in China’s e-commerce sector cannot be ignored. Nowadays, social media platforms are not only popular market tools but increasingly a key selling tool. Global retailers could explore the possibility of selling on well-established mobile e-commerce platforms or live streaming platforms.

**Catering to users across multiple channels.** Nowadays, Chinese consumers are increasingly looking for seamless shopping experiences. While mobile-first strategy is essential, PC-based offerings should not be neglected. At the same time, a seamless bridge between online and offline channels is equally important. Thus, a well-thought-out O2O strategy that can provide consumers with a seamless and personalized shopping experience across multiple channels is highly desired.

**CBEC is a great point of entry to China.** Cross-border e-commerce (CBEC) is a relatively easier way for global retailers to test the waters as they do not need to obtain Chinese business license or register a company in China. Initial investment is lower and customers can enjoy lower tariffs than goods imported under the general trade. However, CBEC is subject to changing government policies. Global retailers have to keep a close watch on all the changes in policies.

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cross-border e-commerce</strong></td>
<td><strong>Subject to changing government policies</strong></td>
</tr>
<tr>
<td>• No need to obtain Chinese business license or register a company in China</td>
<td>• Limited product categories</td>
</tr>
<tr>
<td>• Low initial investment</td>
<td>• Difficulty in returns; need to think of reverse logistics</td>
</tr>
<tr>
<td>• Can use original product labels</td>
<td>• Higher operation costs (higher commission, service fees, etc.) than selling on B2C marketplace platforms</td>
</tr>
<tr>
<td>• Lower tariffs than goods imported under general trade</td>
<td>• Customers are familiar with domestic CBEC platforms</td>
</tr>
</tbody>
</table>

Source: Fung Business Intelligence
**Marketplace vs. own standalone transactional website.** Global retailers who want to build their own online stores in China should think carefully whether they should set up a store on leading B2C marketplace platforms such as Tmall and JD.com, or establish a standalone transactional website. They should consider the benefits and shortcomings of these options.

<table>
<thead>
<tr>
<th>Marketplace platforms</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Large user base; huge traffic flows</td>
<td>• Need to pay a certain commission to the marketplace platforms</td>
</tr>
<tr>
<td>• Provide other value-added services such as custom clearance, logistics solutions, CRM tools, etc. for merchants</td>
<td>• Unable to collect all customer data and transaction data</td>
</tr>
<tr>
<td>• Customers are familiar with domestic marketplace platforms</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Standalone transactional website</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>• Able to collect and manage all customer data and transaction data</td>
<td>• Need to manage website and handle the entire operational process</td>
</tr>
<tr>
<td>• Good for brand building</td>
<td>• Less traffic flow</td>
</tr>
<tr>
<td>• Build customer loyalty and improve customer stickiness</td>
<td></td>
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</tbody>
</table>

Source: Fung Business Intelligence

**Forming partnerships with key Internet players.** Global retailers should consider forming partnership with key Internet players such as Alibaba, Tencent and JD.com to leverage their huge traffic flows, their extensive distribution channels and logistics networks in lower-tie cities, and as well as their payment platforms, social media networks, big data analytic tools, and logistics capabilities.

**Operating businesses in a more innovative way.** New technologies and new business models created by ubiquitous mobile connectivity, and the e-commerce ecosystem predominantly formed by the key Internet players are reshaping – and disrupting – the e-commerce landscape. Global retailers have to run their businesses with innovative models.
Mobile commerce (m-commerce) has gained market share at the expense of PC-based transactions over recent years. The rise of budget smartphones, such as Xiaomi, Oppo, and Meizu, has brought mobile connectivity to most parts of China. Increasing mobile adoption has facilitated online shopping and led to more frequent purchases. According to the China Internet Network Information Centre (CNNIC), 656 million people now use mobile phones to access the Internet; of these, 401 million are mobile online shoppers. Similarly, the widespread use of online and mobile payments has spurred the growth of m-commerce.

The mobile platform is now a highly significant sales and marketing channel. Online transactions made on mobile devices have increased from only 1.5% in 2011 to 55.5% in 2015. iResearch predicts that transactions on mobile devices will account for 73.5% of sales by 2018 to reach 5.5 trillion yuan. Brands and retailers have been putting more focus on mobile strategies. Many have launched their own dedicated mobile apps with enhanced functionalities: they can provide location-specific and customized product information such as current deals and coupons, search features, restaurant booking, payment, user accounts, and much more.

Alibaba is currently the largest player in the m-commerce market, with 84.2% of the market share, followed by JD.com and VIP.com with 5.7% and 2.4% market share, respectively. In recent years, more players have strived to expand their market share through forming alliances. For instance, the integration of JD.com’s retail platform into WeChat’s mobile interface would possibility bring more traffic to JD.com, and thereby potentially increase its market share.

Mobile is undoubtedly the future of e-commerce, but customers also demand a seamless shopping experience across all sales channels. For brands and retailers, mobile should be part of a more comprehensive omni-channel strategy. Going forward, the major challenge is to seamlessly weave mobile shopping with brick-and-mortar shopping experiences to create greater synergy.
Widespread use of third-party payment has driven the growth of China’s m-commerce market

In 2015, third-party payment services in China achieved a total transaction value of 9.5 trillion yuan, according to iResearch. There are three major categories of third-party payment companies, namely, (1) Internet companies’ online payment channel (e.g., Alipay, Tenpay); (2) companies from traditional financial institutions (e.g., UnionPay Online); and (3) pure third-party online payment companies (e.g., Yeepay).

Currently, the third-party online payment market in China is dominated by Alipay\(^2\), followed by Tenpay\(^3\) and UnionPay Online\(^4\). Alipay and Tenpay are also the obvious leaders in the mobile payment market.

![Market share of third-party online payment services, 2015](image1)

* Note: include WeChat Payment and QQ Wallet
Source: iResearch, respective company websites

![Market share of third-party mobile payment services, 2015](image2)

* Note: include WeChat Payment and QQ Wallet
Source: iResearch, respective company websites

WeChat Payment has gained increasing acceptance among retailers over recent years

WeChat Payment is bundled with WeChat, a popular free all-in-one communications app and social networking tool developed by Tencent. Leveraging on the larger user base of WeChat, WeChat Payment is becoming increasingly popular. More and more retailers and commercial enterprises in China support WeChat Payment in their stores.

<table>
<thead>
<tr>
<th>Retail format</th>
<th>Number of retailers accepting WeChat Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supermarkets</td>
<td>&gt;35,000</td>
</tr>
<tr>
<td>Convenience stores</td>
<td>&gt;60,000</td>
</tr>
<tr>
<td>Department stores</td>
<td>&gt;1,500</td>
</tr>
<tr>
<td>Pharmaceutical specialty stores</td>
<td>&gt;28,000</td>
</tr>
<tr>
<td>Vending machines</td>
<td>&gt;44,000</td>
</tr>
</tbody>
</table>

Source: Tencent

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\(^2\) Alipay is a third-party online payment platform launched by Ant Financial Services Group, an affiliate of Alibaba Group.

\(^3\) Tenpay is a one-stop online payment platform launched by Tencent. It offers payment services including WeChat Payment and QQ Wallet via WeChat panel and QQ panel, respectively.

\(^4\) China Union Pay is the only domestic bank card organization in China.
Rural areas still lag behind cities in e-commerce development, but the gap has narrowed over the past years owing in part to favourable government policies to promote rural e-commerce development. In 2015 and 1H16, the government announced a series of measures to boost rural e-commerce development. With all these favourable policies, the State Council estimates that the transaction value of rural e-commerce will hit 460 billion yuan in 2016.

According to Aliresearch, 9.6% of the orders on Tmall and Taobao were delivered to rural areas in China in the 1Q15. Taobao-based entrepreneurship is thriving in some rural areas too. By the end of 2015, there were 780 “Taobao Villages” in China. These “Taobao Villages” are clusters of rural online entrepreneurs who have opened shops on Taobao. The Internet has provided a more convenient way for farmers to distribute their farm products and subsidiary agricultural products to urban areas. This has greatly increased farmers’ incomes.

Recognizing the ample growth potential of the rural e-commerce market, a number of leading retailers and e-commerce players have adopted various “going rural” strategies. For instance, Suning Commerce Group has signed strategic partnerships with several local governments to introduce rural e-commerce initiatives. The company had opened over 1,000 self-operated service centers and 1,430 franchise depots in lower-tier cities by the end of 2015. It plans to have a total of 2,500 self-operated service centers by the end of 2016. Leading e-commerce players such as Alibaba and JD.com have also made substantial investments in rural areas to expand their distribution networks. In February 2016, JD.com trialed drone delivery service in rural areas. JD.com hopes to use drones to overcome the last-mile delivery hurdle in underdeveloped rural areas. Alibaba has signed a strategic cooperation agreement with the National Development and Reform Commission (NDRC). From 2016 to 2018, Alibaba will build around 100 county-level service centers and 10,000 village-level service points in 100 counties selected by the NDRC every year.

With the growing number of Internet users and online shoppers in rural areas, coupled with the rapid development of rural logistics, the rural e-commerce market will continue to offer ample growth potential in the coming year.
China’s phenomenal e-commerce growth in recent years has also led to the emergence of transformative new business models and business practices, including O2O integration and the development of a service-based e-commerce sector. Over the years, brands and retailers have deployed various types of O2O initiatives, with the aim of providing a seamless and integrated consumer experience across all channels. Examples of such O2O initiatives include: embracing technologies such as data analytics to provide prevision marketing and personalized services, offering new pick-up options such as “click & collect” and smart-lockers, forming strategic alliances with Internet companies to drive synergies, and enhancing in-store payment services.

Meanwhile, some leading e-commerce players are also looking to offer an O2O shopping experience to users. More pure-click retailers are expanding their offline presence. Online bookstores in China provide a good illustration. Dangdang, China’s largest online bookstore, announced its plan to open 1,000 brick-and-mortar stores across the nation over the next three years in November 2015. The first store opened in Better Life Group’s shopping mall in Mexihu, Changsha city of Hunan Province in September 2016. All books sold in the store are priced the same as the ones sold online. The move of dangdang.com has posed a threat to traditional bookstores, forcing them to come up with innovative ways to revamp their operation.

Moreover, an increasing number of brick-and-mortar bookstores have revamped their stores by adding more “lifestyle and experiential elements.” Some have opened coffee shops in their stores, while others have expanded their product categories by bringing in stationery, household utensils, handicrafts and even financial products, with the hope of enhancing customer experience. Fang Suo Commune, the largest privately owned bookstore in China, is a case in point. Created under a local fashion brand—EXCEPTION—Fang Suo Commune houses a café, gallery, and clothing zone in all its stores. It has done particularly well in creating a relaxing and comfortable atmosphere for readers; it was named one of the 15 most beautiful bookstores in the world in 2015.
Going forward, we believe O2O will continue to be a strategy for retailers and brands to integrate online and offline resources. At the same time, O2O is also quickly extending to services beyond retailing of goods. There has been increasing demand for various O2O services. Some examples include (1) On-demand O2O (e.g., food takeout, fresh food delivery, supermarket delivery, car-booking); (2) In-store O2O (e.g., dining, movie, KTV, spa, beauty services); (3) To-home O2O (e.g., manicure, laundry, car-washing, home cleaning); and (4) Travel O2O (e.g., nearby tours, hotel, transportation tickets, tour site tickets).

Evolution of China’s O2O business practices

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<tr>
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<th>1.0</th>
<th>2.0</th>
<th>3.0</th>
<th>4.0</th>
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</thead>
<tbody>
<tr>
<td>Online directory provided listing of local services</td>
<td>Groupon-like service enabled online group-buying of offline services</td>
<td>Mobile Internet enabled integration between the Internet and traditional retailers</td>
<td>O2O beyond retailing; manifestation of different forms of O2O across different industries</td>
<td></td>
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</tbody>
</table>

Source: Fung Business Intelligence
Cross-border e-commerce (CBEC) has seen rapid expansion since 2012, when China started implementing and expanding policies to support and regulate the sector. Total sales from CBEC in 2015 reached 5.2 trillion yuan, or 17.6% of China’s total trade. The figures are expected to grow to 8.0 trillion yuan in 2017, or 23.1% of China’s total trade.

CBEC import business, in particular, has expanded rapidly as more Chinese consumers are buying foreign products via approved CBEC platforms. Total CBEC imports sales are forecast to increase by 67% from 900 billion yuan in 2015 to 1.5 trillion yuan in 2017, according to iResearch.

Currently, there are over 200,000 enterprises engaged in CBEC import business and more than 5,000 CBEC platforms across the country. These CBEC platforms are operated in various formats, including integrated CBEC platforms (marketplace, self-operated, and hybrid) and vertical CBEC platforms (marketplace and self-operated). The former sells a large variety of categories of products, while the latter focuses on a few specialized categories.

Examples of major CBEC platforms – Integrated platforms and vertical platforms

<table>
<thead>
<tr>
<th>Integrated CBEC platforms</th>
<th>Vertical CBEC platforms</th>
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<tbody>
<tr>
<td>Marketplace</td>
<td></td>
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<tr>
<td>Self-operated</td>
<td></td>
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<tr>
<td>Hybrid (marketplace and self-operated)</td>
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</table>

Source: Various Internet sources, compiled by Fung Business Intelligence

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i iResearch estimates.
The huge potential of CBEC has captured considerable attention globally. The CBEC channels provide a relatively cheaper and faster way for foreign brands and retailers to test the China market. Under the CBEC regulations, overseas retailers without Chinese business licenses can sell in China through authorized CBEC platforms. Many have set up stores on the two largest CBEC platforms—Tmall Global and JD Worldwide. Prominent examples of brands and retailers that have set up stores on Tmall Global include hypermarket chains such as Costco from the U.S., Metro from Germany, Sainsbury’s from the U.K. Countdown from New Zealand, E-mart from South Korea; duty-free stores such as LaOX from Japan; cosmetics professional chain Matsumoto Kiyoshi from Japan, Krindo from Japan, Olive Young from South Korea, Mannings from Hong Kong, Paraseller from France; department stores Macy’s from the U.S., House of Fraser from the U.K. Examples of brands and retailers that have entered JD Worldwide include B2C website Lotte.com from South Korea, Rakuten from Japan; cosmetics professional chain Sasa.com from Hong Kong.

Meanwhile, CBEC is becoming a popular way for traditional retailers to transform their businesses. An increasing number of retailers, which have suffered from slowing sales growth over recent years, are actively tapping into CBEC business. Most retailers run their CBEC business via two channels: either by establishing their own online cross-border shopping websites or by launching physical experiential stores that sell imported products.

Currently, the biggest challenge facing enterprises engaging in CBEC business is the rapidly changing government policies. The government announced several new policies in late March and early April 2016, with an aim to ensure sustainable tax collection and foster fair competition. The new policies have set forth new tax rules for CBEC business, new operation procedures, and a positive list of permitted imported goods, etc. These may create new challenges for companies engaging in CBEC business, such as a higher tax burden, product entry, more complicated custom clearance procedures, and quality compliance issues. That said, the new policies are not intended to stop CBEC activities, but to provide a level playing field for CBEC operators, traditional importers, and retailers.

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With the changing international trading landscape and merchandising practices as well as the rapid growth of the Internet economy, China’s export e-commerce has seen rapid development over the years. Export e-commerce makes up the majority of China’s CBEC sales. Total sales of export e-commerce reached 4.4 trillion yuan in 2015, or 85.4% of total cross-border e-commerce, and are expected to rise to 6.7 trillion yuan in 2017.

The evolution of export e-commerce in China has experienced several stages. In the beginning, export platform websites (the first one in China was Alibaba.com) served as a yellow page of Chinese vendors. Later, they started to display products and relevant information about vendors and collect information about buyers’ needs in the second stage. Their role thus changed into that of an agent, matching sellers and buyers. During these two initial stages, export e-commerce companies provided only information services, and real transactions were happening offline. In the third stage, some big players such as One-touch and DHgate began to consolidate small orders and provide trade-related services such as customs declaration and clearance, logistics, and financial services. In the fourth stage, which began recently, leading players such as DHgate and Lightinthebox began to aggregate all service providers, buyers and sellers, and coordinate the whole supply chain. In these two stages, order placing and payment settlement can be handled online. Going forward, these players are set to establish a comprehensive CBEC eco-system. While certain domestic e-commerce giants are stepping into this stage in the domestic market, export e-commerce players are generally in the third and fourth stages of the evolution.

Similar to the traditional export model, China’s export e-commerce is also “made-in-China-and-sold-in-the-west” supply chain. What is new in the e-commerce model is the role Chinese players are playing in the supply chain. In general, the traditional export supply chain is dominated by foreign players. A significant difference in the export e-commerce model is that Chinese players are dominating the supply chain and what foreign customers buy are not foreign-branded products made in China, but Chinese goods designed and developed in China with Chinese brands. Export e-commerce is indeed an upgraded version of China’s export model, in which Chinese players are participating in the globalizing of retail and selling their products worldwide.

An important feature of export e-commerce is that it serves mainly small orders, and most players, particularly manufacturers, sellers, buyers, and some of the service providers, are small and medium-sized enterprises, microenterprises, or even individuals. Thus, it faces considerable limitation in catering to the special needs of big businesses. We believe there should be different export models to

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5 Cross-border export e-commerce – an upgraded version of China’s export model – alters the trading landscape

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7 iResearch estimates.
serve different buyers with different business requirements. While export e-commerce serves small business well, the traditional export model still possesses advantages, particularly in serving big retailers and brands. With the constant upgrading of its business models, export e-commerce is now at the helm of a significant transformation. It is necessary for global retailers to explore new strategies and prepare for potential challenges.

The evolution of cross-border export e-commerce in China

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<tr>
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<th></th>
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</thead>
<tbody>
<tr>
<td>Yellow page of sellers</td>
<td>Matching sellers with buyers</td>
<td>Aggregating small sellers/buyers and providing trade-related services</td>
<td>Aggregating third-party service providers and managing the whole supply chain</td>
<td>Integrating all players and resources to establish the international trading ecosystem</td>
</tr>
</tbody>
</table>

Source: Fung Business Intelligence
With the rapid development of the Internet, mobile communications, and other information technologies, banks and financial products have further developed and, to a large extent, changed the public consumption and payment habits. All of these factors have laid a solid foundation and facilitated the development of the Internet finance industry. According to the CNNIC, 2015 witnessed significant growth in the number of users in Internet banking (19.2% yoy), Internet payment (36.8% yoy), and Internet wealth management (15.0% yoy). Meanwhile, the number of users using their mobile devices to conduct these online financial services registered even more significant growth. Mobile payment, mobile banking, and securities trading by mobile devices soared drastically with a yoy growth rate of 64.5%, 39.7%, and 120.5%, respectively.

Currently, there are six major categories of Internet finance in China—online payment (including mobile payment), peer-to-peer (P2P) lending, online fund distribution, online insurance, crowdfunding, and online consumption financing. The Internet finance market is led by the three leading Internet companies – Alibaba, Tencent and Baidu. They provide finance-related services via their mobile or online payment platforms. They have introduced innovative online or mobile financial services by leveraging their big data capability, large user base, and sound technology infrastructure.

Meanwhile, some B2C e-commerce platforms such as JD.com, Suning Commerce Group, and Yihaodian have also strategically expanded their business into Internet finance in response to the huge market demand for Internet-based financial products and services.

### Major categories of Internet finance in China

<table>
<thead>
<tr>
<th>Internet Finance</th>
<th>P2P Lending</th>
<th>Non-P2P Lending</th>
<th>Online consumption financing</th>
<th>Fund Distribution</th>
<th>Crowdfunding</th>
<th>Online payment</th>
</tr>
</thead>
</table>

Source: Fung Business Intelligence
BAT’s (Baidu, Tencent and Alibaba) exposure in Internet finance

<table>
<thead>
<tr>
<th>Sub-segments:</th>
<th>Baidu via Baidu Jinrong</th>
<th>Alibaba via Ant Financial</th>
<th>Tencent via Tenpay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paymeny (including online and mobile payment)</td>
<td>Baidu Wallet, previously named Baifubao</td>
<td>Alipay</td>
<td>WeChat payment powered by Tepay</td>
</tr>
<tr>
<td>Online Financing</td>
<td>Baidu Loans</td>
<td>Ali Finance</td>
<td>QQ Cash Loans</td>
</tr>
<tr>
<td>Financial Product</td>
<td>Baizhuan</td>
<td>Yu’ebao</td>
<td>Laicaitong</td>
</tr>
<tr>
<td>Distribution</td>
<td>Baifa</td>
<td>Zhaocaibo</td>
<td>Howbuy.com</td>
</tr>
</tbody>
</table>

Source: Various Internet sources, compiled by Fung Business Intelligence

Internet finance initiatives of JD.com, Suning Commerce Group and Yihaodian

<table>
<thead>
<tr>
<th>Sub-segments:</th>
<th>JD.com via JD Finance</th>
<th>Suning Commerce Group via Suning Jinrong</th>
<th>Yihaodian via Yijinrong</th>
</tr>
</thead>
<tbody>
<tr>
<td>Online payment</td>
<td>Wangyin Zaixian, presently named JD Payment, in April 2015</td>
<td>Yifubao</td>
<td>-</td>
</tr>
<tr>
<td>Online financing</td>
<td>Jingbaobei</td>
<td>Sunching Credit Pay</td>
<td>Yibaodai</td>
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<td></td>
<td>JD Baitao</td>
<td>Renshindai</td>
<td>Yidingda</td>
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<td></td>
<td>Jingxiaodai</td>
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<tr>
<td>Financial product</td>
<td>JD Xiaojinku</td>
<td>Linqian Bao</td>
<td>Yihaoqian Bao</td>
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<tr>
<td>distribution</td>
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<tr>
<td>Crowdfunding</td>
<td>Coufenzi</td>
<td>Suning Crowdfunding</td>
<td>-</td>
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</tbody>
</table>

Source: Company data, compiled by Fung Business Intelligence

Over the years, the government has been intensifying its support for the development of Internet finance. It has also stepped up efforts in legitimizing the sector by creating a clear regulatory framework. China’s 13th Five Year Plan also stresses on “Internet finance” as an important sector for the first time and promotes the healthy expansion of Internet banking. Given the strong government support and tighter regulatory measures, we believe the development momentum of the Internet finance industry will keep rolling, but from rapid growth to orderly growth. More stringent regulation is expected in the coming year, leading to industry consolidation.
Social media is a remarkable phenomenon across the globe, but it is more important in China than it is in other countries. In addition to having the world's biggest number of Internet users – 710 million as of June 2016, China also has the world's most vibrant environment for social media. Hundreds of millions of people use social networking sites and other online communities on a daily basis. Social networking and communication platforms such as WeChat, mobile QQ, and Weibo are the most popular in China. For instance, the combined active mobile users of WeChat exceeded 800 million in June 2016, up 34% yoy.

Note: As of Jun 2016
Source: Respective company websites; compiled by Fung Business Intelligence
Recently, the use of social media in the context of e-commerce is gaining traction. The booming mobile generations and the fast growth of mobile social media usage have fuelled the growth of social-commerce (s-commerce) or social shopping in China. S-commerce combines product sales with consumer recommendations in a social network environment. It centers around communities of people, usually friends, who share similar interests and are able to influence others’ purchase decisions on social networks.

Social media provides a fast and effective way for businesses to attract and grow their target audience. Increasing numbers of retailers or brands now use social networks to sell their goods. Some have launched their own “Weidian” (or micro-store) to sell their products. Many of these micro-stores adopt the “B2C2C” business model. Chinese home appliance retailer Gome is a case in point. The company has launched a program to allow its employees to sell Gome’s products on its self-operated micro-stores. These micro-stores are run by Gome’s employees; they recommend and sell the products to their friends, and earn 20–50 yuan commission for each transaction. As of December 2015, there were 92,000 Gome micro-stores operated by Gome’s employees.

Selling on mobile s-commerce platforms such as WeChat, Weibo’s Weimai, Weimob’s Mengdian, and Koudai Gouwu is another popular way to engage in e-commerce. Brands or manufacturers will sign “distribution agreements” with the platforms; the platforms will facilitate the brands or manufacturers to sell direct to consumers or individual store owners. The store owners can act as distributors and sell the products via their own micro-stores on the e-commerce platforms. Many of these platforms usually provide a plethora of services as well as complete s-commerce hosting solutions, from product selection to marketing to payment and logistics services, etc. The platforms earn revenue from fees for lead generation and sales commission. For instance, Quik, a convenience store operator, started to sell their merchandise via social networks by allowing their franchisees to open micro-stores on WeChat.

A latest trend that is becoming popular with the fast growth of social media is live streaming on social networks. Live streaming platforms hosted by Internet celebrities (also known as cewebrites) are becoming a widely used marketing and distribution channel. Recently, increasingly numbers of brands, retailers and e-commerce players are leveraging live streaming platforms to market or sell their products. Suning.com, for example, invited popular celebrities, cewebrites, and fashion buyers to hold live broadcasts on Suning App on its Fashion Buyer Investigation” event in August 2016. In the same month, Vip.com also launched a live streaming program and invited a famous cewebrit to host and share fashion tips with viewers.

For many brands and retailers, social media is a conducive marketing channel for generating leads. However, a large following does not necessarily translate to increased sales—at least not on its own, and this is the major challenge of social selling. Still, we believe the trend of s-commerce is inevitable in 2016 and 2017.
Internet giants continue to expand their ecosystems, while putting more focus on e-commerce

Ecoversity not only is a popular term in China's e-commerce and Internet sectors, but is also a common goal for leading Internet players in China, including Alibaba, Tencent and Baidu. The three companies are all implementing ecosystem strategy; they are constantly expanding their scope of businesses. Elements of the ecosystems include but not limited to the following – e-commerce, social media and entertainment, search engine, lifestyle services (e.g., on-demand O2O delivery, travel, healthcare), logistics, third-party payment, finance, big data, and so forth. While the key Internet giants all operate a range of businesses, they each tend to have their own specialty – Alibaba in e-commerce, Tencent in social media and Baidu in search engine and advertising.

A recent trend observed is that these Internet giants have strengthened their e-commerce capabilities by acquiring or investing in exiting e-commerce players. A significant case is the partnership between Alibaba and Suning Commerce Group. In August 2015, Alibaba invested 28.3 billion yuan for a 19.9% stake in Suning, which has more than 1,600 physical outlets and 3,000 after-sales service locations across China. Suning.com ranks among the top three B2C platforms in China. The deal was Alibaba’s biggest investment in the bricks-and-mortar retailing segment. Under the strategic partnership, the two companies will cooperate in various areas including e-commerce, logistics and incremental business through joint omni-channel initiatives. Suning has opened a flagship store on Alibaba’s Tmall platform. Its nationwide logistics network has also teamed up with Alibaba’s logistics affiliate Cainiao Network.

Meanwhile, the Internet giants are also expanding across the globe via mergers and acquisitions. Alibaba’s acquisition of Lazada, the largest e-commerce platform in Southeast Asia, is a case in point. In April 2016, Alibaba has agreed to buy a controlling stake in Lazada Group for about US$1 billion. The acquisition is Alibaba’s biggest overseas acquisition to date. For Alibaba, the deal provides a less-expensive way to gain access to the Southeast Asian markets as it can use the existing brand name of Lazada to expand. For Lazada, it can leverage Alibaba’s robust infrastructure and its logistics abilities to enhance logistics efficiency and reduce logistics costs.

Going forward, more of such e-commerce initiatives taken by Internet giants are expected. At the same time, they will continue to expand their ecosystems both inside and outside of China.

“My vision is to build an e-commerce ecosystem that allows consumers and businesses to do all aspects of business online. I want to create one million jobs, change China’s social and economic environment, and make it the largest Internet market in the world.”

Jack Ma.

Photo source: Getty Images
E-commerce and Internet players speed up investments in logistics and strengthen last-mile delivery

The explosive growth of e-commerce market over recent years has fuelled the demand for logistics services, particularly last-mile delivery. To cope with the needs of e-commerce, especially rural e-commerce and CBEC, many e-commerce companies and Internet players have expanded their logistics capabilities and service offerings.

Some leading e-commerce players have set up a nationwide logistics network and actively deployed state-of-the-art technologies to optimize their logistics processes. For instance, JD.com has made huge investments to build a nationwide national logistics network over recent years. As of the end of 2015, it has built six “Asia No. 1” smart logistics centers in China, each equipped with a high degree of automation and used big data applications to streamline operations. JD.com has also set up a JD Logistics Lab to experience different types of innovative technologies that could help enhance operational efficiency. It has started a series of experiments with drone delivery, and plans to use drones to deliver parcels to remote areas.

Other companies such as Cainiao, the logistics arm of Alibaba, have put more focus on “smart logistics” while continuing to invest heavily in areas such as distribution centers, express delivery services, CBEC, rural e-commerce, and pick-up stations. It has built an information system connecting all its partnering logistics services providers (LSPs) and allowed information sharing and standardization among all stakeholders. This has greatly enhanced the capacities of LSPs.

Customers now demand fast delivery. Some players have started to adopt new delivery methods. Crowd-sourced delivery, originating from the concept of sharing economy, has come into the spotlight recently. It is a new type of web- or mobile-based courier service that leverage large groups of geographically dispersed individuals to match demand with supply digitally. This delivery model makes use of idle human resources to complete tasks that otherwise require massive amounts of work and long logistics lead time. JD.com, for example, rolled out its JD Crowdsourcing service in Shenzhen in May 2015 to provide share-based service to its O2O service platform, JD Daojia⁹.

Going forward, we expect e-commerce and Internet players to step up efforts to expand their logistic infrastructure, as well as deploy innovative strategies to improve operational efficiency.

⁹ JD Daojia merged with Dada Nexus Ltd. in April 2016.
Year 2016 is named as the start year of the “Virtual Reality era” in China. Virtual reality (VR) has become a hot issue in recent times and is predicted to be one of the next big things in the world of commerce as this immersive technology eliminates the limitations of space and time and provides new ways for brands and retailers to run their businesses. It could change or completely revolutionize the retail industry in the near future.

VR has tremendous growth potential in China. The market is estimated to reach 5.66 billion yuan in 2016, and increase significantly to 55 billion by 2020, according to iiMedia Research. Chinese consumers are generally positive towards the adoption of VR. A recent study conducted jointly by State Advertising Research Institute, Chiming Consultancy and Mojing.cn showed that more than two-thirds of surveyed respondents aged 15 – 39 were highly interested in the technology. Currently, they experience VR mainly in games, movies and travelling.

In 2016, some leading Internet companies and e-commerce players have put more focus on VR as well as augmented reality (AR) technologies and come up with related initiatives or strategies. They are eager to push VR and AR beyond entertainment and gaming. Selected examples include:
Alibaba held an official debut of its VR shopping product “Buy+” in July at the Taobao Maker Festival, an offline shopping event targeting millennial consumers. Shoppers, after putting on Alibaba’s VR headsets, are able to browse products such as clothes and fashion accessories on a model, with 360-degree view. Shoppers can call for virtual guides to showcase items – before adding items to the shopping cart. The plan is reportedly to be rolled out on Taobao, Alibaba’s C2C platform, soon.

On 6 September, 2016, JD.com announced its VR/AR strategies. Major initiatives include the formation of a VR/AR alliance; JD.com has lined up with more than 30 enterprises, including VR/AR hardware developers, content developers and VR coding developers, to support VR development. JD.com has also launched a website for its VR community (vr.jd.com).

Mei.com, a luxury flash sales platform, set up a VR fashion center in Shanghai in September. In the VR fashion center, visitors can try on different styles and looks after putting on the VR glasses; and play with a 360-degree mirror installed with cameras.

The widespread use of Internet technologies and mobile phones these days has made VR and AR more reachable and accessible to users. The technology breakthrough is set to transform the ways businesses operate. Increasing numbers of brands and retailers have started to adopt VR and AR technologies in-store with a hope to enhance customers’ shopping experience. South Korean beauty brand Innisfree is a case in point. It has set up an in-store VR experience zone in its Shanghai Disneyland store. Customers can put on a head-mounted display (HMD) and mount a bike to go on a virtual visit to Innisfree’s home base of Jeju Island in South Korea, and they can collect samples of natural ingredients when they pedal.

That said, the development of VR and AR is not without challenges. The major downside of the technology is that it requires the use of VR/AR gears such as 3D glasses or head-mounted display to view the projected 3D image. Thus, the usage is not easily scalable.
Contacts

Asia Distribution and Retail

Teresa Lam
Vice President
Tel: (852) 2300 2466
Email: teresalam@fung1937.com

Christy Li
Senior Research Manager
Tel: (852) 2300 2476
Email: christyli@fung1937.com

Fung Business Intelligence
10/F, LiFung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong
Phone: (852) 2300 2470 | Fax: (852) 2635 1598
Email: fbicgroup@fung1937.com | https://www.fbicgroup.com/

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