China E-commerce

RURAL E-COMMERCE IN CHINA:
THE NEXT BIG THING IN THE “INTERNET-PLUS” ERA

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1. Executive Summary
EXECUTIVE SUMMARY

✿ China's urban e-commerce market is near saturation after years of explosive growth. Recently, some e-commerce giants are turning to the rural towns in search of new profit. The fast growing rural e-commerce sector has become a new powerhouse of online sales growth.

✿ Currently, home electronic appliances and personal electronic items take up the largest market share on rural online marketplaces.

✿ On the back of the increasing Internet penetration and improving transport and logistics infrastructure in rural towns, the transaction value of China’s rural e-commerce market is expected to surpass that of the local urban areas over the next 10 to 20 years.
EXECUTIVE SUMMARY (CONT’D)

❖ To cash in on the rapidly growing rural e-commerce sector, the major e-commerce titans including Alibaba, JD.com and Suning have adopted “going rural” strategies. Many players have geared up for the upcoming Singles’ Day online shopping festival on 11 November, hoping to boost their sales in rural areas.

❖ The expansion of rural e-commerce will pave the way for the growth of “last mile” logistics services. Major e-commerce players are expected to invest more in “last mile” delivery services so as to expedite their penetration into rural towns.
2. Market overview and latest developments
RURAL E-COMMERCE SEES IMPRESSIVE GROWTH

- According to Ali Research’s recent report *the E-commerce Consumption in Rural China*, online shopping has developed rapidly in China’s rural villages over the past three years.
  
  - Online purchases from rural Chinese consumers made up 9.11% of total sales on Alibaba’s C2C marketplace Taobao.com in 1Q14, up from 7.11% in 2Q12*.
  
  - Alibaba's Singles’ Day sales in 2014 surpassed 57.1 billion yuan and 10% of these sales were from rural areas.
  
  - The e-commerce titan estimates that the rural e-commerce market in China will be worth over 460 billion in 2016, narrowing the gap in market size between the rural and urban areas.

- Transaction value of China’s rural e-commerce market is expected to surpass that of the local urban areas over the next 10 to 20 years.

**ONLINE SHOPPING IS GAINING POPULARITY IN RURAL AREAS**

- Compared with the traditional storefront shopping in rural areas, online shopping is an attractive alternative for rural shoppers.

<table>
<thead>
<tr>
<th></th>
<th>Online shopping</th>
<th>Traditional storefront shopping in rural towns</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Price</strong></td>
<td>Lower price due to lower operating costs (rental, labor, distribution costs)</td>
<td>Higher price due to higher operating costs (rental, labor, distribution costs)</td>
</tr>
<tr>
<td><strong>Product variety</strong></td>
<td>Wide range of product categories on online stores</td>
<td>Limited product variety</td>
</tr>
<tr>
<td><strong>Quality</strong></td>
<td>Authentic and genuine products on official websites</td>
<td>Counterfeit products easily found</td>
</tr>
<tr>
<td><strong>Time constraints</strong></td>
<td>No</td>
<td>Subject to operating hours</td>
</tr>
</tbody>
</table>
## TOP 10 BEST SELLING ITEMS SOLD THROUGH TAOBAO RURAL SERVICE CENTERS

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Home electronic appliances</td>
</tr>
<tr>
<td>2</td>
<td>Mobile top-up</td>
</tr>
<tr>
<td>3</td>
<td>Women’s apparel</td>
</tr>
<tr>
<td>4</td>
<td>Kitchen appliances</td>
</tr>
<tr>
<td>5</td>
<td>Men’s apparel</td>
</tr>
<tr>
<td>6</td>
<td>Mobile phones</td>
</tr>
<tr>
<td>7</td>
<td>Cleansers/ feminine hygiene products/ tissues / air fresheners</td>
</tr>
<tr>
<td>8</td>
<td>Flower deliveries/ artificial flowers/ plants</td>
</tr>
<tr>
<td>9</td>
<td>Women’s shoes</td>
</tr>
<tr>
<td>10</td>
<td>Furniture</td>
</tr>
</tbody>
</table>

**#Note:** Taobao rural services centers are Aliabab’s rural branches run by the company’s local partners, who are recruited and trained by the company and act as Alibaba’s representatives at Taobao rural services centers. In the rural service centers, the local partners will assist rural shoppers to place online orders, especially those without Internet access, provide product information and promote popular products that are available on Taobao marketplace to rural residents.

HOME ELECTRONIC APPLIANCES ARE THE MOST SOUGHT-AFTER ONLINE ITEMS

- According to the rural e-commerce team of JD.com*, home electronic appliance and personal electronic items take up about 60% -70% of the online sales by rural consumers, followed by other product categories such as baby care and maternal items, apparel and cosmetics items.

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*“Job duties of JD.com’s brand promoters in rural China.” 30 October, 2015. Chuansong.me. [http://chuansong.me/n/1859419](http://chuansong.me/n/1859419)
HOME ELECTRONIC APPLIANCES ARE THE MOST SOUGHT-AFTER ONLINE ITEMS (CONT’D)

- Listed below are the top three brands for selected home electronic appliances, including air-conditioner, television, refrigerator and cloth washing machine among rural online shoppers.

<table>
<thead>
<tr>
<th>Product category</th>
<th>The Top 3 brands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air conditioner</td>
<td>Midea, Galanz, Haier</td>
</tr>
<tr>
<td>Television</td>
<td>TCL, Changhong, Hisense</td>
</tr>
<tr>
<td>Refrigerator</td>
<td>Ronshen, Haier, Midea</td>
</tr>
<tr>
<td>Washing machine</td>
<td>Haier, LittleSwan, Galanz</td>
</tr>
</tbody>
</table>

http://www.aliresearch.com/blog/article/detail/id/20543.html
The strong demand for home electronic appliance and personal electronic products has been fueled by rural residents’ desire to renew and/or upgrade their home electronic appliances purchased during the period when the Chinese government launched the “Home Electronic Appliances to the Countryside” and “Old-for-new (trade in) Subsidies for Home Appliances” programs to expand domestic demand and boost consumption.

<table>
<thead>
<tr>
<th>Initiatives</th>
<th>Launched period</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>“Home Electronic Appliances to the Countryside” program*</td>
<td>Starting period: 1 December, 2008</td>
<td>Subsidizes up to 13% of the prices for purchases of designated household appliances for rural households</td>
</tr>
<tr>
<td></td>
<td>Ending period: 30 November, 2012</td>
<td></td>
</tr>
<tr>
<td>“Old-for-new (trade in) Subsidies for Home Appliances ” program**</td>
<td>Starting period: 1 June, 2009</td>
<td>Home appliances (television, refrigerator, washing machine, air-conditioner or computer) buyers will receive a subsidy up to 10% of the prices of the new products</td>
</tr>
<tr>
<td></td>
<td>Ending period: 31 May, 2010</td>
<td></td>
</tr>
</tbody>
</table>

In 2014, the number of online shoppers in rural areas in China hit 77.14 million, a 40.6% increase against 16.9% growth in urban areas, according to China Internet Network Information Center (CNNIC)*.

According to CNNIC, the Internet penetration rate in China’s rural area has registered continuous growth over the past few years. The Internet penetration rate was 28.8% in 2014.
MOBILE E-COMMERCE IS GAINING GROUNDS IN RURAL AREAS

Mobile e-commerce is becoming more and more popular in rural areas. For instance, mobile e-commerce spending by rural residents on Alibaba’s shopping sites Tmall.com, Taobao.com and Juhuasuan surged more than 250% to over 200 billion yuan in 2014*.

*M-commerce sales by rural residents up >250% to > 200 billion yuan in 2014.

RISING HOUSEHOLD INCOME IN RURAL AREAS IS A MAJOR GROWTH DRIVER

- Household incomes of rural residents have registered significant growth over recent years. In 2014, the annual per capita disposable income of rural residents increased by 9.2% yoy to 10,489 yuan, beating the 6.8% yoy growth of urban residents, according to the National Bureau of Statistics of China (NBS).

- Increasing household incomes of rural residents has unlocked the online buying power in rural areas and will continue to fuel the development of rural e-commerce.

Yoy growth of annual per capita disposable income in 2014
Urban vs. Rural

6.8%
Urban

9.2%
Rural
GOVERNMENT COMMITS SUPPORT FOR RURAL E-COMMERCE DEVELOPMENT

- Despite the rapid development of e-commerce in rural China, some less developed inland areas are still facing obstacles, including lack of Internet access, logistical constraints and deficiency in skilled labors. To support the development of rural e-commerce, 19 government departments in China, including the Ministry of Commerce, jointly issued the Opinions on Accelerating the Development of E-commerce in Rural Areas on 2 September 2015.

Opinions on Accelerating the Development of E-commerce in Rural Areas

2 September 2015

Key measures proposed by the Opinions to solve the existing problems in rural e-commerce development

- Support e-commerce, logistics, commerce, finance and other sectors to develop rural e-commerce;

- Nurture enterprises dedicated to rural e-commerce services;

- Improve the logistics and distribution capabilities in rural areas;

- Provide more financial support

- Train up more talent for rural e-commerce sector
E-COMMERCE GIANTS PURSUE “GOING RURAL” STRATEGIES

- Witnessing the ample growth potential in the rural e-commerce market, a number of e-commerce players such as Alibaba, JD.com and Suning have sought to tap the huge market and regarded rural e-commerce development as a major priority.

- The rural initiatives adopted by the e-commercial players mark an important step in the process of rural modernization. They also help lift the incomes of rural residents and narrow the urban-rural income gap.
3. Case studies: “Going rural” strategies adopted by selected e-commerce giants
E-COMMERCE GIANTS’ “GOING RURAL” STRATEGIES

ALIBABA

❖ In October 2014, Alibaba, the largest e-commerce company in China, announced its plan to invest 10 billion yuan to build 1,000 county-level service centers and 100,000 village-level service centers in China over the next three to five years.

❖ The company has recruited and trained local partners as Alibaba’s representatives to run its service centers in rural towns. In the rural service centers, the local partners will assist rural shoppers to place online orders, especially those without Internet access, provide product information and promote popular products that are available on Taobao marketplace to rural residents.

❖ Alibaba aims to expand the company’s e-commerce network to a third of counties and a sixth of villages across the country*.

As of the end of September 2015, Alibaba has opened 128 county-level service centers and 5,600 village-level service centers across 23 provinces in China*.

No. of county-level service centers: 128
No. of village-level service centers: 5,600

Apart from expanding distribution channels across rural towns, Alibaba has also opened an online marketplace named Cuntaobao (农村淘宝) (https://cun.taobao.com/) selling farm produce, apparel, home appliance and daily consumer goods to rural residents.

In October 2015, the e-commerce giant announced the maiden participation of Cuntaobao in the Singles' Day online shopping festival on 11 November 2015, whereby rural online retailers selling on Cuntaobao will showcase their products at the local service centers in rural towns, promoting O2O interaction between the online retailers and rural customers.
The company will also launch a mobile app for Cuntaobao*. The new mobile app has two main functions:

- First, it will connect rural residents with Cuntaobao’s online retailers and allow rural residents with neither bank cards nor Alipay to shop conveniently. For example, rural consumers can communicate with rural online retailers through the app and choose other payment options such as cash-in-delivery and bank transfer payment offered by rural online retailers.

- Second, it will keep rural customers abreast of Cuntaobao’s latest promotions and information of popular products by sending notification to the app users.

*“Alibaba to launch mobile app for Cuntaobao prior to its debut on Singles’ Day online shopping festival.” 29 October, 2015. CCFA. http://www.ccfa.org.cn/portal/cn/view.jsp?lt=3&id=422282
E-COMMERCE GIANTS’ “GOING RURAL” STRATEGIES
JD.COM

- JD.com, the second largest e-commerce player in China, has also rolled out an online shopping mall for farm produce (http://nong.jd.com) on 11 August 2015, offering agricultural produce such as seed, pesticides, fertilizers and farming tools to millions of farmers across rural towns in China*.

- Apart from working with third-party logistics carriers, the company operates its own network of 166 regional warehouses and thousands of smaller local delivery stations across the country. In remote areas, JD.com has hired about 100,000 “brand promoters”, who work as a part-time courier at JD.com’s rural service centers to deliver goods to rural customers**.

- In addition to providing home delivery services, the company also offers installment payment, credit and insurance services, making online shopping more convenient and enjoyable for rural residents.

The launch of farm produce online marketplace has created business opportunities for domestics and foreign agricultural enterprises as they can reach out to more rural consumers through the online platform.

Since early 2015, many well-established agricultural enterprises such as Shenzhen-listed fertilizer company Kingenta Ecological Engineering Group*, Sinochem Group’s wholly-owned subsidiary China National Seed Group** and Beijing Jingyan Yinong Sci-Tech Development Center, the affiliate of the National Engineering Research Centre for Vegetables***, have allied with JD.com to sell their products on the company’s online farm produce mall.

Another major online player Suning Commerce Group has also stepped up its efforts to make inroads into the countryside. On 25 September, 2015, the company and the State Council’s Leading Group Office of Poverty Alleviation and Development (LGOPAD) inked a strategic cooperation agreement on leveraging rural e-commerce to reduce poverty in China.

Under the agreement, Suning will:
- Open 100 stores including Suning.com’s self-operated stores and service stations in 100 impoverished counties within three years
- Open 100 channels for local agricultural by-products and ethnic handicrafts, etc.
- Set up an O2O experiential display area in some stores for the display of agricultural by-products from poor regions
- Partner with LGOPAD to organize poverty relief shopping festivals to promote the sales of specialty products from poor regions
- Help underprivileged counties to train at least 10,000 talents for rural e-commerce

“Suning to build 100 regional stations in impoverished counties within three years.” 25 September, 2015. Ebrun.com
http://www.ebrun.com/20150925/150316.shtml
4. Conclusions
Conclusions

- With historically lower income level, dispersed populations and logistics and infrastructure deficiency, most rural areas have failed to attract many brick-and-mortar retailers. Therefore, shopping in rural China is still subject to a number of constraints, including limited product variety, inflated prices and counterfeit products. However, rural consumers’ growing demand for quality products, combined with an increasing acceptance of online shopping has fueled the growth of rural e-commerce over recent years.

- The expansion of rural e-commerce will pave the way for the growth of “last mile” logistics services. Underpinned by the government’s initiatives to improve the logistics and distribution capabilities in rural areas, major e-commerce players are expected to invest more in “last mile” delivery services so as to expedite their penetration into rural towns.
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