China’s next retail disruption:
End-to-end value chain digitisation
Foreword

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Hardly any week goes by without news on the invention or adoption of new consumer technology, videos of some internet celebrities (Wanghongs) going viral on social media, or major announcement by retailers to redefine customer experiences – this is the intensity and speed at which China’s consumer landscape is evolving.

In August of last year Amazon announced it was buying Whole Foods and, as many investment analysts and retail leaders rushed to make sense of the deal, USD 11.6 billion was wiped off the market value of other competitor grocery retailers in just under 24 hours. Those in the US may have been left surprised by this move but that shouldn’t be the case. The strategy of internet giants acquiring offline retailers was already happening in China. The future of global retail is happening here now.

Sheer scale makes China a must play, must win market. China has eclipsed the US as the largest retail market in the world. China’s National Bureau of Statistics reported that for Q1 2018, total retail sales of consumer goods reached USD 1,436.8 billion, up by 9.8 percent year-on-year. In the US, the estimated quarterly retail sales for Q1 2018 was USD 1,306.7 billion, an increase of 4.5% year-on-year.

China is also the world’s biggest eCommerce market with online sales in Q1 2018 reaching USD 307.4 billion, an increase of 35.4% year-on-year. In the US, online retail sales in Q1 2018 reached USD 123.6 billion, an increase of 16.4% year-on-year. Singles’ Day continues to break records, with Gross Merchandise Value (GMV) increasing 39% to USD 25.2 billion in 2017, versus a combined value of USD 11.6 billion for Black Friday and Cyber Monday in the US. Yes – scale makes the China opportunity strategically significant but it is retail innovation that truly puts it in a category of one.

1. Wanghongs, meaning internet celebrities, are Chinese key opinion leaders that have attracted a large fan base through relying on social media. They typically monetise this fan base through endorsements, brand sponsorships and also selling products via their own eCommerce stores.

China’s retail market outlook

Source: PwC analysis

China’s eCommerce penetration by category

Source: Goldman Sachs, Euromonitor and PwC analysis

China’s next retail disruption: End-to-end value chain digitisation
In 2017 we first discussed this theme in our report “eCommerce in China – the future is already here” which identified how digital had transformed the front-office of retail: sales channels and marketing. It also revealed that mobile commerce, secure platforms, and big data analytics, among others, were becoming key investment areas for global retailers to thrive.

This shift from Digital Retail to “New Retail” is being characterised by data-driven and customer centric approach, further enabled by digitalisation through the entire value chain. As we saw with eCommerce, China’s internet giants are the primary drivers of this trend pushing traditional retailers into a new period of disruption through rapid capability building strategies via build, partner and acquisition models.

As the world’s biggest and arguably most important consumer market, China is now home to 784 million smartphone users and now social media, mPayments and eCommerce are ubiquitous parts of the shoppers journey.

PwC’s latest Global Consumer Insights Survey 2018 (“GCIS”) found that in terms of shopping habits, 50% of Chinese consumers (compared to the global average of 22%) buy products online weekly and 59% of them are likely to buy grocery online (compared to global average of 21%). Chinese consumers are also leaders in mobile payments as 86% of them have used mobile payments to make purchases (compared to the global average of 24%) thereby creating a near cashless society. Our research also finds that Chinese consumers continue to be first movers at the forefront of new innovations: 44% would consider a drone as a delivery method for a low value product versus 22% globally.

This intense digital connectivity has led to proliferation of big data which is being used to optimise how brands create compelling customer experiences and also transform retail business models. On the consumer side, data driven marketing has now become so common that it is changing expectations of engagement. Our research found 67% of Chinese consumers expect retailers to have up-to-date information on them and personalise their experiences accordingly, compared to 42% globally. We are also now seeing the application of AI technologies that enable more effective targeting, however, brands must be careful to strike the delicate balance needed to protect data privacy, consumer trust and network security.

New retail is not just transforming consumer engagement but the entire value chain. Retailers are building smarter, more flexible and multiple-purpose supply chains capable of orchestrating inventory across online and offline channels. Data is being used to make product development more demand-based and also shorten time to market. Sourcing traceability, particularly via blockchain, is also becoming increasingly important to enable greater consumer trust.

E-commerce has disrupted retail and to stay competitive in the industry and uphold the brand credibility, retailers could invest more in various channels to enhance convenience, improve customer experience and strengthen personal data protection. While retailers and brands identify business opportunities through the data driven shopping habits and capture economic value through data, it would also be wise to not lose sight of the core competencies of your brand that maintain its competitive advantage. After all, complacency is a recipe for being disrupted. Proactive focus on maintaining and building the distinctive capabilities to deliver on the value proposition is a disruption-proof winning strategy.

I strongly urge you to read this insightful report which explains the evolution from Digital Retail to New Retail. For businesses already operating in China it explains the ways to play in this rapidly changing consumer environment, and for those looking at inspiration it offers a perspective of China as the future of global retail innovation.
Key growth trends in China’s retail market

- Post 80s and 90s shoppers
- Categories: Health, premiumisation, lifestyle and interactivity
- Urban clusters and mega cities

Digital retail matures into New Retail

- S-Curves of retail innovation
- Digitisation of the value chain
- Platforms and walled gardens: online and offline

What it takes to succeed in New Retail

Key takeaways

Contacts
Key growth trends in China’s retail market

Looking beyond the macro headlines for breakout growth

At the macro level China’s retail market is forecast to grow at a compound annual growth rate of 9% from 2017 to 2021, still robust but slower than 12% from 2012 to 2016. Below these macro figures significant growth opportunities still exist. Here we explore the Post 80s and 90s generations, products and services catering to the trends of health, premiumisation, lifestyle and experience, and key growth opportunities with city clusters.
I. Digging deeper to understand the post 80s and 90s generations

Over the past 5 years a lot of emphasis has been placed on the Chinese millennials. There are good reasons for this, with a population of approximately 410m there are more millennials in China than the entire population of North America. Almost every brand is looking to target the Chinese millennials and as a result there is a fierce war for a share of their attention and wallet. In order to engage consumers we need to understand them. Typically we see three main challenges with how brands or retailers are approaching this in China.

- Firstly, the term millennials – covering birth years of early 1980s to early 2000s – is a Western segmentation model and it is important to take a localised approach which divides generations by decade e.g. post 80s and 90s.

- Secondly, some companies are still focusing on the “digital savviness” of the Chinese millennials, trends which are now so pervasive that they have become truisms. While traditional demographic segmentation methods could be useful in providing directional insights and structuring quantitative market sizing, they often fail to capture the underlying rational and emotive motivations that really drive decision making.

- Thirdly, there is no such thing as “an average 28 year-old female young professional”. Without the life and colours of personas, it is very difficult for brands to practically design products and services with the Chinese consumers’ needs and wants in mind.

To really understand the Chinese consumer businesses need to invest in proprietary analysis that blends both traditional quantitative research with qualitative insights. Brands are taking inspiration from the design-thinking approaches pioneered by the internet companies and we are now seeing a greater emphasis on techniques like: ethnography, behavioural economics and gamified consumer testing. These approaches help to gain a richer, fuller and more bespoke understanding of consumer behaviour, desires and paint points.

Over the last 12 months, PwC has helped many brands in this way and has interviewed more than 1,200 consumers from across all city tiers and regions. For a global fashion retailer with over 150 stores in China, PwC interviewed ~100 young female shoppers and identified their demand for shopping experiences that are entertaining and practical, beyond “just another in-store + digital app combination”. Based on the insights, PwC designed a gamified community-based retail experience that addresses directly the personas’ needs and wants, which made the clients revisit their vision and assumptions.
We are increasingly seeing that viewing the Chinese shopper through the lens of the Innovators (21% of consumers), Fast Followers (52%) and Laggards (27%) enables us to identify some of the most significant differences in behaviour. Innovator personas are those that are the earliest to uncover new trends and take pride in inspiring those around them – typically the fast followers – through sharing on social platforms. Laggards are those which are slow to adopt new fashions or technologies.

For example, Innovator personas are ferocious consumers, 41% expect to spend much more in the next 12 months (versus 18% average) and 23% shopping on their mobile daily (versus 9%). They are also much more likely to use multiple digital platforms and formats to find inspiration for those purchases, with livestreaming and blogs particularly popular.

Do you feel confident about your personal financial situation in terms of your shopping spend plans for the next 12 months?

Source: PwC’s Global Consumer Insights Survey 2018

Innovators look for inspiration across a wide variety of social platforms

Key growth trends in China’s retail market
There is obviously no single Innovator persona however, our research finds them within multiple demographic segments or contexts. Here are three examples of post 90s and 80s personas which we see as being indicative of the innovative modern Chinese consumer.

JR and Sophia

The Wellness Explorers

Ying

The Sassy Modern New Mom

Mandy

The Post-90s Trend-setter
JR and Sophia met through their local ASICS running group, and have been training together with their close-knit group of wellbeing-enthusiastic friends.

**The Wellness Explorers**

“Help me understand how I could live a healthier lifestyle and have more fun training.”

<table>
<thead>
<tr>
<th>Age</th>
<th>27 and 28</th>
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<tbody>
<tr>
<td>Monthly</td>
<td>Both around RMB 16,000</td>
</tr>
<tr>
<td>disposable</td>
<td>income</td>
</tr>
<tr>
<td>Relationship</td>
<td>status</td>
</tr>
<tr>
<td>City</td>
<td>JR is originally from Xiamen and currently living in Guangzhou, Sophia is born and raised in Guangzhou</td>
</tr>
<tr>
<td>Education</td>
<td>College (in Tianjin and Beijing)</td>
</tr>
<tr>
<td>Occupation</td>
<td>JR works for an internet advertising company and Sophia is a secretary at real estate agency</td>
</tr>
<tr>
<td>Interests</td>
<td>Running, outdoors, healthy eating, following sports</td>
</tr>
</tbody>
</table>

**Persona identifiers**

- Loves “learning through socialising” – actively share experiences and learning from the workout groups and sports fan clubs they belong to
- Follows and attends events hosted by gyms e.g. SuperMonkey and Versus and sports brands to workout in a social setting and learn about new wellness trends

**Goals**

- Live a well-balanced life and be a well-being role model amongst their peer groups
- “Buys for a purpose” – it’s not just about the products, but also how the products fit into their lifestyle and their pursuits, supports sustainable products and brands that are socially conscious

**Purchasing behavior**

- Lack of more bespoke sports brands that fulfills their expectation of looking good while working out
- Sharing their experience with new fitness programs, and their analysis of a China Super League soccer game on Baidu forums and Dongqiudi
- Highly values recommendations from fellow wellness enthusiasts in the running group based on their personal experiences
- Informative, educational brand-sponsored content
Ying
The Sassy Modern New Mom

“I believe I could have it all – family, career, and friends”

Ying is a young mom who just had her first child. As dedicated as Ying is to her son, Ying also makes sure she leaves enough time for and investment in herself.

Age: 29
Monthly disposable income: Household RMB24,000
Relationship status: Married with a new-born
City: Born and raised in Shanghai
Education: Studied marketing in Shanghai
Occupation: Ying is a finance manager at a multi-national consumer goods company, currently on maternity leave

Interests: An avid organiser, enjoys organising playdates, family outings, weekend trips to nearby provinces for friends. Teaching herself principles of interior design in preparation of renovating their dream home.

Persona identifiers
- Family-first, but also cares about and willing to invest in her own interests and self-love
- Quality conscious, willing to pay a premium for the quality-guaranteed products

Goals
- Having it all – happy family, successful career, and fun social life

Purchasing behavior
- Connects with other young moms on LaMaBang (辣妈帮) to follow useful threads on looking after a new born, and to receive tips and deals for baby products
- Casually browses Tmall and JD.com as daily habits – opportunistic buyers

Pain points
- Time-poor: lack of time to look after herself

Moments of delight
- A family holiday in the Philippines that gave her plenty of time of rest and stroll on the beach
- Documenting the child’s infancy through daily photos shared in the family WeChat group

Purchase decision influencers
- Trusts her own decision making, but will reference reviews in mom groups (LaMaBang, BabyTree) when it comes to baby products

Key growth trends in China’s retail market
Mandy

The Post-90s Trend-setter

“Fashion is a hobby and passion”

Mandy is passionate about fashion. She is a smart shopper and sees her investment in style not only as a way for her to express, but also to establish herself as a trendsetter amongst her social circles.

<table>
<thead>
<tr>
<th>Age</th>
<th>20</th>
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<tbody>
<tr>
<td>Monthly disposable income</td>
<td>RMB 6,000 (monthly allowance from family)</td>
</tr>
<tr>
<td>Relationship status</td>
<td>Single</td>
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<tr>
<td>City</td>
<td>Originally from Beijing, currently studying in Shenzhen</td>
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<tr>
<td>Education</td>
<td>Studying in Beijing</td>
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<tr>
<td>Occupation</td>
<td>Student</td>
</tr>
<tr>
<td>Interests</td>
<td>Online shopping, fashion, music, food and weekend trips</td>
</tr>
</tbody>
</table>

**Persona identifiers**
- Trend-setter amongst her friends, makes up her own mind
- Style lover, master of online clothing shopping – knows every brand, merchant, daigou that is available and has mastered the art of buying limited edition items

**Goals**
- Establish her own style, build up a collection of signature items, and be seen as a trendsetter amongst her peers
- Uses daigou to purchase from brands that are not available in China, and to buy imported products (from Korea/the US/Europe) at the lowest price possible
- Sells her own second-hand items (clothing, handbags) on Xian Yu, and resells face masks she bulk bought from Daigou to her friends

**Purchasing behavior**
- Finds it difficult to find unique pieces on main online shopping destinations – “everyone is wearing the same thing”
- Successfully buying a limited edition Supreme suitcase after months of saving up and finding a family friend that could queue up for her and purchase from the flagship store

**Purchase decision influencers**
- Follows fashion influencers on WeChat (e.g. Baoxiansheng, Becky Li) for styling inspiration and to discover new brands.
- Browses Net-a-porter, Farfetch, LaneCrawford, Xiaohong Shu (Little Red Book) daily for fashion inspiration

Key growth trends in China’s retail market
II. Growth categories: premium, health, lifestyle and interactivity

Many of these trends are similar to what brands and retailers have seen globally however, as is often the case in China, the speed and relative impact of the change is more dramatic. For example, our Global Consumer Insights Survey shows that during the last 12 months 52% of Chinese consumers have spent more on experiences versus last year (e.g. travel, dinning out and events) compared to 26% in the United States. Within the “Experience Economy” we also see that while in the United States eating out and travel dominate, Chinese consumers have a much broader perspective. Similarly, culinary classes (40% versus 7%) and self-improvement / education (34% versus 17%) are priority areas that have relatively limited demand in the United States.

### Premium vs Mass

<table>
<thead>
<tr>
<th>Category</th>
<th>Premium</th>
<th>Mass</th>
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<tr>
<td>Premium beauty and personal care</td>
<td>14%</td>
<td>6%</td>
</tr>
<tr>
<td>Mass beauty and personal care</td>
<td></td>
<td>6%</td>
</tr>
<tr>
<td>Salon professional hair care</td>
<td>9%</td>
<td></td>
</tr>
<tr>
<td>Shampoos</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td>Premium jeans</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Economy jeans</td>
<td>2%</td>
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### Interactive vs traditional

<table>
<thead>
<tr>
<th>Category</th>
<th>Interactive</th>
<th>Traditional</th>
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<tbody>
<tr>
<td>Livestreaming</td>
<td>29%</td>
<td>5%</td>
</tr>
<tr>
<td>Traditional media consumption</td>
<td></td>
<td>5%</td>
</tr>
<tr>
<td>E-sports sector</td>
<td>24%</td>
<td></td>
</tr>
<tr>
<td>Video games/Consouls</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>Mobile / O2O advertising</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>TV advertising</td>
<td>1%</td>
<td></td>
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### Lifestyle vs Necessity

<table>
<thead>
<tr>
<th>Category</th>
<th>Lifestyle</th>
<th>Necessity</th>
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<tbody>
<tr>
<td>Fresh coffee</td>
<td>17%</td>
<td>4%</td>
</tr>
<tr>
<td>Instant coffee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sports footwear</td>
<td>12%</td>
<td>6%</td>
</tr>
<tr>
<td>Footwear</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eating out</td>
<td>12%</td>
<td>7%</td>
</tr>
<tr>
<td>Grocery</td>
<td></td>
<td></td>
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### Health vs Unhealthy

<table>
<thead>
<tr>
<th>Category</th>
<th>Health</th>
<th>Unhealthy</th>
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<tbody>
<tr>
<td>Sports nutrition</td>
<td>25%</td>
<td>4%</td>
</tr>
<tr>
<td>Carbonates</td>
<td></td>
<td>12%</td>
</tr>
<tr>
<td>Fresh food</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>Ready meals</td>
<td>2%</td>
<td></td>
</tr>
<tr>
<td>Air purifiers</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>Cooling</td>
<td>8%</td>
<td></td>
</tr>
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</table>

Source: PwC’s Entertainment and Media Outlook, Euromonitor
These demand side shifts are having a transformative impact on how retailers are reinventing their overall customer value proposition across merchandising portfolio, format and environment. Below are some of the key changes we see across grocery, shopping malls and eCommerce.

### Premiumisation
- **Retailers** are upgrading their offerings with premium products and services.
- **Examples:**
  - Ole’ is a new banner under the China Resources Vanguard and targets white-collar workers with high quality imported products.
  - Grand Gateway Shanghai Mall undergoing a renovation and increasing the luxury brand penetration rate to ~45% from 30%.

### Health
- **Retailers** are focusing on health and wellness products.
- **Examples:**
  - Yonghui, one of China’s best performing grocers, generates 45% revenue from fresh food, highest amongst industry peers.
  - Wanda worked with air purification companies and keep shoppers up-to-date on indoor air quality with digital screens.

### Lifestyle
- **Retailers** are enhancing in-store experiences with a focus on lifestyle.
- **Examples:**
  - 40% of Alibaba’s Hema supermarket area is given over to cooking and dining areas.
  - Commerce accounts for only 25% of the 470,000 sqm Nanning Wanda mall which includes an interactive children’s park, a movie theatre and an indoor pedestrian street with a five star hotel.

### Interactivity
- **Retailers** are integrating technology to enhance customer engagement.
- **Examples:**
  - All of the products in Alibaba’s Hema store can be activated with digital content or added to basket. Estimated 50% of total sales via eCommerce, 10x industry average.
  - Guangzhou ZhengJia shopping mall establish VR experience center with over 1,000 square meters.

### How retailers are transforming to cater to new consumer trends

#### Grocery
- **Clear shift to** imported packaged food and hard-to-find products with unique flavours or attributes.
- **Examples:**
  - e.g. Ole’ is a new banner under the China Resources Vanguard and targets white-collar workers with high quality imported products.

#### Shopping Malls
- **Existing luxury malls** in Tier 1 cities and first mover high quality malls in Tier 3 are some of the key archetypes outperforming the sector.
- **Examples:**
  - e.g. Grand Gateway Shanghai Mall undergoing a renovation and increasing the luxury brand penetration rate to ~45% from 30%.

#### eCommerce
- **Luxury brands** are finally embracing eCommerce as consumers become comfortable buying premium goods online.
- **Examples:**
  - e.g. JD is expanding its presence in the luxury by launching Toplife with experiences that include in-house fashion consultants and premium delivery services with couriers wearing suits and white gloves.
III. Urban clusters and mega cities of opportunity

In 2017, 800m people (58% of the population) lived in China’s cities – the largest urban population in the world. Urbanisation has been a key macroeconomic trend fuelling growth and many retailers and brands have responded by developing go-to-market strategies through a city tier lens. For example, McDonald’s has over 2,500 stores in China but differentiates the format by tier. Large premium stores under the concept of “Future 2.0” are often in Tier 1 cities and include high-tech experiences including a self-order machine with functions that include the ability to customise flavor choices, while smaller and simpler formats are found elsewhere. Likewise, Decathlon’s stores in Tier 1 cities are typically 4,000 sqm and include experiential environments like a children’s playground area but lower tier stores are smaller and simpler at 1,500 sqm.

Going forward developing effective strategies to capture growth in lower tier cities will be increasingly important. Morgan Stanley estimates that between 2016 and 2030, 92% of future consumption in China will come from outside Tier 1. In our experience, while city tier strategies offer a practical lens through which to align resources with population size and wealth their simplicity can also be a limitation. Firstly, while there are 4 Tier 1 cities there are approximately 45 Tier 2 cities, 70 Tier 3 and 90 Tier 4 cities, numbers too large for practical (versus economic) purposes. Secondly, China is a geographically large and culturally diverse country with each region having distinct consumption habits and preferences (similar to Europe), none of which are captured through a city tier lens. As a result, we are seeing more focus on strategies that view the China market through the lens of city clusters – one through which opportunities are captured at the intersection of region and city tier. PwC’s recent Chinese Cities of Opportunity 2018 report, jointly released by the China Development Research Foundation, identified 12 key clusters which represent ~80% of China’s GDP and will form the basis for future economic growth. Here retailers and brands look to localise go-to-market strategies (typically channel, format, merchandising and supply chain) at the cluster level which take into account more specific economic opportunity and regional infrastructure, competitive landscape and consumer preferences.

Key growth trends in China’s retail market
In addition to urban clusters, China is also home to four mega cities: Beijing, Shanghai, Guangzhou and Shenzhen. Mega cities are significant as symbols of the country they’re located in but also for their significant economic and cultural influence at the regional, national and global level. Some brands are responding to this by putting mega cities at the heart of their global go-to-market strategy. Here a disproportionate focus of investment is put on a limited number of cities with localised marketing, merchandising and research and development. The aim is to more quickly respond to shopper needs and build direct-to-consumer engagement. Winning in these cities is seen to be significant given both the direct opportunity size and also the influence they have on setting national, regional and global trends. For example, Adidas’ revenue in Greater China grew 29% year-on-year, and sales in Shanghai during the first six months of 2017 were EUR 100m, more than Austria and Switzerland combined.

The food sector has been one of the first to adopt a cluster approach. Taste preferences are highly dependent on regionally defined cultures, and supply chains must be built to maximise penetration and minimise wastage within store clusters. For example, KFC offers spicy and chilli powder when consumers purchase a burger in Sichuan whereas in Guangdong province, herbal teas are provided to suit regional tastes. Similarly, Youyou, a spicy snack brand, sells sour flavouring in Eastern China, numbing sensations Western China, and red oil in Chongqing Province. In the fashion sector we also see brands introducing greater flexibility in both merchandising and product development to cater to distinct buying patterns in North and Southern China as a result of distinct weather patterns and fashion trends.

Digital retail matures into New Retail

Over the last 5 years China’s retail market has experienced a digital growth miracle but its impact has mostly been on the front office: sales channels and marketing. We are now entering a period of new retail which will be far more transformation, digitising the entire value chain.

Digital retail only impacted the front office, new retail will transform the entire value chain.

China’s next retail disruption: End-to-end value chain digitisation
I. S-Curves of retail innovation

Over the last 5 years China’s retail market has experienced a digital growth miracle. Smartphones, social media, mPayments and eCommerce have quickly become ubiquitous in most urban areas. The impact of these technologies on consumer behavior has forced companies to change how they sell and market to shoppers. Yes, the digitisation of China’s retail market has been dramatic but it has mostly been one of front-office transformation.

From where we sit today, these changes have felt like we are accelerating along a linear trajectory however, innovation is an arc. The time between hot new trends turning into platitudes is collapsing and these experiences reflect where we sit on the S-Curve\(^\text{14}\) of innovation. At 5 years old, digital may feel like a new trend but it is already reaching maturity. Mobile, social and eCommerce are now reaching the top of their S-Curves and so too is digital retail.

\(^{14}\) S-Curve is a measure on the speed of adoption of an innovation. It is often used in the technology industry to describe a product lifecycle.
II. Digitisation of the value chain

We shouldn’t misinterpret the end of digital retail to mean change will slow however, as one era matures so another emerges to replace it. This is new retail. Whereas digital retail was mostly a front-office domain new retail will be far more transformative, impacting the end-to-end value chain. We see New Retail being characterised by 3 key areas:

- genuine consumer-centric operating models;
- digitisation and integration of the entire retail value chain;
- and using data to enable smarter, faster decision making and business impact.
What interests you to shop during the major online shopping festivals (e.g. 6.18 and double 11)?

*Source: PwC’s Global Consumer Insights Survey 2018*

<table>
<thead>
<tr>
<th>Interest</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Product price deductions</td>
<td>82%</td>
</tr>
<tr>
<td>Exclusive services for festival (e.g. no interest installment, product customisation)</td>
<td>37%</td>
</tr>
<tr>
<td>Festival-only exclusive products and packaging</td>
<td>27%</td>
</tr>
<tr>
<td>Access / pre-ordering of new products</td>
<td>24%</td>
</tr>
<tr>
<td>Brands creative marketing campaigns</td>
<td>20%</td>
</tr>
<tr>
<td>New features and technology launched by eCommerce platforms (e.g. like Virtual Reality, Augmented Reality or Online-to-offline)</td>
<td>17%</td>
</tr>
<tr>
<td>Festival specific events</td>
<td>9%</td>
</tr>
<tr>
<td>Interacting with friends through social media (e.g. via Social media campaigns)</td>
<td>6%</td>
</tr>
</tbody>
</table>

Digital Retail

- **Shopping missions**
  - Transaction orientated, focused on serving value and convenience buying occasions

- **eCommerce landscape**
  - Large pure-plays and market places dominate by providing endless choice

- **Channels**
  - Online and offline largely independent channels linked only through mobile O2O marketing

New Retail

- **Entertainment led with an increasing emphasis on hard to find, distinctive or niche products and brands**
  - Alibaba’s Singles’ Day transforming from a discount-led shopping season to an entertainment festival

- **Large platform increasingly curate content and new players emerge which focus on distinct niches**
  - Hyper growth new platforms: Kaola (Cross-border), Xianyu (Second-hand) and Pinduoduo (Daily discounts)

- **Connected payments and logistics at the core of integrated online and offline formats**
  - 7FRESH, JD.com grocery store, is a combination of supermarket, restaurant, distribution center and online store

Examples

Marketing: Exponential increase in content, targeting more precise

Chinese consumers are much more willing to share data and have high expectations they will receive a personalised experience because of it

Source: PwC's Global Consumer Insights Survey 2018

| Agree | 59% |
| Happy for a retailer to identify when I am nearby and send me personalised offers | 29% |
| Disagree | 37% |

| Agree | 67% |
| I expect a retailer to have up to date information across all channels (e.g. in-store, online, social media, home delivery etc.) | 34% |
| Disagree | 33% |

| Agree | 61% |
| I am comfortable for a retailer to monitor my shopping patterns and purchases | 34% |
| Disagree | 38% |


Digital Retail

- Metrics
  - Prioritisation of top-line growth: reach, engagement, traffic and conversions

- Formats and content
  - Brand and product content all optimised for the intersection of mobile, social and video

- Targeting
  - Demographic or behavioral segmentation and targeting

New Retail

- Metrics
  - Focusing on value and performance media including end-to-end ROI and multi-channel attribution

- Formats and content
  - Exponential increase in digital content emphasis on ultra-short formats (<5 seconds), live broadcasts and consumer participation

- Targeting
  - Category of one targeting, hyper personalisation and delivery of dynamic content

Examples

- L’Oreal generates 33% of China revenue online (versus 8% globally) and has a razor sharp focus on ROI across media mix, buying and creative
- Douyin, a short form video app, with powerful editing capabilities reached 100 million monthly active users within 1 year
- Kuaizi, a marketing technology start-up, uses AI to generate creative content and then optimise combinations to increase marketing effectiveness

Chinese consumers are much more willing to share data and have high expectations they will receive a personalised experience because of it

16. CAGNY Investor Conference presentation, 23 Feb 2018, L’Oreal Group
### Product development: Bigger use of data analytics, shorter time to market

**Time to market**
- Medium-term product development cycles using historical data to inform future projections

**Research and development**
- In-house R&D with emphasis on localisation of global for China
- Co-creation models including partners (eCommerce) and end consumers

**Testing and launch**
- Large campaign launches coupled with mass distribution on all channels
- Niche and occasion based segmentation with use of online as a testing bed to grow buzz

**Examples**
- Yili, a Chinese dairy company, uses digital analytics derived from multiple owned and third-party sources to inform product development, reducing time to market from 18 to 3 months
- Mars collaborated with Alibaba’s “New Manufacturing” unit to co-design and develop a unique chilli-infused Snickers bar

### Sourcing and production: Demand planning, modular production and sourcing traceability

**Forecasting and planning**
- Forecasting based on historicals, POS data, and marketing/sales judgment; very limited co-planning with supply chain partners
- Data driven demand management including joint forecast with customers, application of machine learning for advanced demand forecasting

**Production**
- Focus on scale efficiencies and unit costs as basis for competition
- Greater data availability enables differentiation via approaches like modular production methods and mass personalisation

**Quality and trust**
- Compliance as hygiene factor created through brand equity, packaging and product quality
- Traceability becoming as a differentiator enabling complete assurance of origin and supply chain

**Examples**
- Cainiao forecasts demand volatility and provides data intelligence to logistics partners to optimise inventory levels at warehouses and delivery nodes
- Mondelez enables consumers to customise the colour and design of special edition Oreo packaging on Tmall
- Alibaba, Fonterra and Blackmores create a blockchain food traceability solution to enhance consumer confidence

17. Alibaba now product designer, as well as seller, for brands, 19 Apr 2018, Alizila
http://www.alizila.com/alibaba-tmall-innovation-center-brands/

18. Kraft Heinz’s new chocolate sandwich cookies might seem familiar, 25 Apr 2018, Adage
Supply chain: Minimising costs while maximising flexibility and value

Retailers may offer various options for how you receive your goods. Which of the following services are most attractive to you if offered at no extra cost?

Source: PwC’s Global Consumer Insights Survey 2018

- Same day delivery: China 34%, US 39%
- Free return shipping: China 24%, US 20%
- Delivery at a specific time slot: China 19%, US 8%
- Package tracking: China 13%, US 18%
- In-store pick-up: China 2.7%, US 7.7%

For the majority of your online purchases, how soon do you expect your goods to arrive?

Source: PwC’s Global Consumer Insights Survey 2018

- Same day: China 29%, US 6%
- Next day: China 36%, US 8%
- Two days: China 18%, US 29%
- Three to five business days: China 12%, US 43%

Digital Retail

- Sourcing and logistics support customer experience through speed, efficiency, and low costs

New Retail

- Operations enable new customer value through expanded offerings and services; operations design is integrated into new business model development

Examples

- Li & Fung’s digital supply chain service expands to focus on pre-production and design including virtual product development
- Danone partners with JD.com to improve coverage in southwest China including building a shared warehouse in Chengdu to optimise online and offline distribution
- JD.com and Walmart’s integrated inventory and order management system optimise fulfilment by ships online customer orders from central warehouse or Walmart stores

Digital retail matures into New Retail
China’s internet giants were at the heart of digital retail and they have also been the ones to usher in the New Retail era. New Retail is an Alibaba term but both Tencent and JD also pursue similar strategies described as Smart and Borderless Retail respectively. In order to move into offline retail the internet giants are not going alone but pursuing a number of highly publicised build, buy and partner strategies.

We are still in the early days of New Retail but the competitive strategies of the internet players help us understand how the market might evolve. There are two internet ecosystems in China: Alibaba, and the Tencent and JD alliance. While each have evolved from different core competencies they have built independent ecosystems that span the entire value chain of online consumer experiences. Consumers in the Tencent ecosystem can seamlessly move from the discovery of a product endorsed by their favorite KOL on WeChat to a transactional environment in JD. In China, seamless consumer experiences (and data) only exists if we stay within the “walled gardens” of the internet giants. We also expect the internet giants to continue to enforce the walled garden approach offline. For example, Walmart, which has a strategic partnership with JD, recently announced that it was no longer accepting Alipay in Western China in favor of WeChat Pay describing the choice as “offer the best all-round shopping experience for our customers”[21].

Solving big problems and removing inefficiencies is at the core of how the internet giants look at opportunities and the only way for them to move the needle on USD ~500bn market valuations. China’s offline retail market is worth around USD 4.5 trillion and presents a significant opportunity, however the aim is not to become retailers in the traditional sense but rather identify opportunities in the retail value chain where they can solve problems, build solutions and create new business models. For example, Alibaba’s Hema has emerged as the iconic example of the modern grocery shopping format: consumer orientated, digitally connected and smart logistics enabled. The expertise and capabilities developed here are now being deployed in Sun Art Retail Group, a leading hypermarket operator with over 450 stores, as part of a USD 3bn equity investment. We also see similar strategies being deployed in the shopping mall and homeware sectors. It is not hard to foresee a future whereby the Chinese internet giants create Retail as a Service vertical-specific (Grocery, Fashion, Home, etc.) business models for the retail sector. In this scenario, brands and retailers plug into cloud-based solutions to enable next generation applications in: supply chain, product development, and production and sourcing. These strategies are similar to the Industry 4.0 approaches being developed by companies like GE’s Predix or Siemens’ MindSphere.

21. Walmart ditches Alipay in western China for Tencent’s WeChat, 27 Mar 2018, Financial Times
https://www.ft.com/content/cd9a6546-31a8-11e8-b5bf-23cb17fd1498
What it takes to succeed in New Retail
1. **New retail is full stack digitisation. See everything through the lens of business impact, customer experience and technology enablement**

All brands and retailers need to consider how digitisation will impact their total value chain. Of course technology and data will be part of the solution but jumping in too early risks digitising existing ways of working versus unlocking opportunities for breakout innovation. We recommend companies first look to consider how this new era of retail enables them to do things differently. This could mean transforming how they connect and serve consumers, where they play in the value in the chain, and the new profit pools they can capture. Doing this typically means bring together individuals and teams that have different perspectives: strategy, creative and design, and innovation and technology. These teams also need to be backed up by leadership and organisational roles needed to drive the effort. For example, when Li & Fung – a global supply chain company with over 100 years of history – was developing its 3-year plan it brought together business, technology and creative teams to ideate a vision that would radically transform its business model, versus simply digitising existing processes. The result was an asset-light strategy that integrated all elements of the supply chain into a new digital platform and partner ecosystem. Here data is captured, shared and analysed across the value chain enabling Li & Fung to provide customers with the insights needed to make smarter, faster and more effective business decisions.

2. **We are still in the early days of New Retail. Separate vision from reality, aspiration from execution, and PR (Public Relations) with ROI (Return on Investment)**

We are constantly bombarded by press announcements and case studies of innovation in China's retail economy. In this environment it is easy for brands and retailers to feel anxious they are not keeping up. It is true that innovation and competition is relentless here but it is also important to not mistake PR with ROI. In reality, most of the claims like: 360 degree view of the consumer, online-to-offline channel attribution, or real time inventory optimisation etc. are either small scale pilots or product brochure wear. Most brands and retailers in China are still struggling with massive challenges of data fragmentation, quality and completeness. As we know however, things move incredibly fast in China and vision can quickly turn to reality. We recommend that companies do not leap frog to emerging technologies until the fundamental building blocks of cloud, mobile, eCommerce and analytics are in place. There are also huge opportunities to be captured through changing how brands operate in the era of new retail, not just what technologies are used. For example, one leading sportswear brand is responding by completely reorienting content creation, campaigns and new product launches around China's eCommerce calendar.
Previously digital retail meant the front-office activities of eCommerce and digital marketing. For many brands and retailers in China this meant outsourcing most of the execution to Taobao Partners / Third-parties (TPs) eCommerce services providers and digital / media agencies. For example, a leading sportswear brand with USD ~1bn eCommerce revenue has 100+ team outsourced to a TP. As digital now comes to define everything a brand or retailer does it is critical to assess what capabilities (existing or new) need to be built in house; otherwise what is left? Agencies and partnerships will always be part of the delivery model but not at the expense of outsourcing competitive advantage. PwC recently worked with a leading consumer brand on helping them tackle this strategic question. First we helped them breakdown the opportunity landscape into a limited number of clear priorities: O2O platforms, personalisation marketing, and B2B digital commerce. We then built a capability-driven strategy that identified the operational and technology requirements needed to execute. Future considerations to how the business operates included: investments in eCommerce-specific supply chain capabilities, development of an in-house data management platform for programmatic media, and new partnerships with B2B aggregators.

Digital retail is retail. Instead of the prior decade’s obsession with business-IT alignment, brands and retailers must now pursue a more balanced approach to digital transformation, one that now puts the organisation and employees at the centre. All functions, departments and grades need to be supported to enable them to develop a fundamental of digital competence. This means creating a culture of innovation, constant learning and technology adoption. For example, Nestlé’s Digital Acceleration Team (DAT) takes young leaders from international markets – including China – into the global headquarters where they receive immersive training and work on innovative digital projects for period of 8 – 12 months. These leaders then return into their home markets where they help to drive change and spearhead digital transformation. In a similar way L’Oreal has put digital at the heart of the organisation’s DNA transforming culture, talent and daily operations. L’Oreal now has over 1,700 digital specialists and has up-skilled 16,000 employees globally.

22. Nestlé Investor Seminar, 26 Sep 2017, Nestlé
Don’t neglect to build and maintain core capabilities that create competitive advantage

In the past, digital execution meant outsourcing most tasks to eCommerce services providers (TPs) and digital/media agencies. However, as digital now comes to define the entire value chain, brands need to assess what critical capabilities (existing or new) need to be built in-house. Consider the impact of digital transformation across the entire retail value chain. Continue to invest in digitising sales and marketing but also focus on using data analytics to unlock greater speed, innovation and efficiency within supply chain operations, new product development, and production.

Build a digital organisation

Instead of the previous decades obsession with business-IT alignment, we must now pursue a more balanced approach to digital transformation, that puts the organisation, employees and the customers at the centre. It should be viewed as the means to deliver enhanced products and services which the consumer values and at the enterprise level, it is to ensure agility and adaptation to change. Invest in developing digital talent across the entire organisation. This is likely to include up-skilling all employees to a minimal level of Digital IQ, embedding analytics expertise into existing functions like marketing and eCommerce, and creating entirely new domain areas in cyber security or digital supply chain.

Focus on consumer-centric innovation

Take inspiration from the internet companies by combining customer insights with design-thinking approaches to develop new products and services that cater to the modern Chinese consumer. Focus on catering to a limited number of personas and solving for specific pain points, or moments of delight.

Integration of strategy, creativity and innovation will help you to achieve your value proposition

Technology and data will be part of the solution but don’t neglect to apply strategy, creativity and innovation expertise to rethink how this new era of retail enables brands to connect and serve consumers in a completely new way. Develop an ecosystem strategy that prioritises partnerships as a mechanism to build capability or develop new go-to-market models. Continuously scan the horizon for new innovations by working with China’s vibrant start-up community including those internet giants.

Prioritise structural growth opportunities

Capture double digit growth opportunities through aligning the customer value proposition behind key demand side drivers: premiumisation, health and wellness, lifestyle and experiences, and interactivity. Look for opportunities to further tailor go-to-market models by city cluster or create hyper localisation by developing specific strategies for China’s mega cities.

Key takeaways

The emergence of New Retail in China is impacting retail at the global level. This report describes the trends that are visible to us. Here are five takeaways for your consideration.

While digitalisation has clarified the consumer’s needs and wants in terms of personalisation, brought efficiencies to operations and accelerated gratifications, brands must not lose sight of their core products and services that built its identity. Catering to consumers that make their lives better is a sound strategy through adapting to change, embracing innovations and being trendsetters, however, having sound fundamentals and embracing the right partner is key to longevity.
**Methodology**

In this year’s survey, we reached out to more than 22,000 online shoppers across 6 continents in 27 territories across the globe. This report draws on insights from our quantitative study of the shopping behaviours of 901 Chinese consumers and over 1,200 consumer interviews as part of various project work. In addition, we also bring perspectives from our experience working with international and local retailers, brands and internet companies. Our China survey sample was slightly skewed towards males who represented 55%. From a demographic perspective 58% were aged between 25 and 44, 79% have an annual household income above RMB 70,000 (US$10,000), and 66% are in full-time employment. From a regional breakdown, 32% live in Tier 1 cities, 47% in Tier 2, and 21% in Tier 3. The study is part of PwC’s Global Consumer Insights Survey (formerly called Total Retail Survey), which in 2018 is our seventh consecutive study of online shoppers.