



cutting through complexity

# China's Connected Consumers

*When 10,000 Chinese shop...  
Insights from a 2015 survey*

[kpmg.com/cn](http://kpmg.com/cn)



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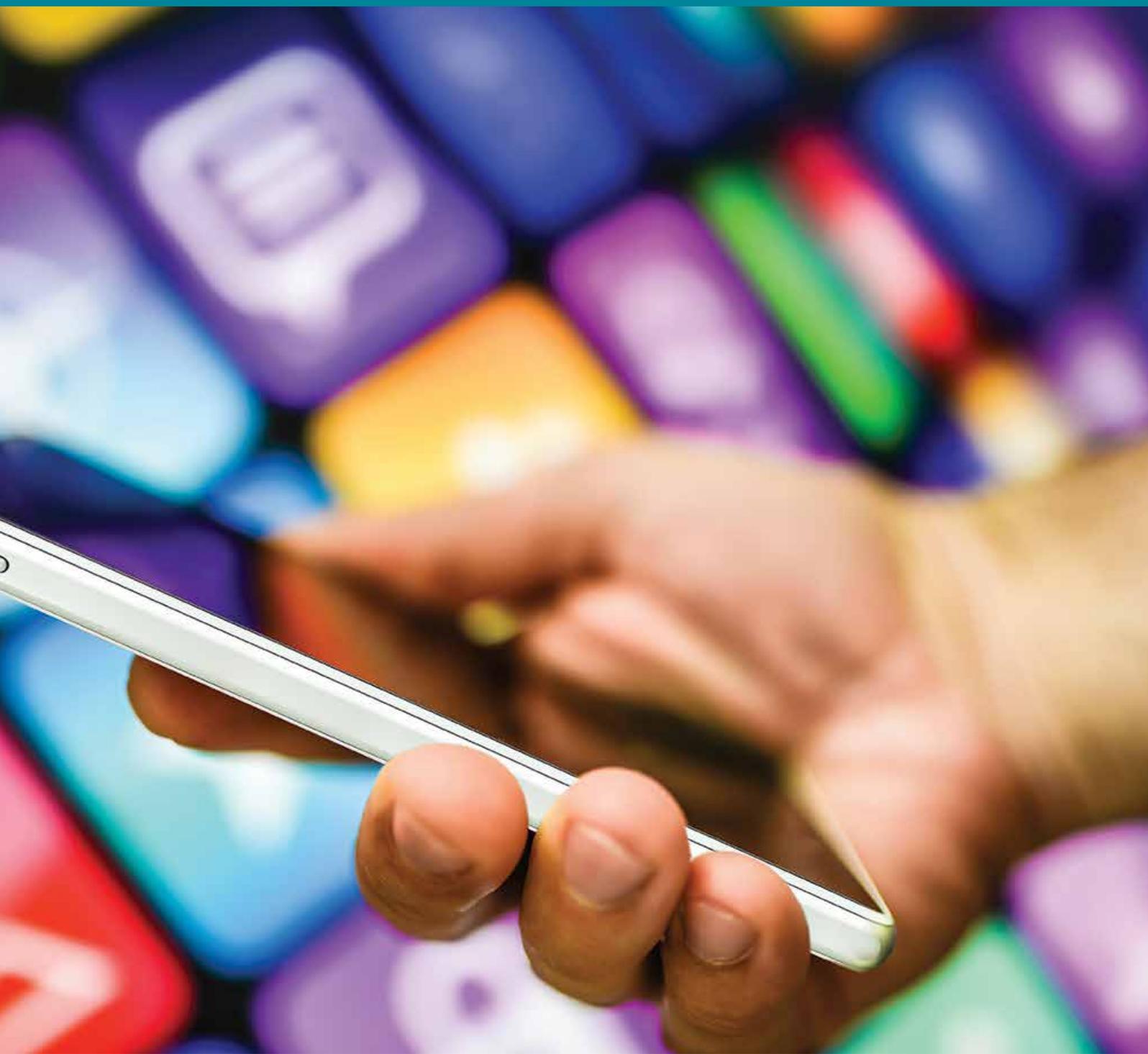
# Did you know?

- Online confidence is booming! 45 percent of luxury online shoppers now buy over half of their luxury goods online. We expect 50 percent of China's domestic luxury consumption will be generated online by 2020.
- Import duties reductions combined with brands' recent moves to realign prices between overseas and China will boost China domestic full-price e-commerce, and challenge overseas websites.
- From reviewing social media content, we noticed the emergence of retailer generated content alongside key opinion leaders' and user-generated content. Brands need to adapt and publish more relevant and consumer-centric digital content or risk seeing their brand image diluted.
- Although they remain value-driven, Chinese consumers – especially younger generations – are less price obsessed. This opens new opportunities for full price e-commerce for premium and luxury brands.
- Alibaba recorded nearly four times more sales on Singles' Day than 4,200 retailers did in the US on Black Friday.
- The smartphone is the most commonly used device for daily retail visits across Chinese luxury online shoppers.
- Online luxury services are booming – while luxury product sales are also growing the Chinese online luxury consumer now is also looking for luxurious services and experiences.
- The older generation is still lagging behind in its purchase of luxury products online – despite their ability to afford luxury.

## About the survey:

KPMG China and Mei.com commissioned Intuit Research and WIMI to conduct a survey of Chinese consumers on their online spending patterns for luxury and other items. In total 10,150 qualified survey responses were received between January and February 2015 from respondents who claimed to have purchased premium or luxury items in the past 12 months. Respondents were based in over 90 cities, covering all provinces in China, and were between 18 and 50 years of age.





# Executive Summary



**Egidio Zarrella**  
Clients and Innovation Partner  
KPMG China

Our latest China Connected Consumers report reveals the growing sophistication of the Chinese Consumer. No longer are they just following trends, they are setting the pace and increasingly are the driving force in a dynamic environment, where we see rapid change and developments.

## Five Key Trends:

1. Propensity to spend is significant
2. Tech savvy and sophisticated
3. Type of services have increased
4. Change of ownership to lifestyle
5. Age of the Global Chinese citizen



**Nick Debnam**  
Chairman, Asia Pacific Region  
Consumer Markets  
KPMG China

Compared to 2014, our study of more than 10,000 luxury online shoppers indicates that spending levels have increased significantly, by about 28 percent, while 45 percent of respondents now claim to purchase most of their luxury products through online options. The Chinese consumer has leap-frogged willingly and aggressively into the Digital age. The Chinese consumer as revealed in this new report, has a significant propensity to spend, they are tech savvy and seek out the highest quality. Multinationals in this market, both existing and new entrants, must therefore expect to compete in a dynamic and fast-paced environment.

In our previous reports, we also reflected on the start of the mobile age in China. We now foresee China's growing ascendancy and leadership in the mobile commerce era. There is no turning back. China is the largest market in the world and will lead global ecommerce! The Chinese consumer has grown with sophistication, buying many different services on the mobile commerce platform. We expect mobile commerce expenditure will soon far exceed the PC internet platform.

Companies must therefore develop the right strategies to survive and thrive in an increasingly disruptive environment. For example, we are going to see a massive movement in the number of service industries online.

In addition, the survey also identifies that the Chinese consumer - compared to their Western online to offline (O2O) counterpart - most likely spends more in the digital world....they are willing to shop, consume, entertain and live within this virtual environment. It is how they are connecting with friends, family and the broader community.

The Chinese consumer is no longer restricted to spending for Chinese goods, they are looking for international bargains. They want the highest quality at the best price, as they have more exposure to and knowledge of what constitutes good service from their increasing number of overseas trips....therefore their expectations are that much higher.

They are also moving away from simply owning a luxury product to experiencing luxury, the survey findings highlight that they want to experience and purchase all items regardless of category.

Our view is that the Chinese consumer is looking for that connected consumer experience. It is about lifestyle not just 'point-selling'. Luxury brands must therefore provide a really strong connected experience.

We have now over 100m Chinese travelling, therefore Chinese consumers are having a significant and profound impact on the global commerce marketplace. Their likes and dislikes can literally move nations....we are truly in the Age of the Global Chinese citizen.



# Market landscape

## China's luxury spending: Growing at two speeds

Over a year has passed since we released our previous report on the state of e-commerce in luxury purchases in China, *China's Connected Consumers*, in February 2014. Since then, there have been a number of key developments that have impacted consumer spending in China in general and spending on luxury products in particular.

### Total luxury market in China slows down

China's gross domestic product (GDP) growth has come down markedly from close to 8 percent to exactly 7 percent in the first and second quarter of 2015 – underlining the realities of an economic slowdown. While GDP growth does not directly influence consumer confidence, we believe this lower growth rate is having a slowing effect, particularly on higher end luxury spending.

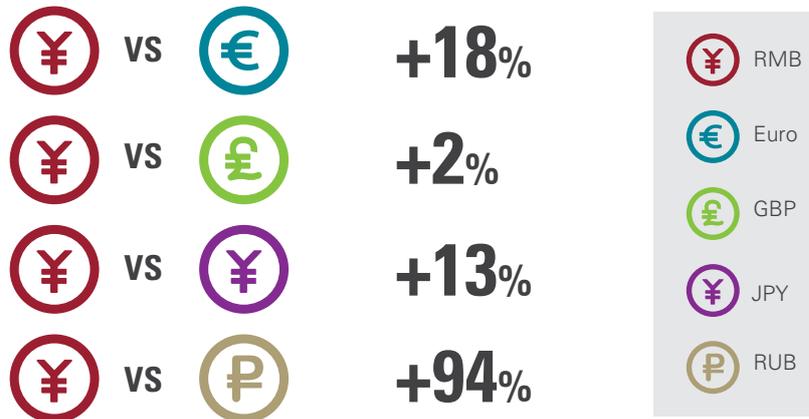
Another development has been China's stronger focus on governance and a reduced tolerance for lavish spending by government employees and officials. This is also having a downward effect on certain luxury spending categories.

We have also seen many Chinese luxury consumers purchasing their goods overseas – either through online websites, through personal shopping trips, or by making use of *daigou* – the process of letting overseas-based Chinese middlemen purchase goods on behalf of shoppers in China. Foreign exchange movements can also have a marked influence on where luxury purchases are made; Chinese consumers will react quickly to take advantage of any arbitrage opportunities.





### Increase in buying power of the RMB versus other currencies between Dec 2014 and August/September 2015



Source: Oanda

In light of these points, it may not be surprising that some analysts concluded that China may for the first time be showing a negative trend in the total value of luxury domestic purchases in 2014. According to one estimate,<sup>1</sup> total luxury spending in China shrank by 1 percent to RMB 115 billion (about USD 19 billion).

<sup>1</sup> China's luxury market shrinks in 2014 as luxury brands adapt to shifting consumer preferences', Bain & Company, 20 January 2015, <http://www.bain.com/about/press/press-releases/chinas-luxury-market-shrinks-in-2014-press-release.aspx>

### Luxury e-commerce spending is growing

E-commerce spending in China shows a completely different picture. As we indicated in one of our *China 360 updates*<sup>2</sup>, the total e-commerce market in China already surpassed that of the US in 2013. China's e-commerce market (including but not limited to luxury) was worth around USD 426 billion<sup>3</sup> in 2014. According to several sources and analysts, it may grow to USD 1 trillion by 2018 or 2019.

### Total e-commerce sales growth and value in China



Source: eMarketer, <http://www.emarketer.com/Article/Retail-Sales-Worldwide-Will-Top-22-Trillion-This-Year/1011765>



**Egidio Zarrella**  
Clients and  
Innovation Partner  
KPMG China

*China's luxury consumers are looking for something beyond the physical shopping experience! They are moving away from just owning a luxury product to experiencing luxury including gourmet dining, fine wines, private flights, bespoke safaris, luxurious travel tours, spa treatments, art auctions and an ever increasing range of investment services*

The same can be said for luxury e-commerce spending in China. While e-commerce still makes up a relatively small proportion of the total luxury market in China, it is growing at a tremendous speed compared to the overall luxury market. Based on our estimates, today's luxury e-commerce market is between 5 percent and 10 percent of the total luxury market. The discussions we conducted with a number of executives in the luxury e-commerce industry for this report seem to confirm this percentage range.

Our own survey results seem to match our observations quite accurately. We found in our own data that among a large and robust sample of over 10,000 luxury e-commerce purchasers, the average spend levels went up about 28 percent compared to our previous report. China's luxury consumers are spending close to one-third more on online purchases – averaging around RMB 2,300 on each single luxury transaction.

### Total E-commerce sales growth and value in China



\*Average spending on each of a respondent's previous 3 luxury e-commerce purchases

Source: Survey analysis, *China's Connected Consumers, 2015*

2 'E-commerce in China: Driving a new consumer culture', China 360, KPMG, January 2014, <https://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Newsletters/China-360/Documents/China-360-Issue15-201401-E-commerce-in-China.pdf>

3 'Retail Sales Worldwide Will Top \$22 Trillion This Year', eMarketer, 23 December 2014, <http://www.emarketer.com/Article/Retail-Sales-Worldwide-Will-Top-22-Trillion-This-Year/1011765>

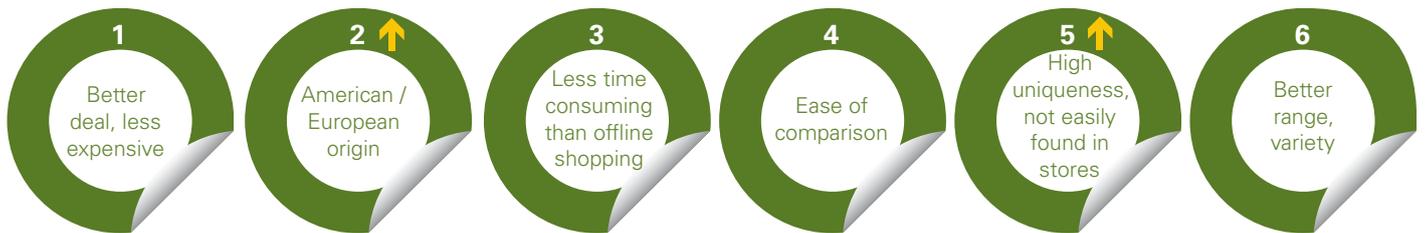


## Growth drivers – beyond pricing and better deals

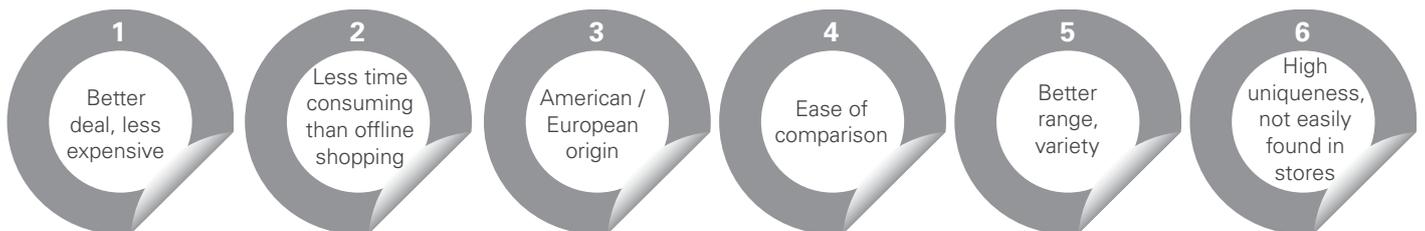
Compared to our previous report, the top reasons for consumers to buy online remain largely the same. The top driver is still pricing and better deals. However, we see subtle changes in other supporting reasons, and signs that drivers may be changing to encompass more than just pricing and better deals.

### Total E-commerce sales growth and value China

#### Rank 2015



#### Rank 2014



Source: Survey analysis, China's Connected Consumers, 2015



**Vaughn Barber**  
Head of the Global  
China Practice,  
KPMG

*The Chinese consumer is an important driver of global economic growth. Over the last decade, China's rising middle class has turned the country into the world's largest market. At the same time, Chinese consumers have become more sophisticated, and are increasingly demanding higher-quality products that are tailored to their particular needs. Recent policy developments show that the authorities in China want to take full advantage of new technologies to develop a high level of connectivity in the market, linking consumers, retailers and manufacturers, in order to add dynamism to the market and boost growth.*

As can be seen from the ranking of drivers in the table included above, other drivers have become more important, showing that consumers are considering more factors than just price in their buying decisions.

#### Product origin

The origin of products, particularly those with American and/or European origins, have become a more important reason for Chinese consumers to buy luxury goods online. Increasingly savvy Chinese luxury consumers now have a greater appetite for overseas products, and online channels are an excellent way to buy these products.

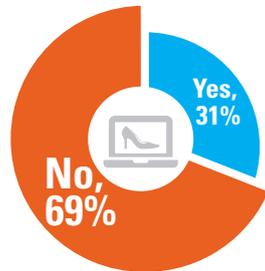
#### Uniqueness

A more subtle change can be seen in the increased importance of 'uniqueness', i.e. being able to find something that is not available in a store. Chinese luxury consumers like to be unique and different to a degree, and the online channel can offer access to a virtually limitless selection of brands and products from around the world.

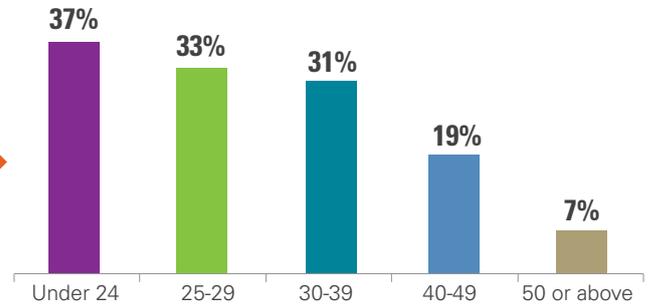
#### Rise of full-price, non-discounted e-commerce sales

Another reason for the decreased importance of price in luxury e-commerce can be seen in the chart below:

### Do you ever buy products at the full non-discounted price online?



### Incidence of buying at the full non-discounted price by age group



Source: Survey analysis, China's Connected Consumers, 2015



**Thibault Villet**  
CEO of Mei.com

*Price is becoming less of a driver, but value remains important as customers are well informed about global prices, since most of them travel physically or digitally.*

We found that close to one-third of respondents had made luxury online purchases at the full, non-discounted price. This is an important development which shows that e-commerce in the luxury online market is not only about better deals and lower prices. Other factors such as uniqueness and origin of products are starting to have more of an impact on people's purchases, and in some cases this results in consumers preferring to buy online at the full price.

The industry seems to agree; Thibault Villet, CEO of Mei.com, comments, "Price is becoming less of a driver, but value remains important as customers are well informed about global prices, since most of them travel physically or digitally."





## Mei.com

Thibault Villet, Co-founder and CEO

Thibault Villet is co-founder and CEO of Mei.com (formerly Glamour Sales China). Mei.com is a leading Chinese luxury, fashion and lifestyle members only e-commerce retailer with over 6 million members in China, and delivers products to over 660 cities in China. Mei.com works directly with over 2,000 brands and recently celebrated its fifth anniversary in China.

### Changing luxury preferences: fashion designers on the rise

One of the key trends that Villet sees in China is that online luxury shoppers are searching more for specific designer brands and products that can enhance their personal and individual look and lifestyle.

"As their tastes evolve from 'in the show to in the know', a younger generation of fashionistas (20 to 30 years old) is moving strongly into international and local designers labels, and is attracted by new and in season collections," he explains.

Villet also points out that price is becoming less of a driver, but value remains important as customers are well informed of global prices, since most of them travel physically or digitally.

As for other trends, he says, "Beyond fashion, we see strong growth in lifestyle purchases such as home decoration, as well as kids' products – a booming market where authenticity and status remain the key drivers. We also see the beauty segment growing strongly where customers are enthusiastically searching for organic beauty and brands from doctors from Europe, the US and Korea. Our customers are increasingly looking for niche and creative products, and Mei.com brought over 200 emerging designers to its customers, supported

by a partnership with Galeries Lafayette's designer brands."

### Chinese online shoppers prefer to buy at platform instead of brand websites

As stated in this report, half of Chinese luxury online shoppers buy more than 50 percent of their luxury items online, and most of those transactions occur on platform websites. Says Villet, "Chinese customers prefer to buy on platforms, and as a result, Tmall controls over 50 percent of the total B2C business in China. Customers prefer platform as they offer multiple choices, well-accepted product presentation and information, payment gateways, peer ratings, and regular promotional activities. Brands' own websites provide reliable and accurate information, as well as authentic products, but usually trigger very low conversion rates. Our company is therefore planning to open the first e-commerce market place dedicated to luxury goods in 2016."

### Customer services: the new battle field

While customer services is already an important differentiator for many e-tailers across the globe, it is at a much earlier stage in China, though it is becoming increasingly important. Overseas online purchases have been a strong driver for sales of commodities such as food and healthcare products where safety is a main concern. However, customers are increasingly paying attention to service (time to delivery, convenient to return, effective refund services, customer service via WeChat, etc.). In Villet's words, "Buying overseas through daigou remains a hot trend due to price arbitrage. Also, international websites increasingly target China to build a direct channel to the Chinese consumer. In the face of this, local platforms have improved their customer service standards to further differentiate themselves

from overseas competitors. At Mei.com, we deliver to most customers throughout China within 24 to 36 hours after receiving their order, and we process customer returns within 24 hours as well. We raised our service standards and upgraded our customer services department to a customer care department, and developed new service standards for VIP customers. Our team is fully engaged in providing a superior customer experience, especially to satisfy VIP customers whose annual spending can exceed USD 100,000."

### E-commerce has already become mobile commerce in China

The mobile phone has had a tremendous impact on e-commerce, and Villet comments, "With the exponential rise of smartphone penetration, e-commerce has changed to mobile commerce. The mobile revenue share for Mei.com already reached 70 percent in June 2015 and we expect our business to be fully mobile by the end of 2016."

Mobile commerce requires an adaptation to the fast changing ecosystem in terms of user experience, design, payments, as well as connections with social media applications. More importantly, mobile commerce also requires a totally new marketing approach, as Villet notes, "While traditional PC digital marketing is all about traffic and conversion, mobile marketing is about user engagement. It therefore requires and allows advanced personalisation and deeper social engagement at a time when customers are looking for more relevant content. Mobile marketing is a new frontier that requires a fresh mindset as well even stronger integration with technology."



## Lane Crawford

### Andrew Keith, President

Founded in 1850, Lane Crawford is one of Hong Kong and Greater China's iconic luxury department stores featuring the largest designer portfolio across womenswear, menswear, accessories, fine jewellery, cosmetics, and home & lifestyle in the region. Besides its five large stores in Hong Kong, it has flagship stores in Shanghai, Chengdu and Beijing, where it showcases over a thousand luxury brands.

Andrew Keith, President of Lane Crawford, first joined the company in 2000, and directed the brand's expansion into China, as well as the launch of its online store, creating a connected commerce platform for both online and in-store customers.

Mr. Keith talks about Lane Crawford's legacy: "China is an intrinsic part of our history and very key to our future. We opened our first store in Shanghai in 1862. China is a market that we know and where customers appreciate our brand proposition. This is anchored in the fact that we have been on the ground for 165 years and so there are over 6 generations of customers in Greater China who are very familiar with the brand. We have gained their trust over that period of time. The way we deliver our brand proposition and values are important, and we really look to drive customer engagement and loyalty."

#### China retail truly is Omni-channel

While talking to Mr. Keith it became obvious that Lane Crawford is a great case example of one of the trends we find in this China Connected Consumers report; that successful brands are looking to develop both online and offline presence in the future. Lane Crawford's e-commerce initiatives date back to 2011, when they first launched their online platform [lanecrawford.com](http://lanecrawford.com).

Says Keith: "The launch of our online platform was really about driving connected commerce. Right from the start, we saw that our customers were living multi-channel lives and we wanted to be able to provide them with a seamless access to the service, the product and the overall Lane Crawford experience, wherever and whenever they wanted. It was not only about creating an online business; it really was about taking Lane Crawford omni. We felt that omni-channel was the perfect model for this market"

Chinese consumers are changing rapidly and are now leading the agenda; they are global, mobile, well travelled and tech savvy. They want great product and they understand what global good service looks

like. Therefore, they want to experience in their home the same level of service that they experience in other world capitals like New York, London or Paris. We are mindful of this and we craft our retail theatre to satisfy them. In terms of this market, we are the only luxury omni-channel retail player. So far we have experienced double digit growth in our physical stores, and triple digit growth in our online stores."

#### Know your customers

Perhaps one of the key success factors of Lane Crawford's omni-channel is the fact that the company is now leveraging customer analytics: "We know our customers well and we have developed some good insights" says Sebastian Picardo, Lane Crawford Chief Retail Officer. "The fastest growing segment is represented by the customers who shop online and in-store. Single channel customers are rapidly transitioning into omni-channel customers, with the omni-channel segment growing 7 times more than the overall customer base. These customers shop 5 times more frequently and spend 5 times more than single channel customers. They also research online before buying either in-store or online and they usually purchase within two weeks after browsing"

#### Growth in luxury extends to Chinese designers

One of the changes Mr Keith is witnessing in the China market is the increased attention for Chinese designers from the younger generation of consumers. Keith explains: "At the moment We have an incubator program with a number of Chinese brands that we have identified; we are currently working with them and introducing them into the Lane Crawford mix across fashion and some of the other categories. In a relatively short period of time, these brands have become a quite significant part of our portfolio. These designers are Chinese creatives who are able to harness Chinese production capability together with some traditional crafting techniques. Many of them were educated abroad so they bring a new international design aesthetic to their brands. This program is working very well for a combination of factors such as a sense of national pride in supporting the new generation of designers as well as an aesthetic element: in fact the design, including sizing, fabrication and silhouette are relevant to the China consumer. Lane Crawford provides these brands with a global platform. We started this brand incubator program three years ago, nurturing and helping them with backend capability including product proposition, delivery, and

quality. We started with 3 brands that we felt had a point of view that we could bring into our global assortment. For this Fall/Winter season, we will expand the program to 20 brands."

#### International e-commerce

While Lane Crawford is indeed looking at international expansion of its online store, today it has most of its online business (some 70 per cent) in Greater China. In terms of international e-commerce, they already ship products to 63 countries. And yet, its Chinese legacy remains clear to the types of customers it services globally, explains Keith: "If you look at our international online business out of China, 40% is actually conducted in Chinese, signaling that there is a significant level of comfort and trust that has been built over time and instilled in our customers when they transact with us."

#### Technology impacts customer experience

Lane Crawford embraces technology that allows it to bring a positive impact on customer engagement. As Keith says: "We use analytics to better understand our customers and deliver a seamless experience to them; this includes digital communication and a very personalized level of service. To our top tier customers, we offer a more intimate shopping experience with access to dedicated spaces in our stores for personal styling and shopping. This service has been well received: for instance in our Shanghai flagship more than 50% of sales are conducted through personal styling appointments, where spend is almost 4 times higher than the average transaction value. "

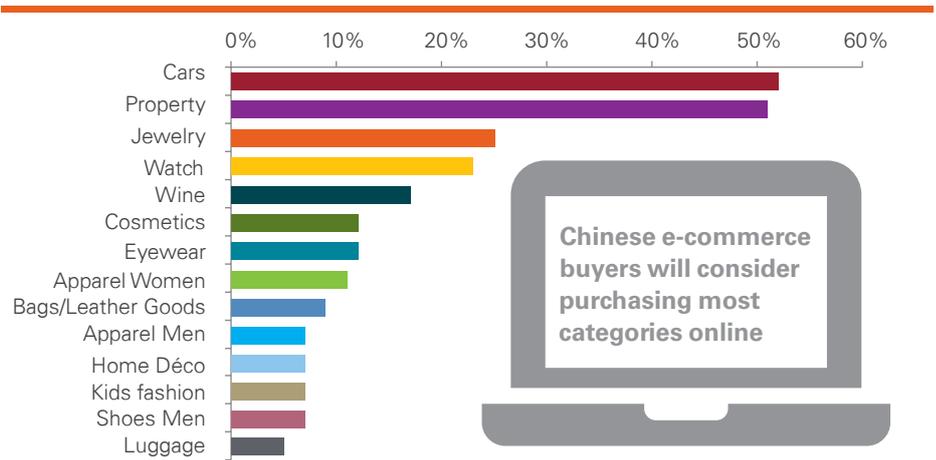
Lane Crawford see technology more than an enabler but also as a driver as they adopt the latest technology that can help them connect better with customers. They are looking at ways to interact with customers consistently both online and offline with particular areas of interest covering beacons, RFID, and the Internet of Things (IoT).

"China is as big and diverse as the European continent. It is geographically challenging and it is just unfeasible to have stores in every city, considering the infrastructure required and the increasing operating costs, but our online business enables us to reach every city, every province and new customers. Today it's all about the experience we provide to customers and omni-channel is really the only way to deliver this."

## Barriers to buying luxury online are diminishing

Our survey also found that Chinese luxury online shoppers are increasingly open to buying most categories of luxury products online. Survey respondents asked to indicate which premium and luxury products they would not consider buying online, showed a willingness to buy nearly all categories online. For most categories, respondents reported a willingness of 75-95 percent to purchasing products online. High value categories such as property and cars saw the highest incidence of consumers rejecting online purchasing (slightly over 50 percent). However, even for these categories all is not lost. Though only about 1 percent of consumers in the survey have either bought or would consider buying domestic or overseas properties and cars online in the near future, nearly 50 percent of respondents have not ruled out buying these online. Sellers should therefore focus on creating more opportunities and channels to see greater online sales in these categories.

### % of e-commerce buyers rejecting to buy certain categories



Source: Survey analysis, China's Connected Consumers, 2015

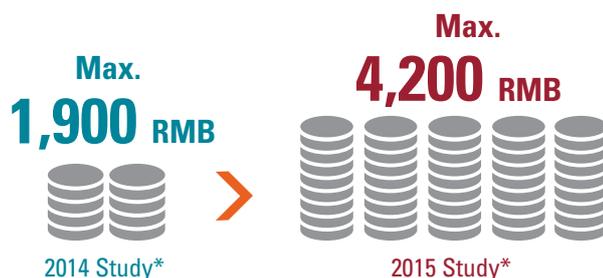


**Egidio Zarrella**  
Client and Innovation Partner  
KPMG China

*The pace of change in today's marketplace in China is taking retailers and brands by surprise.....this change is unrelenting and now outrunning the company strategy in many cases*

Furthermore, respondents in the 2015 survey indicated that the maximum amount they felt comfortable paying online for a single item was RMB 4,200. This is far higher than the amount of RMB 1,900 that consumers were comfortable spending in 2014 – an increase of 121 percent. All of these trends indicate that online luxury shopping is set to grow as Chinese consumers are growing increasingly more comfortable with online purchasing.

### Maximum amount spent online when purchasing luxury items



Source: Survey analysis, China's Connected Consumers, 2015





## Juwai

Andrew Taylor, Co-Founder & CEO

Andrew Taylor is one of the founders of Juwai.com, a Chinese website dedicated to connecting Chinese buyers to overseas property. Juwai, which means "home overseas," is visited by thousands of Chinese buyers each day from over 315 cities throughout China, as well as major Chinese communities in Taiwan, Hong Kong, Malaysia and Singapore. Says Taylor: "We have been around for 4 years but we're still at a beginning! Today we have 4.8m property listings on our site and we cover approximately 86 countries."

### Know your audience

Asked what he believes to be Juwai's strengths that support its growth over the past 4 years, Taylor says it is very much about knowing the Chinese consumer in a detailed way. Taylor explains: "You have to clearly define your target audience and we are constantly evolving that definition. We continually ask our consumers 'what they want' and this helps us understand the consumer journey. With that understanding we can offer the right set of consumer choices."

Supporting detailed audience definition are data analytics on its own website visitors. Says Taylor: "We are able to dig deep into exactly where Chinese are searching for property. And we also know their intended property purchase value and their overall budget. Moreover, we know where the Chinese are searching from – and it's not just from China, but also from New York, London, or Sydney. By applying the numbers we are able to bring supply and demand together."

### Bringing brokers and investors together

In essence, Juwai.com is a platform that brings overseas brokers and Chinese investors together. Taylor clarifies: "We have around 80,000 brokers on Juwai.

com, and among these some 3,000 are very active ones. These active brokers are getting around 30% of their business on average from the Juwai.com site, hence a very considerable part of their business."

### US is the most often searched property location

According to Taylor, up to 45% percent of potential Chinese property investors are looking at the US market. Says Taylor: "The US is obviously a very important area for us in terms of properties and hence in terms of real estate brokers. But it is also interesting to note that 4.2M US citizens see themselves as Chinese, adding another potential market segment."

In terms of number of searches a similar pattern can be seen – as illustrated in the visual that is included in this case interview. Taylor explains: "Most property searches relate to US properties. The second biggest market is Australia, followed by Canada and the UK. However, we do see considerable search volumes in other global locations."

### Changes in consumer demand

Asked what he sees as changes in consumers' property demands in China, Taylor says: "We see that more and more the main motivation to buy property is focused on 'opportunity'. We also see that more mature consumers are now focusing on overseas property investment for their parents, such as overseas retirement homes."

Taylor also sees differences in how consumer segments access digital channels: "We see that many of the more affluent customers who look for luxury properties use QQ and call us. Whereas the younger consumers contact us through WeChat and Sina Weibo."

### Challenges for Juwai.com?

Asked what Taylor sees as challenges for his business, he says: "We have several challenges today, one being that finding great people is difficult in the China market, especially in the middle management level. A very different challenge is that we have seen some blatant copycat behaviour of our business, from both within China and internationally. However, you can't copy the DNA of a firm like Juwai.com, we are more than a property website, each of our team members is the Juwai Story!"

### Mobile and Social

Finally we ask Taylor what the importance of Mobile and Social is to his business. Taylor responds: "For us mobile is really important and a major driver of brand awareness. Many people browse our website via a mobile platform, and we also see a future role for a mobile concierge service. However, when it comes to potential transactions involving large sums of money, the larger the device (e.g. Desk Top) the more trust consumers have with your brand, which is similar to the online banking industry. In terms of social media, for us this is important as a channel that drives engagement and enquiry, but not at the transactional level."

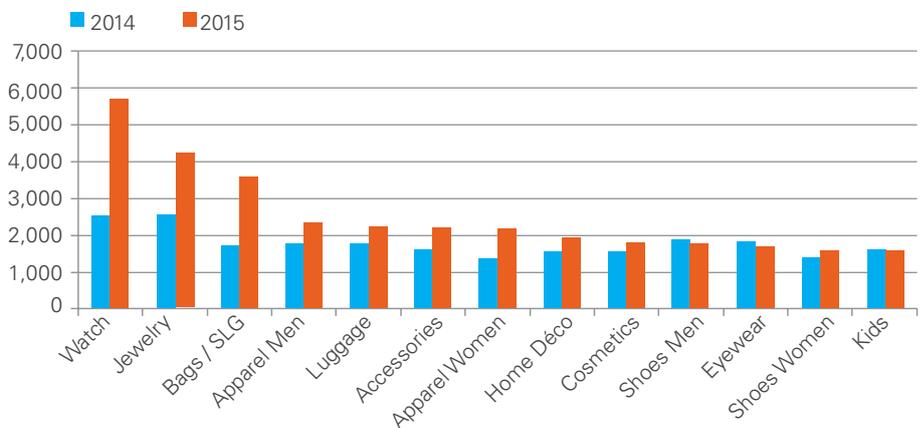


Source: Juwai.com. The visual is based on Juwai.com data and shows how often properties in different countries are searched for.

## A rise in online spend visible in almost all product categories

We noted an increase in the average amount spent on luxury purchases in most product categories. Not only did we see a higher amount spent on average for popular categories such as bags (109 percent), women’s apparel (58 percent) and cosmetics (18 percent), but we also noted a significant increase in spending on categories such as watches (126 percent) and jewellery (65 percent) that accounts for a relatively smaller share of total online luxury sales.

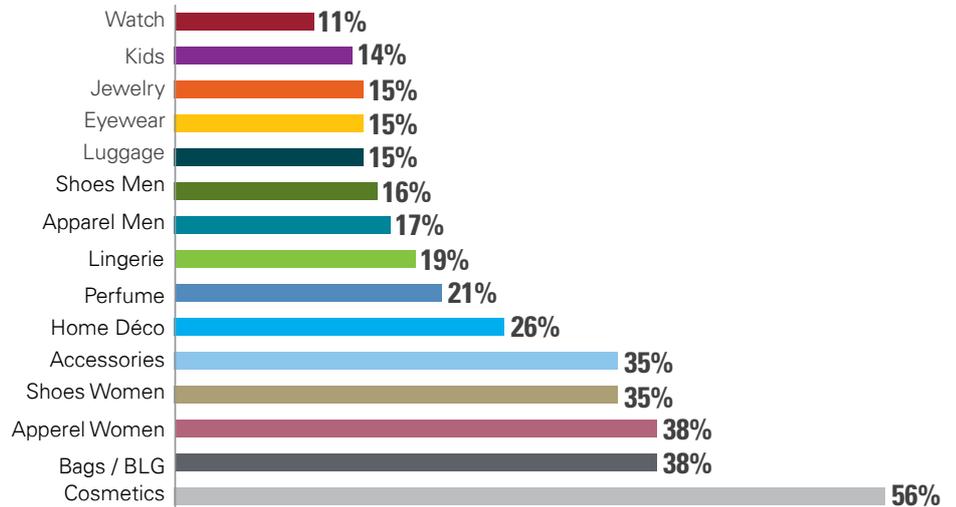
### Average amount spent (in RMB) on luxury purchases across product categories



Source: Survey analysis, China's Connected Consumers, 2015

Overall, the survey findings indicate that online shopping for luxury goods in China is dominated by the same categories as in 2014. Cosmetics remains the most popular product bought online, followed by women's shoes, bags and leather goods, women's apparel, and accessories.

### Top categories purchased online

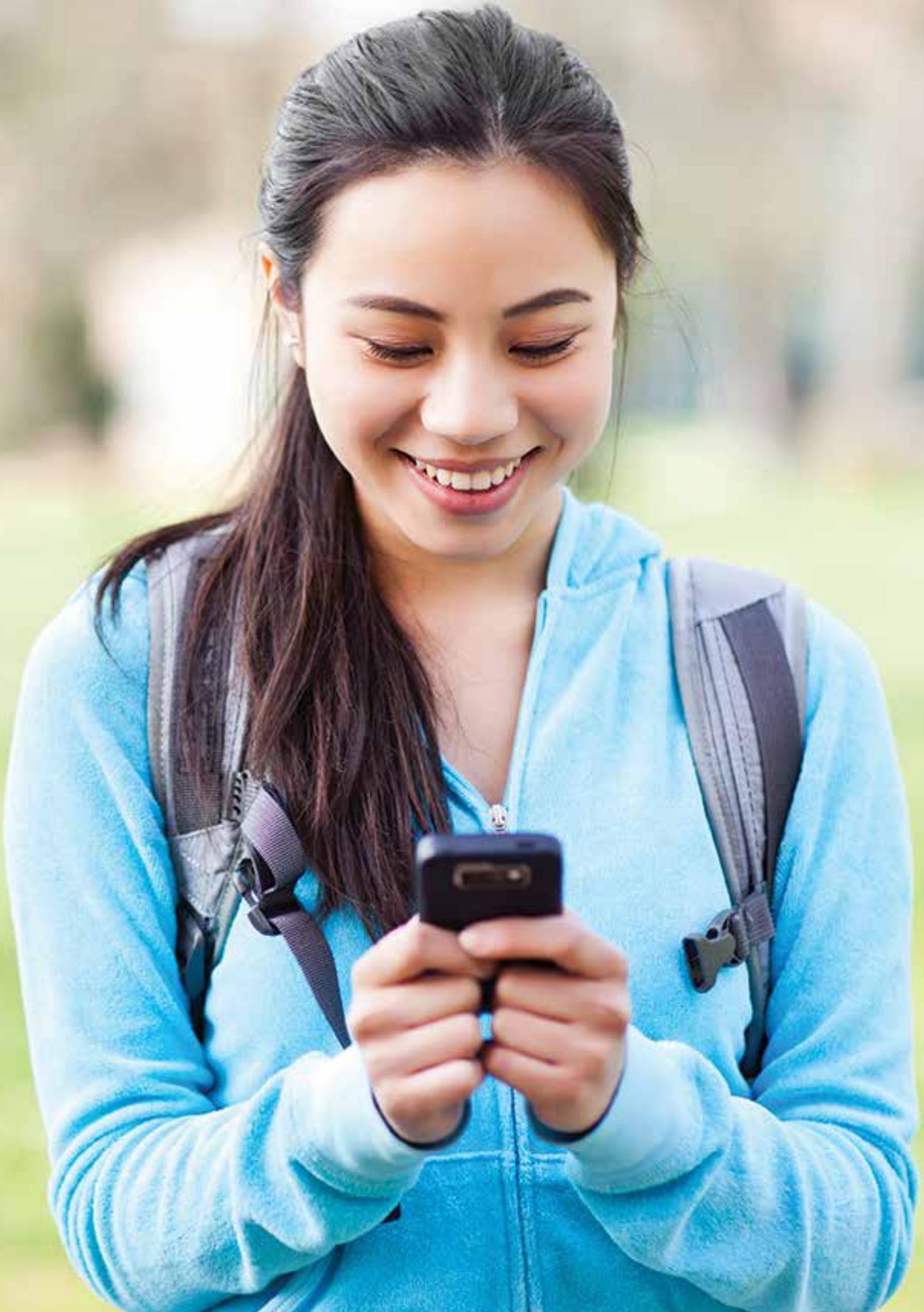


Source: Survey analysis, China's Connected Consumers, 2015



**James McKeogh**  
Partner  
KPMG China

*“Increased confidence of online users is a sign that the Internet has come of age in China. The speed of creation and consumption of content has helped the integration of the cyber world into everyday life in China. Add to this the increasing mobile adoption and it is clear that China will likely become the dominant innovator of digital capabilities.”*



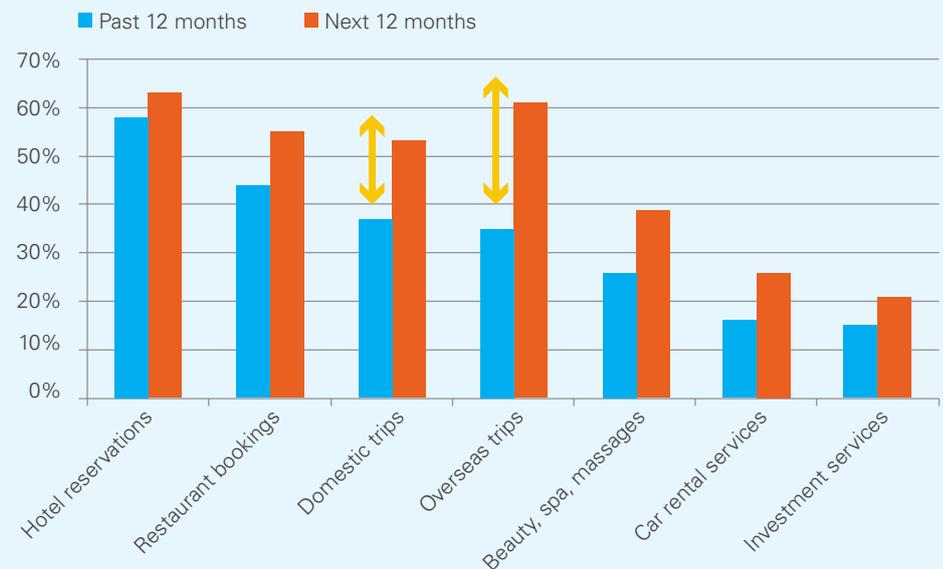
## The rise of online services

In addition to luxury products, we find that there are high numbers of luxury services being purchased online. Overall, online bookings of hotels and restaurants dominate the services category, followed by domestic and overseas trips. The realm of luxury services was not studied in the preceding survey in 2014, and while we cannot make comparisons, it is clear from the data that online purchases of services is now also taking a considerable slice of the total luxury online market.

Moreover, we see strong growth in intended purchase of services online for the next 12 months – especially in domestic and overseas trips.

Overall, the result will be that luxury product brands are no longer just competing with each other – they now also compete with brands that operate in services or luxury experience areas such as beauty treatments, spas, hotels and restaurants.

### The extent of services purchased online by luxury consumers



Source: Survey analysis, China's Connected Consumers, 2015

Another point that we found from our data analysis is that there is less gender imbalance in purchases of services than in purchases of products. While many of the product-focused categories are either heavily skewed to males or females, the service categories we tested were mostly used by both male and female respondents.

## Product categories and purchasing preferences

	<b>Products</b> <ul style="list-style-type: none"> <li>• Cosmetics</li> <li>• Shoes Women</li> <li>• Apparel Women</li> <li>• Accessories</li> <li>• Home Déco</li> <li>• Jewelry</li> </ul>	<b>Services</b> <ul style="list-style-type: none"> <li>• Beauty treatments</li> <li>• Spa</li> <li>• Massages</li> </ul>
	<b>Products</b> <ul style="list-style-type: none"> <li>• Property (domestic)</li> <li>• Cars</li> <li>• Eyewear</li> <li>• Watch</li> <li>• Wine or other alcoholic beverages</li> <li>• Shoes Men</li> <li>• Apparel Men</li> </ul>	<b>Services</b> <ul style="list-style-type: none"> <li>• Car rental services</li> <li>• Investment services</li> </ul>
	<b>Products</b> <ul style="list-style-type: none"> <li>• Perfume</li> <li>• Bags/Leather Goods</li> </ul>	<b>Services</b> <ul style="list-style-type: none"> <li>• Hotel reservations</li> <li>• Domestic trips</li> <li>• Overseas trips</li> <li>• Restaurant bookings</li> </ul>

Source: Survey analysis, China's Connected Consumers, May 2015

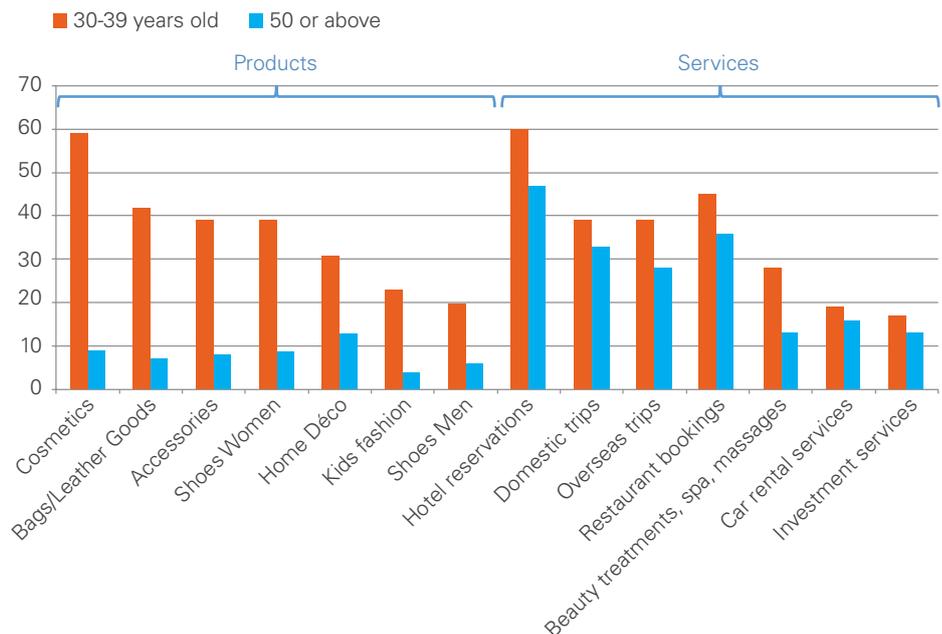
There is also seemingly greater gender differentiation in the kind of products available for online purchases and consequently far greater variability for spending patterns between men and women. Women naturally dominate the sale for categories such as women's apparel, shoes and cosmetics, while men's apparel and shoes see higher purchases by men.

For online purchase of services there are smaller differences between spending by women and men. With the exception of beauty treatments, where we see more spending by women, all other services find favour with consumers from both genders. The implication for sellers of luxury products is that more often they require marketing communications and platforms that are more gender-specific than those for services.

### The older generation lags behind

For both products and services, we noted that the segment most likely to purchase them online is consumers in the age group of 30-39. An interesting trend is that consumers over the age of 50 are least likely to make online purchases for all product categories. We also find that a disproportionately high number of people in this age group (73 percent) have never purchased products online.

### % of consumers that made online purchases: By product categories and age groups



Source: Survey analysis, *China's Connected Consumers, 2015*

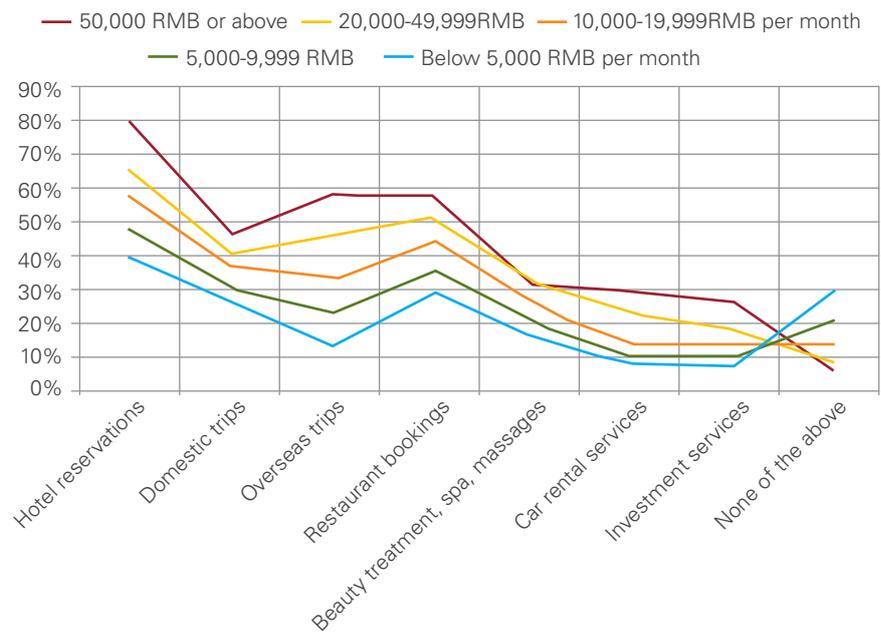
The question does not seem to be one of affordability, since the highest proportion (45 percent) of respondents in the sample from this age group come from the highest family income level of RMB 50,000 or above. This is also reflected in the fact that on an average, respondents in this age group say they are comfortable paying RMB 8,000 for a single purchase – almost twice the average amount of RMB 4,200 for the group. It is also not a matter of being technologically less savvy than consumers from other age groups. For service-related categories, we see much higher adoption of online purchases, for instance with close to 50 percent of the silver generation having made hotel bookings online.

The answer may well be that the older generation in China has been neglected by marketers of online luxury products. The idea presents exciting opportunities for retailers interested in selling products specifically to this age group. One approach might be to partner with one of the services focused retailers – as they already seem to be servicing older consumers.

### Higher incomes – higher luxury online purchases

The survey also finds that there is a high correlation in the purchase of online services for consumers with differing family income levels and based on geographical location. There are approximately 20 percent higher instances of purchases between one income group and the next, and consumers with an income of above RMB 50,000 report 134 percent higher instances of service purchases than those with an income below RMB 5,000.

### % of luxury online shoppers that purchased services in the past 12 months (By income categories)



Source: Survey analysis, China's Connected Consumers, 2015

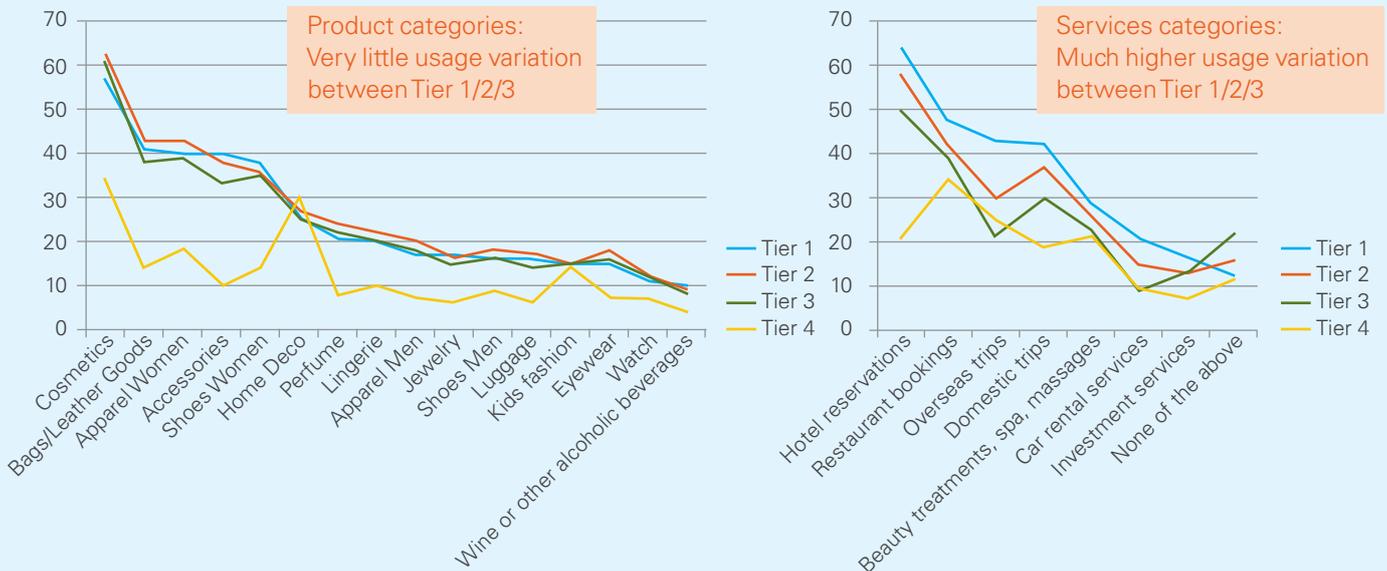
### Virtually all tiers in China buy products – but there is much more variability in services

The likelihood of having purchased luxury products does not vary much between China's top three city tiers, but it is still much lower in the Tier 4 cities.

On the other hand, if we look at services categories, then purchases between Tiers 1, 2 and 3 vary quite substantially. We can say that services e-commerce is still in an earlier stage, where Tier 1 cities have significantly higher usage than Tier 2, 3 and 4 cities.

It is likely that this level of differentiation will decrease with the growth and increased availability of luxury services online, and for now it creates growth opportunities for service companies across China, but particularly in lower tier cities.

## Purchase of products and services (By city tier)

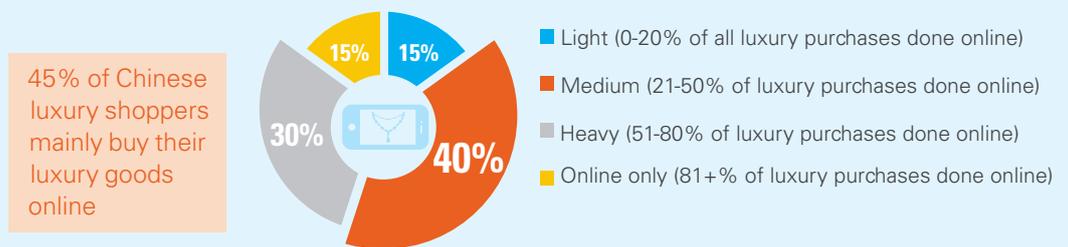


Source: Survey analysis, China's Connected Consumers, 2015

## Summary: Online shopping is fast becoming the norm

Whether it is products or services, it is increasingly clear that online shopping is finding acceptance across all age groups, income levels and regions. Already, 45 percent of Chinese e-commerce consumers mainly buy their luxury purchases online. The result is that online luxury purchases are fast becoming the norm rather than the exception.

## Proportion of all luxury purchases that are done online



Source: Survey analysis, China's Connected Consumers, 2015





## Same Same but different

Julien Gaubert-Molina, Managing Director Hong Kong

Julien Gaubert-Molina is Managing Director of the Hong Kong office at 'SAME SAME but different'. 'SAME SAME but different' is an e-commerce consultancy and digital marketing agency with around 150 consultants that helps brands develop and manage e-commerce stores.

### Luxury brands and e-commerce – balancing ubiquity and exclusivity

A common question for luxury brands that plan to move into e-commerce has been how to balance the exclusive image of the brand with the ubiquitous nature of selling products online. Interestingly, Gaubert-Molina sees no limits in principle to the ability of exclusive, luxury brands to sell their wares online. As he explains, "Take the Hermès brand, for instance. Hermès has been selling its products online in the US since 2002, and they are able to sell leather bags that cost EUR 6,000 online just fine. So here is a top segment brand that sells its goods online, and it has kept that exclusive image. There are two important considerations: first, is your organisation able to handle the volumes tied to an e-commerce front? And second, are you able to maintain some of your brand's exclusivity in that online experience. The latter could be a personal delivery service where a sales person brings the product to you."

He would go even further, pushing some conventional luxury thinkers: "In the digital space, there is an opportunity to 'break the distance' with the luxury brand in order to build branding and push personalised messages. So allowing consumers to interact with the brand, learn about it and share personalised messages about it, can be done in a way that matches the brand's exclusive values."

### Platform vs brand-owned sites

Gaubert-Molina's perspective is that luxury brands may do better building their own storefronts rather than being on one of China's e-commerce platforms. "We don't advise our luxury clients to go to the Tmall platform. We see that Chinese consumers are catching up very quickly and learning fast about luxury brands through social media and are perfectly capable of finding the brand sites directly. A consistent online presence on key platforms and search engines helps promote official brand assets. Tmall may be considered a short-term opportunity; however, if you want to tell Chinese consumers your full brand story, this is much better done through your own social media platforms and website."

### Online to offline

Ironically, while 'SAME SAME but different' is providing e-commerce consultancy, they have recently been receiving a lot of requests to help luxury brands increase traffic to the stores. "During the past six months, we have heard from more of our clients that they are concerned with the low traffic in their stores in China. A solution to that would be to generate more online to offline traffic – so this is becoming a big topic for them."

Gaubert-Molina and his team assist brands in building campaigns to bring more shoppers to the stores. In Gaubert-Molina's mind, online asset and social media play a paramount role. "The recent 'shake' trend is becoming a Chinese de facto standard in online to offline marketing. Shake your phone in-store to receive exclusive offers or services. WeChat in particular is a great channel to create these services, as it integrates all the new innovation. The need for luxury brands to educate Gaubert-Molina and 'SAME SAME but different' strongly believe that

what makes the Chinese luxury consumer different is that they like to be educated about brands. "They want to understand the brands' heritage as they are often only familiar with the brand name or logo. This education can also mean tips on how to mix and match products within the brand's product lines."

Gaubert-Molina tells about an example for one of their clients. "A famous French luxury Maison is educating Chinese consumers about its brand by promoting exhibitions. They showcase the background of the brand by giving an overview of the history of the brand. For this exhibit, we created a mini-site within WeChat and equipped the exhibition with beacons that allowed consumers to interact with the event. At the exhibition, visitors would enable Bluetooth and shake their phones in order to receive exclusive content in each area of the exhibition. Furthermore, we encouraged visitors to share their experience by letting them upload a unique customised video that would connect them personally with the brand."

### International pricing challenges

International pricing transparency is an issue, with Chinese consumers being able to shop websites all over the world in search of the best deal. "This is indeed a challenge for the industry. Foreign exchange rates moved rapidly over the past year and this will likely continue. Moreover, due to many luxury brands working with distributors and resellers who have stock within the supply chain, it is not very easy to mandate price changes globally. Few brands can really do this except for those that own their stores and distribution themselves."



## Chow Tai Fook

Bobby Liu, General Manager, China

Chow Tai Fook Jewellery Group Limited is a well-known brand in mainland China and Hong Kong. Bobby Liu, the general manager of Mainland China Management Centre and E-Commerce Group of Chow Tai Fook, has witnessed the company's growth from 12 shops to more than 2,000 in 2015 during his 15 years working at the company. Chow Tai Fook is now one of the world's biggest listed jewellers.

### The e-commerce development of Chow Tai Fook in China

Since the emergence of Taobao in 2006, Chow Tai Fook has paid attention to the e-commerce market. Liu mentioned that "We found that the logistics, payment gateway, and the Taobao platform's whole system were incomplete. The market was not mature enough for an enterprise. Therefore, we kept observing it and didn't plan to enter it at that time."

However, Chow Tai Fook decided to march into the e-commerce market in 2010 and 2011, launching its first online shop on TMall and conducting a promotion campaign. Asked for the reason of choosing that time to step into the field, Liu said, "We found more and more people were accepting online shopping. Having a shop on TMall is not just a way to sell our products; it's also about using the e-commerce platform as a new bridge to connect the company and our young consumers."

"Tmall could be a new shopping style and platform as we noticed that the platform had attracted many customers," Liu revealed. "With experience and customers accumulated on Taobao, Tmall has the ability to attract a large number of customers. In addition, it is a comparatively mature B2C platform that is suitable for our company."

During our interview, Liu also discussed the copycats and fake products in the e-commerce field. Liu explained, "Considering this situation, we should take a more active position to cope with it and participate in such a market as a brand. We will guide the consumers and lead the business in the right direction with our brand, guarantee and service."

### E-commerce strategy – linking more customers to physical stores

While Chow Tai Fook currently only has a small share of total sales in e-business, this is still very important as it puts the company in touch with new customers.

"It's preparation for our offline sales, which is our main focus. Because jewellery has a high unit price, the business can't grow without the support of physical stores. E-business won't replace physical shops as a platform of service and communication." Liu added, "E-commerce is preparation for future consumption as it attracts a great number of young people, who might be future customers of our physical shops. We communicate with them through this platform. We don't know who they are, but they are our potential consumers."

### Use of new technology in-store

Chow Tai Fook also adopts electronic equipment to optimise its services. "We certainly have the aid of new facilities to help us get to know our customers, to learn their needs and behaviours," Liu told us.

### RFID Tags

Chow Tai Fook is using new intelligent equipment, called 'Smart Trays', to display jewellery. As Liu explains, "Every product, including watches, rings, bracelets and other jewellery, has a RFID tag, and Smart Tray is used to identify product information with RFID tags. When customers try on, check, or purchase the products, data

is produced, which can be used for analysing which products have been considered and which have been purchased. Customers' consumer behaviours and habits are therefore recorded. This helps to further refine our services and improve our product management." Thirty-five shops have adopted RFID tags, which can be widely used in the future.

### Gamification

Chow Tai Fook currently uses iBeacon as a marketing approach in about 200 stores. When customers enter these shops or are near to the signal, they can access all kinds of content that Chow Tai Fook shares with them by using the 'shake' function. This could be a coupon, an interactive game, or sometimes just a blessing sentence. With these online and offline marketing approaches, Chow Tai Fook could attract more customers into the shops. "If this goes well, we plan to use iBeacon widely in every store," said Liu.

### About the future

"In general, we anticipate that customers will be shopping in what we call CTF 'Triple O': Offline, Online, and Others. 'Others' could also be named as 'unknown channel', which is the way to connect our customers. We will provide solutions whether consumers are shopping online, offline or other ways," Liu said "Our stores are where our customers are."

"In the future, the boundary between online and offline will be blurred and will merge into one kind of shopping experience."

# The luxury e-commerce shopper : The journey is a two-way street



**Anson Bailey**  
Partner, Business  
Development

*With the speed of change around new channels in China, formulating an effective O2O strategy will be essential for retailers to remain competitive in the digital age with the increasing smartphone technologies and the need to harness social media platforms.*

When it comes to luxury e-commerce purchases, consumers seldom operate in the digital world only. Our study found that luxury online shoppers move freely between the online world of shopping platforms, social media, websites and blogs, to the real world where they visit shops, chat with friends and browse through magazines. Luxury brands and online retailers are increasingly recognising the need to traverse both online and offline worlds, and offer a truly integrated omni-channel shopping environment. To be successful, brands need to establish a presence across both the online and offline worlds, and also allow the convenience of a seamless shopping experience across both these worlds.

In our luxury e-commerce survey we looked into understanding distinct parts of the consumer journey. We started by looking at what 'triggers' luxury purchases, and then looked into how consumers research this potential purchase, followed by how they finally make their purchase: three distinct stages in the consumer purchase journey.

## The consumer online-to-offline journey





## The e-commerce luxury shopper journey

### 1. Triggers for luxury purchases

Our study looked at what triggers an online luxury purchase and it found that triggers from both the online and offline world are very important in effecting an e-commerce transaction. Across all ages and income levels, we see that the majority of top triggers are those from the 'real', physical world (See chart on top of page 31). We can say that they tend to provide an even greater impetus for online purchasing than other online triggers. Seeing products in a physical shop leads the list of offline triggers, followed by talking about a product with friends. The findings underscore the need for luxury brands to have physical presence where buyers can touch, feel and experience the brand and its products.

As a proof point of this trend, we see a growing number of online platforms launching pop-up shops in malls, or have tie-ups with physical stores to give buyers an opportunity to get closer to products in the real world. This trend is often called the online to offline – or O2O trend.



## Sina Weibo

Ken Hong, General Manager of Commercial Operations

Ken Hong is the General Manager of Commercial Operations at Weibo, one of China's largest social media platforms. His role is focused on helping brands and advertisers use the Weibo platform to build their brands and drive real economic value in China. As per the survey findings in this report, for luxury e-commerce purchasers interviewed, Weibo is the most frequently used online channel across different stages of the purchase journey.

Hong affirms that Weibo will continue to focus on growing its user base, and moreover he says: "At the same time, we will continue to improve the user experience by helping consumers find and connect with organizations, companies and other things they are interested in and help them discover that information more efficiently. We want to help brands connect and engage with their fans more easily, helping brands to unlock the value of their fans."

Asked what he thinks of the impact of social media on consumer behavior in China, Hong says: "Chinese consumers are increasingly social and mobile. They use social media more to learn about brands and products, use social media more to share their opinions, and now more and more consumers are making purchases on social media platforms. And they are increasingly doing these things via mobile devices."

Hong furthermore explains how current Weibo users are in the important Millennials segment: "53% of our users were born after 1990, 37% of our users were born between 1980 and 1990, and 8% were born between 1970 and 1980."

Later in this report "China Connected Consumers" we discuss how travel in China is another driver for more e-commerce spending. Says Hong: "For instance, many travel brands use Weibo to target Chinese overseas travelers which we are able to specifically target. It is during the information gathering and trip planning stages that social media can be particularly effective in letting travel brands engage with Chinese international travelers. To this effect we have our annual 'Take Weibo With You' event in which 98 million users, over a thousand Key Opinion Leaders (KOLs) and 47 leading celebrities participate."

As we explain in this report e-commerce in China is a two way street: offline as well as online channels are involved in driving consumers' online purchases. Mr. Hong sees similar trends, and he mentions an interesting example from the floral industry: "There are two brands in the floral segment - 'Rose Only' and 'The Beast Shop' - that started to build their brands purely in the online space, and then moved to offline by opening retail stores. Besides these two examples we see many other brands use Weibo to communicate offers and promotions which can be leveraged in real stores, so there is indeed a strong online to offline trend happening."

Demonstrating the power of social media on online sales, Hong talks about one specific campaign that Weibo did in the automotive sector, the 'Automotive Social Commercial Carnival'. This entailed a car promotion campaign in the off-peak automobile selling season. Hong: "Automobile brands and their official dealers participated in the event. The campaign generated a sales volume of around USD 161 million, attracted

close to 17 million unique visitors and sold over 8,000 cars. Orders were made from all over China and even included rural areas like Xinjiang and Tibet."

Asked how Weibo uses data analytics tools to track customer sentiment, Hong responds: "Obviously, we have lots of data. And we are consistently using our data to improve products and user experience. And since the birth of Weibo, brands and marketers have used Weibo data to generate valuable consumer insights for themselves, allowing more targeted marketing campaigns."

### The future is about fans

When asked for a final statement on what will be most important for brands in China in future, Hong addresses the need to build strong communities: "In the future, only those brands who can create a 'Fans Economy' will survive. To do that, brands must first have a fans-centric organization, leverage social trends to build their brands, and last but not the least, unleash the power of social commerce."



## Ogilvy

Thomas Crampton, Global Head of Social

Thomas Crampton is the Global Managing Director of Social@Ogilvy. He leads an organisation that helps companies leverage social media to build successful brands.

### On e-commerce growth

E-commerce is growing both in depth and breadth. Ogilvy sees many examples across their global client base, and especially in China, which is at the forefront of e-commerce growth.

As an example, Crampton talked about how they helped an automotive brand. "Growth can be astonishing. We helped an automotive brand analyse, interpret and optimise the shopper journey. From a traditional purchase cycle of over 200 days, the brand managed to sell over 300 cars in a matter of three minutes through WeChat," he says.

However, there are challenges, particularly in China, as he explains, "The question is how to build something that can rapidly scale to cover the entire China market. It's impossible to open that many physical stores at such short notice, and e-commerce jumped into the void to quickly enable sales across a large territory."

Asked what he sees as the single biggest challenge for e-commerce providers in China, Crampton mentions distribution: "How to efficiently get products in the hands of people across the country – this is one of the reasons that even we at Ogilvy need to sometimes get into the operational challenge of distribution."

### Online to offline

Online to offline is an important and growing trend – in China too. Crampton agrees, saying, "Online only is not going to create sustainable brands. At some point, each brand will need a face-to-face touchpoint."

An example Crampton gives is Yihaodian (号店), a challenger brand in the groceries category. Crampton explains: "Their challenge was how to get consumers who are used to shopping for groceries in a fixed store to buy the same products offline. To address this, we built a campaign that included opening 2,000 stores overnight – using virtual shops set up around the country."

Crampton strongly believes that China will see more online brands opening up pop-up stores and physical locations. As he says, "We're already seeing this today. Online brands are renting mall and retail spaces for temporary stores, shops or experience booths, and this trend will only continue."

### On sales push versus brand push – journey-based marketing

Most e-commerce brands optimise their sales and marketing towards conversion optimisation. Crampton believes that ultimately focusing on just sales is a race to the bottom. On this topic, he says that "Most people don't want to go through the effort of building a brand. But in fact, everything a brand does – either online or offline – should be geared towards driving total brand value. It needs to integrate both a sales and a brand drive."

That is why Ogilvy advocates looking for opportunities across the entire customer journey. "It's not just about Facebook 'likes', but about analysing and segmenting who all those Facebook likes are. Where these are in the shopper journey and how can you build a segmented marketing approach that pushes customers forward in the customer journey."

### Experiential is a big trend

One of the other big trends Crampton sees is in the application of more experiential types of campaigns.

Crampton says, "Increasingly brands are pumping out content through traditional, digital and social media. The danger is that within this sea of content, it's hard to be relevant for all consumers. One way to cut through that is to really get people involved with content. And that is where experiential and physical brand encounters come in."

More and more, brands are aiming to improve customer engagement by delivering new and different 'experiences'. This could be in the form of a different way of interacting with a brand through a pop-up store or booth, but it could also be through digital means – i.e. interacting with video or music in an online app.

### Social media and China e-commerce

Social has a big role to play in brand building as well as in driving sales. However, not all brands get it right. In Crampton's view, "Brands get distracted by the three T's: Tweets, Technology and Tactics."

As for Chinese brands, they are going through the process of building brands for the first time, and Crampton and Ogilvy are involved in supporting this. The big difference between Chinese and Western brands is that Chinese brands get the importance of social. "While there are challenges in how they build brands, there is no need to convince Chinese brands of the importance of social!"

A trend Crampton sees in social media in China, and that is also seen globally, is the emergence of smaller, more private social networks. As he says, "WeChat is in fact a private social network where updates only go to your close friends, and are not broadcast as on other networks. Globally and in the US, similar trends can be seen with apps like Path and Snapchat."

## Main triggers for online purchasing



Source: Survey analysis, China's Connected Consumers, 2015

### Online to offline set to expand

Online to offline is an important and growing trend – and Thomas Crampton, Global Head of Social@Ogilvy, agrees. As he says, “Online only is not going to create sustainable brands. At some point each brand will need a face-to-face touchpoint.”

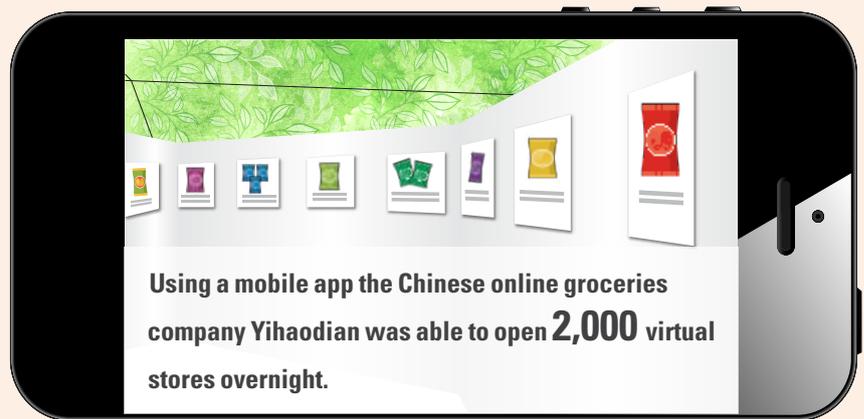
As an example of this, Crampton talks about one of Ogilvy's clients, Yihaodian. The company is a challenger brand in the groceries sector in China. The brand's challenge was how to get consumers who are used to shopping for groceries in physical bricks and mortar stores, to buy grocery products online. To address this, Ogilvy built a campaign for their client that included the opening up of 2,000 stores overnight – using virtual shops set up around the country.

## Yihaodian



**Thomas Crampton**  
Global Head of Social @Ogilvy

*“Online only is not going to create sustainable brands. At some point each brand will need a face-to-face touchpoint.”*





**Julien Chiavassa**  
Head of Digital and  
E-commerce for the  
Asia Pacific region at  
Clarins

*“When Chinese consumers are looking for a brand, they turn to Taobao or Tmall first, and only then to a search engine.”*

Crampton strongly believes that China will see more online brands opening up pop-up stores and physical locations. As he says, “We’re already seeing this today. Online brands are renting mall and retail spaces for temporary stores, shops or experience booths, and this trend will only continue.”

### Cues from the virtual world are also important

While we see online shops moving into the offline world, the reverse is also an important trend. Among online triggers to luxury e-commerce purchases, the most persuasive one is reading about a product on a blog or social site, and seeing the product in an online shop.

On this point, we learnt an important insight from our interview with Julien Chiavassa, Head of Digital and E-commerce for the Asia Pacific region at cosmetics company, Clarins. He says, “When Chinese consumers are looking for a brand, they turn to Taobao or Tmall first, and only then to a search engine.”

Recognising the need to be seen online in China, most luxury brands today not only have their own .cn website but also their own shops on China’s popular domestic e-commerce platforms such as Tmall.



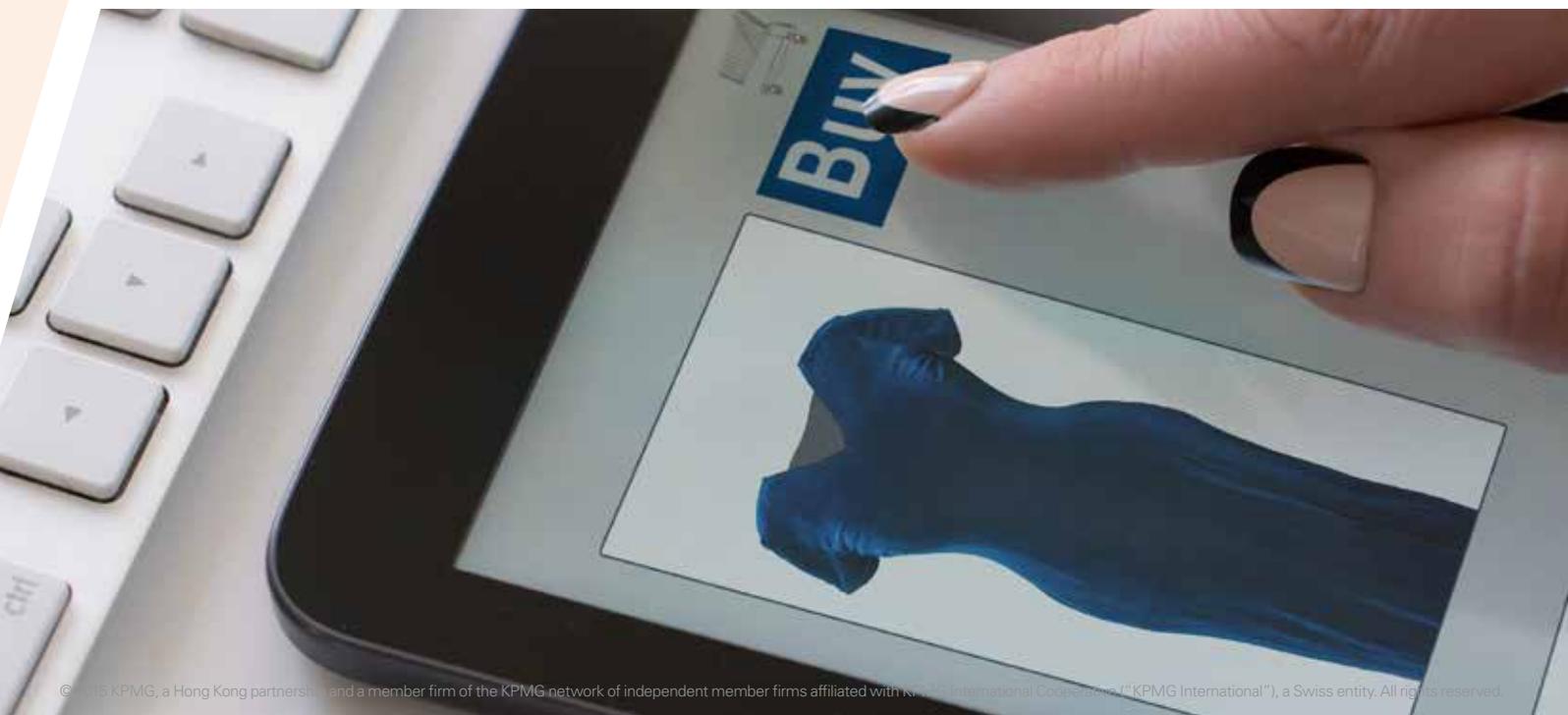
**Nick Debnam**  
Chairman,  
Asia Pacific Region  
Consumer Markets  
KPMG China

*“Companies must develop the right strategies to survive and thrive in an increasingly disruptive environment. ....for example, we are going to see a massive movement to O2O and the number of service industries online”*

Clarins, for example, not only has its own website in China but also has an official flagship store on Tmall. As Chiavassa remarks, “It’s important to have a presence on Tmall as it helps to establish wider visibility among Chinese shoppers.”

Vincent Lau, Regional E-commerce Director for Deckers Brands, Asia Pacific – the owner of the UGG brand, among others – also notes the importance of Tmall, and indicates its particular strengths: “In most countries, we don’t sell through third-party sites, but China is different. In China we just had to add a presence on Tmall as that is where the consumers are.”

Both Clarins and Deckers confirm the subtle difference between the function of their own branded e-commerce storefronts, and their Tmall storefront. The Tmall stores are more geared to product sales and promotions, while the branded .cn site is more for customers to see the full spectrum of products under the brand, and appreciate the full brand’s values. As Chiavassa of Clarins says, “We see Tmall mainly as a site for ‘product loyal’ customers who prefer to use a specific set of Clarins products. The Clarins.com.cn site is more a site for ‘brand loyal’ customers who buy in to the full scale of our products and services.”





## Clarins

Julien Chiavessa, Asia Pacific Head of Digital and E-commerce

Julien Chiavessa is Asia Pacific Head of Digital and E-commerce at Clarins, the cosmetics company.

### Clarins and e-commerce in China

Clarins mainly sells its products through department stores, of which there are some 120 across the China. In addition they sell through perfumeries like Sephora – reaching another ~120 stores. They also sell products through a network of spa and massage service providers throughout the country.

The brand launched its first Chinese e-commerce initiative, 'clarins.com.cn', in mid-2012, and they launched their Tmall Clarins shop in mid-2013.

Clarins confirms the tremendous e-commerce growth numbers that we see in the China's Connected Consumers report. Chiavessa says: "Yes, we also see tremendous growth in e-commerce sales, although it remains a small percentage of the total. Growth can be up to 50 percent, although it represents some 5 to 6 percent of total revenue in China. We should see this grow to some 15 to 20 percent in the next three to five years."

This supports the fact that Clarins approaches e-commerce more as a service and convenience platform than as a pure 'transaction and revenue' platform. According to Chiavessa, "For us, e-commerce has moved on from being purely a deal platform. It's now become a crucial channel to deliver convenience to customers. People will always look for deals – whether they're in an offline or online shop. Early e-commerce providers were deal-focused which has brought the perception of e-commerce offering better pricing to consumers. But this is changing."

Clarins is working hard to combine and integrate its digital assets to offer convenience – at any point in the customer's purchase journey. "Our marketing campaigns support both online

to offline as well as offline to online, for example:

- Clarins' online campaigns drive consumers to Clarins stores. Shoppers are enticed to try products or to receive in-store skincare consulting.
- In-store, we use QR codes, tablets and kiosk terminals to get shoppers engaged with the brand during their purchase."

Interestingly, Clarins is refocusing on the digital channel as a means of enhancing customers' offline store experience. This puts the brand at the forefront of omni-channel integration – even though Chiavessa says Clarins is still "at the early stages."

### Platform or brand-owned

Chiavessa says it is particularly challenging for global brands to simply copy their global e-commerce assets to China. "There are many technical barriers as well as localisation needs. As long as these challenges exist, there will always be a need for the platform solutions we see today."

Clarins still decided to launch their own e-commerce site as they realised they needed more ownership of content and client relationships than platforms like Tmall could provide. The reason is that Clarins aimed to truly integrate e-commerce with their offline customer stores, rather than simply 'adding' an e-commerce channel.

Asked what the key differences are for their Tmall versus Clarins.com.cn presence, Chiavessa remarked, "We see Tmall mainly as a site for 'product loyal' customers who prefer to use a specific set of Clarins products. The Clarins.com.cn site is more a site for 'brand loyal' customers who buy in to the full scale of our products and services. The Clarins.com.cn site is also where we have our loyalty system and where the incentives are just a bit better than on Tmall."

Chiavessa's view is that China will remain a platform-focused e-commerce model, however, there will probably be new platforms coming up, including vertically focused ones.

### Chinese travellers

Chinese people are starting to travel the world – both physically and digitally. Clarins sees both challenges and opportunities.

As Chiavessa said, "The biggest challenge is price transparency. Consumers can easily price shop the same product in a number of markets, and recent movements in exchange rates have exacerbated this issue. The industry is still looking for the best solutions around it and it remains a challenge. It's also hard to resolve as it requires global-level decision-making."

As for opportunities for multinational corporations (MNCs) in terms of Chinese overseas travellers, Chiavessa points to an interesting way of promoting products that they already use today. "We use WeChat to connect with Chinese travellers at their holiday destinations. Geolocation allows us to pinpoint Chinese customers abroad and send them messages. We use this to send localised offers and tips such as where to find the nearest 'Chinese-friendly' Clarins store."

### The smartphone

According to Chiavessa, Clarins was the first skincare brand in China to be completely mobile-friendly. Like their other digital channels, they do not see mobile as a pure transaction channel, but just as another means to service customers and help attract customers to stores. "The mobile phone is crucial - people even sleep with their smartphones. So we need to be the best we can be on that platform."



## Deckers

Vincent Lau, Regional E-Commerce Director, Asia Pacific,  
Deckers Brands

Vincent Lau is the Regional E-Commerce Director for Deckers Brands ("Deckers"), Asia Pacific, the global leader in designing, marketing and distributing innovative footwear, apparel and accessories for everyday casual lifestyle use and high-performance activities. The multi-brand company owns and operates the UGG® brand, Teva®, Sanuk®, and Hoko One One®.

### Deckers and e-commerce in China

Vincent Lau joined Deckers to lead its e-commerce activities in China which launched just over two years ago. Lau's initial focus has been directed towards launching a dedicated China site ('uggaustralia.cn') and opening a store on Tmall. "In our third quarter of the 2015 fiscal year (FY), 18.7 percent of our global revenue came from e-commerce, compared with 15.9 percent in the comparable period in FY 2014. While China is somewhat behind the average, it is beginning to catch up," Lau says.

Deckers has made special efforts to specifically speak to China's marketplace, as Lau explains, "In most countries we don't sell through third-party sites, but China is different. In this market, we had to add a presence on Tmall because that is where our customers are." Lau continues, "Tmall is more campaign- and promotion-driven, while our branded site is focused on providing the full brand experience and captures our complete product range. Both sites are performing well, but we are seeing longer visiting times, more repeat product purchases and better conversion on our dedicated site." During the 'double 12' (12 December) event, the UGG® brand became the number one footwear brand in the female category on Tmall.

In two years, digital and e-commerce have become a major part of Deckers' China business – but there are still opportunities on the horizon.

### Retail industry at a tipping point

Deckers Brands believes the retail industry is close to an 'omni-channel' revolution. As Lau explains it, "We started noticing small shifts in our overall business more than a year ago. We know that today's consumers are digitally savvy and have higher expectations of retailers. To remain competitive, we need to make sure we're able to answer to those evolving needs."

Deckers plans evolve with its customers. Lau continues, "We have made changes to how we work and how we are organised. Where we had separate bricks-and-mortar, e-commerce, and wholesale teams, we now have one omni-channel organisation." Dave Powers, who was appointed President of Brands in March, oversees each of the company's five brands and its strategy behind delivering a seamless experience to its customers – regardless of the channel/s they choose to use. The result is an organisation that is much better equipped to give its customers the same online and offline experiences.

### Online to offline

With the UGG® brand there are several examples of connecting offline and online in both directions. "Everything is geared towards providing convenience to our customers. For instance, we are now using integrated approaches that empower our customers to check availability of a specific style and size directly on our website. This gives them confidence that the shoe they like will be available at the store when they visit. If a product is not available at a store, a customer can still order that product online and pick it up in-store."

Lau continues, "We use RFID technology to track store inventory levels, and in the near future, we'll have

digital devices that give sales people more information about products." For in-store promotions, the UGG® brand also uses QR codes – further connecting offline and online worlds. Consumers are encouraged to visit stores, scan QR codes and receive incentives.

### Brand platform

It was announced in March that the company's first multi-brand e-commerce platform in the Asia Pacific region had been launched. Style X Deckers offers over 100 skus of products from the company's full portfolio of brands including UGG®, Teva®, Sanuk® and Hoka One One®. "By leveraging the power of our full portfolio, Style X Deckers offers our customers a more dynamic shopping experience. At the back end, this translates into cross-sales opportunities. The site has launched in Singapore, Australia and Hong Kong, but we'll soon be adding additional markets."

### What the future has in store

"Innovation will continue to drive our business, and technology will lead us into the future. Digital is a game changer for our brands, not just an enabler," Lau says. "By connecting the in-store and online experience and building our omni-channel capabilities, we can and will be better able to serve our customers."

The company's omni-channel strategy has proven to be working, as the company's e-commerce sales increased 25.2 percent year-over-year in Q3 of the 2015 fiscal year.

### Showrooming happens – but so does the reverse

If triggers, both online and offline, spur shoppers to make luxury purchases online, will these shoppers soon make all purchases exclusively in the online world? Our survey finds that while revenues do indeed move from physical shops to online platforms, there is also a reverse trend. For a majority of consumers (62 percent), seeing products in a shop has triggered the online purchase of the product, which is often called 'showrooming' in the industry. But to a lesser extent, the reverse also holds true: 48 percent of consumers have bought luxury products in real shops after seeing them online. While the two movements are not balanced, the magnitude of this opposing 'reverse showrooming' force should not be underestimated.



I bought luxury products **online** after seeing them in a shop

**62%**



I bought luxury products in **physical shops** after seeing them online

**48%**

Source: Survey analysis, China's Connected Consumers, 2015

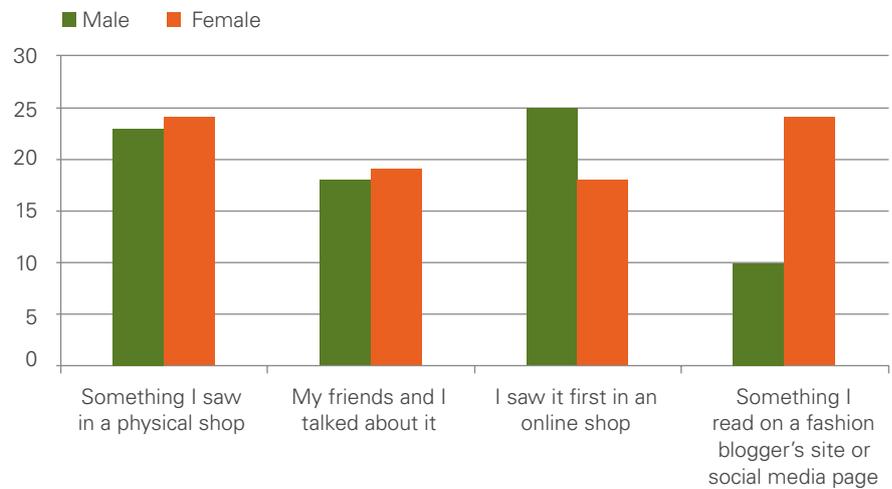
### Gentlemen do not prefer blogs

While seeing something in a physical shop and/or talking about it with friends are equally important triggers for men and women, our findings suggest that women are much more likely (almost three times more likely than men) to be influenced by posts on blogs or social media pages than men. This implies that for products in women-specific product categories such as women's apparel or shoes, it is of utmost importance to be featured on blogs and social media pages.

For men, seeing a product available in an online shop is the largest trigger for making online purchases. Hence, products such as men's shoes and apparel are more likely to benefit from being prominently advertised and available across multiple e-commerce platforms.



## Main triggers for purchasing (by gender)

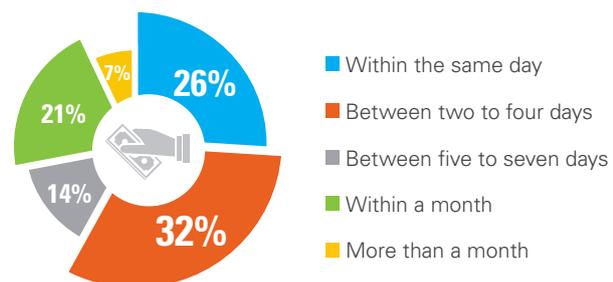


Source: Survey analysis, *China's Connected Consumers, 2015*

## Research and evaluate luxury purchases

The next stage of the consumer journey is the phase where consumers research their potential purchase. The overarching message we find from the Chinese luxury shoppers' journey is that online purchasing for these consumers is not a matter of instant acquisition but one of deliberation – comparing and discussing the best product options available. Our study shows that while 26 percent of consumers complete their purchase within one day of encountering a relevant trigger, the majority take much longer. Thirty-two percent make their purchase between two to four days and almost one-third takes more than a week to decide where and what to purchase.

## Time spent from trigger to purchase (% of consumers)



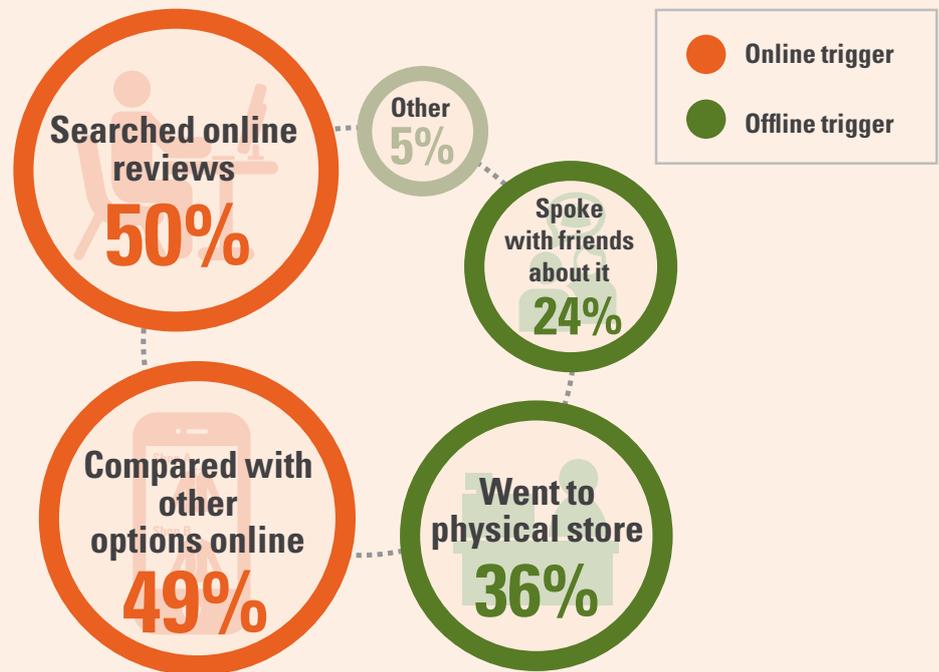
Source: Survey analysis, *China's Connected Consumers, 2015*

Regardless of where they end up making the purchase – online or in a physical store – Chinese e-commerce consumers browse websites and make price comparisons before they buy. In fact, a 2013 study<sup>4</sup> found that Chinese consumers spend much more time browsing online before making a purchase than their counterparts in other countries.

In terms of what is done during this research stage, our study shows that online browsing dominates for Chinese e-commerce shoppers on a quest for information.

<sup>4</sup> 'China's e-commerce prize', Serge Hoffmann and Bruno Lannes, Bain & Company, 2013, [http://www.bain.com/Images/BAIN\\_BRIEF\\_Chinas\\_e-commerce\\_prize.pdf](http://www.bain.com/Images/BAIN_BRIEF_Chinas_e-commerce_prize.pdf)

## Channels used for researching products



Source: Survey analysis, China's Connected Consumers, 2015

We find that before purchase, half of all the respondents surveyed searched for product reviews or made comparisons with other options available online. However, physical stores remain important in the research phase too. For many online Chinese consumers it would seem that actually seeing a product and validating other's reviews is an essential part of their purchase journey. Thirty-six percent of respondents contemplating a product purchase visited a physical store to see, try or fit the product, and of these, 30 percent went back more than once.

### Converting browsing to sales

The challenge for brands and retailers throughout the consumer journey is to provide consumers the ease and opportunity for research while remaining top of mind at the time of purchase as well. Data from our survey suggests that while domestic platforms such as Mei.com, Tmall and others are the websites most frequently visited, consumers also often visit international platforms and brand-owned websites. However, if we look at where luxury e-commerce buyers actually make their purchase, the domestic platforms are convincingly getting the best conversion rates. More than half of consumers that visit international platforms or brand-owned websites move off without making a purchase. The domestic platforms have much higher conversion rates and 72 percent of respondents say that they buy most frequently from these domestic platforms. So while international and brand-owned websites serve as important sources of information during the trigger and research stage of the consumer journey, domestic platforms have the edge when it comes to converting consumers from browsers to purchasers.

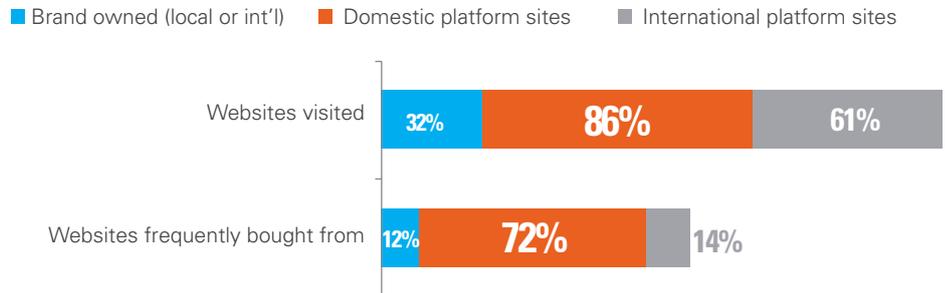
Thibault Villet of *Mei.com* agrees: "Chinese customers prefer to buy on platforms and the Chinese landscape is dominated by Tmall which controls over 50 percent of the total B2C business in China. Customers prefer platforms as they offer multiple choices, well-accepted product presentation and information, payment gateways,



**Thibault Villet**  
CEO of Mei.com

*“Chinese customers prefer to buy on platforms and the Chinese landscape is dominated by Tmall which controls over 50 percent of the total B2C business in China.”*

## Websites visited vs Websites frequently purchased from (% of consumers)



Source: Survey analysis, China's Connected Consumers, 2015

peer ratings, and regular promotional activities. Brands' own websites provide reliable and accurate information, as well as authentic products, but usually trigger very low conversion rates. Our company is therefore planning to open the first e-commerce market place dedicated to luxury goods in 2016."

### A new sort of town

In order to provide e-commerce shoppers with a seamless shopping journey, luxury brands and online retailers need to embrace the online-offline continuum in which online shoppers exist. This means that rather than view offline and online channels as separate spaces driven by varying sales targets, businesses need to focus on building brands and have an integrated approach. As Thomas Crampton at Ogilvy points out: "Everything a brand does – either online or offline – should be geared towards driving total brand value. It needs to integrate both a sales and a brand drive."

For online channels, integration might include incentivising people to sample products in physical stores, directing online users to find the closest flagship or retail store, or allowing consumers to check on stock availability across stores. Some online retailers also increasingly offer easy returns options for consumers that want to try products in the comfort of their own home. Reciprocally, physical stores may incentivise customers to become members of online communities to get better pricing and updated product information, download brand apps or use QR codes to instantly access web pages.

Crampton advises, "Increasingly, brands are 'pumping out content' through traditional, digital and social media. The danger is that within this sea of content, it's hard to be relevant for all consumers. So a way to cut through that is to really get people involved with content. And that is where experiential and physical brand encounters come in."

Julien Chiavassa at Clarins describes various ways that his brand integrates online and offline channels to allow customers to experience products. Clarins increasingly uses the social media platform WeChat to drive both e-commerce sales and bring people into shops. For example, in an online product sample initiative, consumers were asked to register with Clarins on WeChat in return for a free sample that could be collected at a store of their choice. Similarly, during the company's Women's Day campaign on Tmall, users could register for a free Clarins product sample that was redeemable if they went into a specific department store to buy a product. The online campaign created a huge increase in offline sales during the three-day event.



**Thomas Crampton**  
Global Head of Social  
@Ogilvy

*“Everything a brand does – either online or offline – should be geared towards driving total brand value. It needs to integrate both a sales and a brand drive.”*



**Jessie Qian**  
Partner in Charge,  
Consumer Markets  
KPMG China

*I am very positive on the China ecommerce sector though it will cause significant disruption to the traditional retailers.....we see increasing opportunities as the O2O ecosystem is building up to be the next big thing*

Vincent Lau at Deckers Brands also underwrites this, saying, "Everything is geared towards providing convenience to our customers. For instance, we are now using integrated approaches that empower our customers to check availability of a specific style and size directly on our website. This gives them confidence that the shoe they like will be available at the store when they visit. If a product is not available at a store, a customer can still order that product online and pick it up in-store."

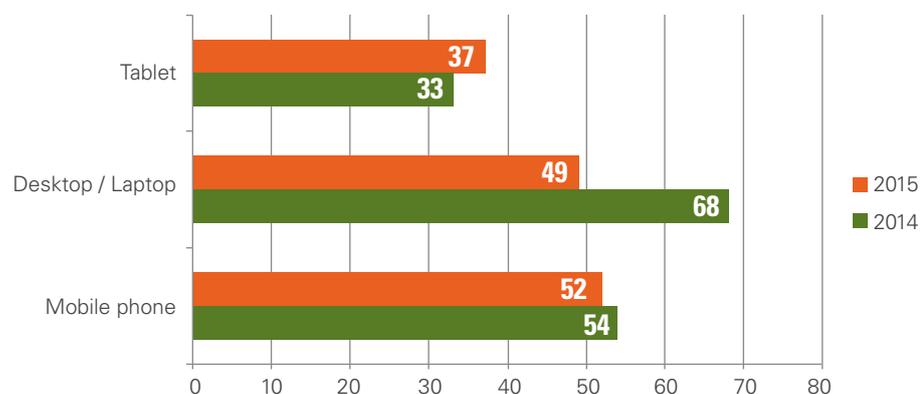
Another example is offered by Bobby Liu, General Manager of the Mainland China Management Centre and E-Commerce Group of Chow Tai Fook, one of the largest listed jewellery groups in the world. Chow Tai Fook currently uses iBeacon as a marketing approach in about 200 stores. When customers enter these shops or are near the signal, they can access all kinds of content that Chow Tai Fook shares with them by using the 'shake' function. Customers only need to shake their phone in the store to receive promotional messages. It could be a coupon, an interactive game, or sometimes just sharing of a happy message. With these online and offline marketing approaches, Chow Tai Fook could attract more customers into the shops. "If this goes well, we plan to use iBeacon widely in every store," says Liu.

## The smartphone: Central to the consumer journey

The rampant use of mobile phones in China is no secret. According to the latest report by China's Ministry of Industry and Information Technology (MIIT), there were 1.286 billion mobile phone users in China at the end of December 2014.<sup>5</sup> A staggering 83 percent of these use their mobiles to access the internet. An earlier report published by state-affiliated research organisation China Internet Network Information Center (CNNIC) shows that as at June 2014, the percentage of Chinese users accessing the internet via mobile for the first time surpassed the percentage of users who access the internet via PCs (80.9 percent).<sup>6</sup>

The *China's Connected Consumers* survey this year found that the smartphone has now overtaken desktops/laptops as the device most often used by online consumers to access retail websites. This is especially true for consumers under the age of 40, with over 50 percent of these consumers accessing retail websites through their smartphones every day.

### % of consumers that use the following device daily to access retail websites



Source: Survey analysis, *China's Connected Consumers, 2015*

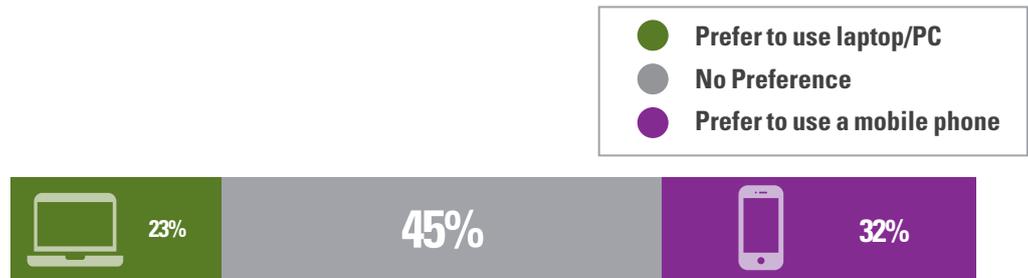
<sup>5</sup> Source: <http://www.androidheadlines.com/2015/01/china-1-billion-mobile-phone-users-december-china-mobile-world-largest-carrier.html>

<sup>6</sup> Source: <http://thenextweb.com/asia/2014/07/21/in-china-more-people-now-access-the-internet-from-a-mobile-device-than-a-pc/>

<sup>7</sup> Source: <https://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Newsletters/China-360/Documents/China-360-Issue15-201401-E-commerce-in-China.pdf>

Forecasts suggest that mobile commerce in China this year will reach USD 41.4 billion, representing 8 percent of all e-commerce transactions.<sup>7</sup> Our study finds that luxury e-commerce consumers not only use their mobiles to browse information on the go, but they prefer to use it to make purchases; close to one-third of respondents now prefer to make purchases using their mobile phones.

## Preference of device for survey participants



Source: Survey analysis, China's Connected Consumers, May 2015



**Julien Chiavassa**  
Head of Digital and  
E-commerce for the  
Asia Pacific region at  
Clarins

*“The mobile phone is crucial – people even sleep with their smartphones. So we need to be the best we can be on that platform.”*

Seventy-five percent of consumers that use their smartphones for purchasing luxury products online do so because of convenience. Computers still clearly offer online shoppers the benefit of large screen sizes and keyboards, making it easier to browse products and type in payment-related information. However, mobiles are always with the consumer, giving them ready access to online information and purchasing.

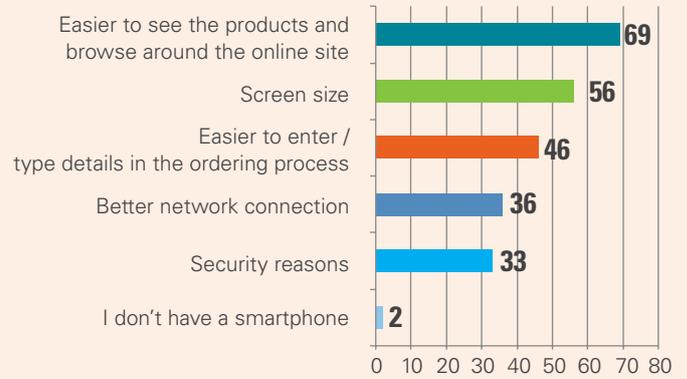
Another important reason for preferring mobile phones is the dedicated apps that many of the online retail platforms have created. Already, 32 percent of respondents prefer making purchases through their mobiles because of these apps.

In order for businesses to realise the growing promise of purchases via smartphones, developers need to roll out mobile friendly versions of retail websites and mobile apps that make the shopping experience even easier for users. Security and connectivity issues also need to be solved. Thirty-six percent of consumers who prefer computers for online purchasing do so because they find that computers offer better connectivity. While 33 percent choose desktops or laptops for security reasons, only 8 percent choose shopping through their smartphone for the same reason.

### Reasons to prefer a mobile phone for online purchases



### Reasons to prefer a laptop / desktop PC for online purchases



Source: Survey analysis, China's Connected Consumers, 2015

**Thibault Villet**  
CEO of Mei.com

*“The mobile revenue share for Mei.com already reached 70 percent in June 2015 and we expect our business to be fully mobile by the end of 2016.”*

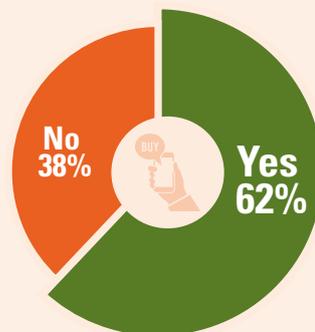
As Julien Chiavassa at Clarins puts it, “The mobile phone is crucial – people even sleep with their smartphones. So we need to be the best we can be on that platform.”

In terms of the platform sites, mobile has been crucially important as well, as Thibault Villet of Mei.com explains: “With the exponential rise of smartphone penetration, e-commerce has changed to mobile commerce. The mobile revenue share for Mei.com already reached 70 percent in June 2015 and we expect our business to be fully mobile by the end of 2016.”

#### Smartphones: The surrogate sales assistants

Our survey found that smartphones are increasingly used while shopping for luxury products offline as well – sometimes aiding sales but often restricting them. With a smartphone in their hand, every luxury shopper these days has their own personal sales adviser.

### Have you used your Smartphone to research purchases while in an offline retail store?



Source: Survey analysis, China's Connected Consumers, 2015

Sixty-two percent of respondents in our survey had used a mobile phone while in a physical luxury store to research a product they were looking at. Information sought included price comparison (72 percent) and product reviews (53 percent) but also product specifications and available production options (such as colour, size, style, etc.). Evidently, even when shopping for luxury products offline, many consumers prefer to carry out their own research rather than rely on a shop assistant.

As can be seen in the chart below, while 57 percent of consumers have gone on to buy the product in-store as a result of their smartphone research, a larger number (87 percent) have been persuaded to leave the store and complete their purchase online. While a loss of a sale in-store may not necessarily mean a loss of sale for the brand, our findings once again suggest that the time is ripe for physical stores to evaluate their value proposition for online consumers in the digital age and embrace the fact that they use their mobile phones as sales advisers.

### % of in-store smartphone users agreeing to the following statements



Source: Survey analysis, China's Connected Consumers, 2015



**Thomas Crampton**  
Global Head of Social  
@Ogilvy

*While there are challenges in how they build brands, there is no need to convince Chinese brands of the importance of social!*

## Social media and the online shopping journey

According to Ogilvy's Thomas Crampton, the big difference between Chinese and Western brands is that Chinese brands understand the importance of social media. As Crampton says, "While there are challenges in how they build brands, there is no need to convince Chinese brands of the importance of social!"

Online luxury shoppers are truly 'connected consumers' – connected not only to the internet, but also to each other through the use of social media platforms. The China's Connected Consumers 2015 survey found that whether it is online triggers, research or the sharing of reviews, social media channels accompany the online luxury shopper along the entire shopping journey. In general, our survey found that Sina Weibo, China's leading microblogging website, is the most frequently used social media platform among respondents. WeChat, China's most popular mobile messaging app, came in second.

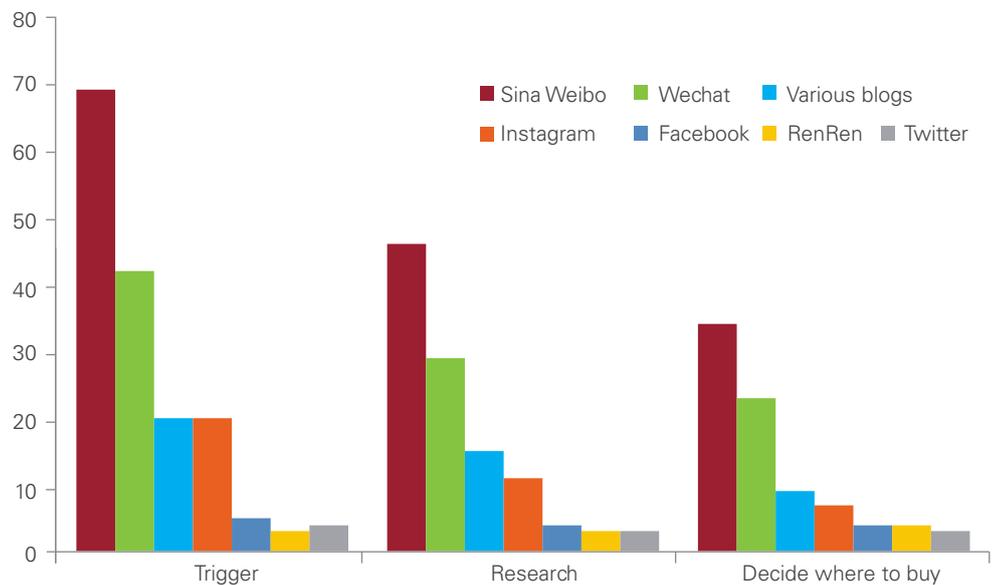
### True democratisation of brand advocates

The rise of social media and the smartphone over the past decade has fundamentally altered how information is accessed and shared. Not only is the internet rife with brand ambassadors and celebrity endorsements as they are traditionally understood, social media platforms also offer average online shoppers a chance to become celebrities in their own right. Among triggers for online purchasing, for example, we find that 'knowing that a product is being used by a celebrity' is as persuasive a trigger as 'seeing it being mentioned on a social media post' (consumers mention these as a trigger for 12 percent of purchases). Reading something on a fashion blogger's site or social media page is mentioned with even greater frequency (28 percent).

When it comes to social media channels, the consumer is ultimately in charge of the sites, blogs and reviews they access, as well as determining which platforms they will use to share their own product experience. For 41 percent of consumers, their online luxury shopping journey culminates with sharing their views, opinions or other feedback regarding the product or online purchase.

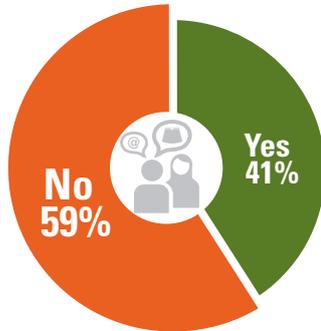
Interestingly, while WeChat came second after Sina Weibo in how Chinese shoppers consume social media, it leads in terms of the most commonly used channel for sharing feedback.

### % of luxury online shoppers using online channels at each stage of the purchase journey

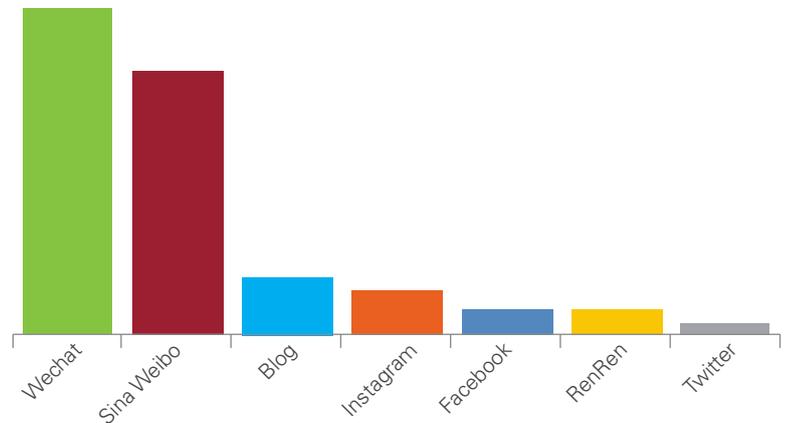


Source: Survey analysis, China's Connected Consumers, 2015

### Percentage of consumers sharing their experience after an online purchase



### Online channels used to share feedback



Source: Survey analysis, *China's Connected Consumers, 2015*

Thomas Crampton of Ogilvy says that this follows a trend that he sees globally: the emergence of more private social networks. He says, "WeChat is in fact a private social network where updates only go to your close friends, and are not broadcast as on other networks. Globally and in the US, similar trends can be seen with apps like Path and Snapchat."

For businesses keen on tapping into the pulse of their customers, integration with social media channels is inevitable. Integration here does not merely imply a presence on these channels. Rather, it calls for brands to become immersed in these online communities over the longer term by keeping abreast of information posted on social media, being responsive to consumer feedback and sharing information that enables their consumers to take informed purchase decisions.



# Cross-border shopping – the global Chinese luxury buyer

## Overseas e-commerce spend growing quickly

Not that many years ago, overseas products could only be bought in a few selected stores in the top-tier cities. Fast-forward to 2015 and Chinese shoppers have access to a global selection of brands and retailers, and all of this through just a mouse click or a swipe on a smartphone screen.

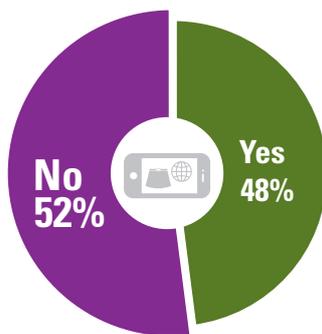
The Chinese luxury buyer is increasingly becoming more aware of overseas brands and product options, and many global e-commerce businesses are aware of this. According to Reuters,<sup>8</sup> the Chinese Government estimates that the total value of cross-border e-commerce will be worth USD 1 trillion in 2016. In the same article, Reuters says that since 2012, more than 2,000 firms have registered in China as cross-border e-commerce businesses.

Our *China's Connected Consumers* study also points to tremendous growth in overseas luxury e-commerce spending, as can be seen in the following chart.

<sup>8</sup> Source: 'UPDATE 1-Chinese rivals snap at Alibaba's heels in cross-border e-commerce race', Brenda Goh, Reuters, 25 February 2015, <http://www.reuters.com/article/2015/02/26/china-retail-internet-idUSL4N0W01B120150226>



### Did you buy luxury products from overseas online shops in the past 12 months?



### In the past 12 months did your overseas online luxury purchases increase or decrease?

■ Increased ■ No Change ■ Decreased



Source: Survey analysis, China's Connected Consumers, 2015

Forty-eight percent of luxury shoppers had bought items overseas over the previous 12 months – close to a majority. This clearly seems to be a growing number as more than two-thirds of these claimed they increased their overseas online luxury purchases in the past 12 months. Based on these numbers, we can expect to see a growing share of luxury online purchases going to overseas websites.

If we look at the value of overseas online purchases as part of all online purchases, it is around 28 percent on average. The survey findings demonstrate how this is broken down. The largest group of overseas purchasers is the group that spends between 1 percent and 20 percent of their total luxury online spend overseas, but there are also significant percentages of shoppers who spend more. In other words, 22 percent in total spend more than 40 percent of all online luxury purchases on overseas websites.



## Sense Luxury

### James Bian, Founder & CEO

Sense Luxury's mission is to build up the high-end luxury villa rental market. James Bian is the founder and CEO and he says the business has a straightforward model with a focus on O2O. It provides a unique experience to middle class Mainland Chinese consumers by providing tickets, accommodation and local experiences, covering around 900 villas in 21 countries.

#### Changes in the China luxury travel market

Among other things Bian speaks to us about the changing travel preferences of Chinese overseas travelers: "While previously the Chinese travelers wanted tour packages, we increasingly see a segment emerge that is looking for more individual style and experiences. This group wants personalized travel with more space and freedom. Some villas come with butler and chauffeur services, and others come with a gym or other facilities. As we can cater to small as well as large groups we can provide villas matching individual needs."

Besides the type of destinations and holidays Bian also sees travel frequency increase: "Travel is becoming much more medium to high frequency and in the future we see more Chinese consumers travel overseas multiple times per year."

While Chinese grow more sophisticated in their travel preferences, other things remain same as before, as Bian says: "The mainland consumer still likes savings and continue to look for the best deal."

Sense Luxury already provided rental villa accommodation to over 7,000 customers. As for the origin of customers, Bian tells us that Shanghai leads with about 40 percent of customers and 20 to 25 percent from each of Beijing and Guangdong areas. In terms of age groups, 80% of customers are in the 30 to 45 year old group according to Bian.

Bian furthermore tells us that most of Sense Luxury's customers are in the "mass affluent" segment (which is usually defined as those with assets of 100K USD to 1M USD) while about 10% of all are in the UHNW segment (usually defined as 1M USD+). On this, Bian comments: "The UHNW segment is where people have their own private jets. They are very demanding which means we need to really manage their expectations."

Sense Luxury provides a wide portfolio of villas, ranging from 300 USD per night 2 bedroom apartments all the way up to 42,000 USD for a private island with 6 bedroom villas. Says Bian: "We even have 'The Plantation Estate' in Hawaii where President Obama has stayed."

#### About offline and online media

Speaking to Bian it is interesting to hear that offline media are still so important to him, underscoring some of the findings in this report. As Bian says: "We used various social media channels in the past, but have had limited success. For us, plain word-of-mouth is still the best! And therefore you really need to understand the local market and people. But we still see ourselves very much as an online marketing company, and for instance, all payments are handled online."

#### About the future

While Sense Luxury is currently focused on Chinese luxury online shoppers, some foreign customers have found their way to the company. As Bian explains: "Today we already have an English website and some foreigners already booked villas with us. In the future we may be looking to expand the service to international markets."

Sense Luxury is still a very young company, and looking to expand. Bian explains: "We established in 2014 and are now looking for next round of financing, as well as for strategic partners. In terms of our villa portfolio, most of our villas now are in Thailand, Indonesia and the Philippines. In the future we're looking to develop new destinations including Greece and we're looking for new villas in Australia and New Zealand."



**Egidio Zarrella**  
Clients and  
Innovation Partner  
KPMG China

*There is a warning here to many multinationals who believe they can bring Western standards into China. The Chinese consumer has leap-frogged willingly and aggressively into the Digital age. Multinationals must expect to play in this space with a growing number of digital natives and act accordingly.*

## Targeting the overseas Chinese traveller

Besides the travel industry itself, many other brands in different sectors have a keen interest in the travelling Chinese. Some brands are smartly leveraging their existing domestic customer engagement structures to target their customers while they are overseas. Brands are able to target their customers while they are on holiday abroad using some of the new messaging platforms. In addition, they are able to deliver a very personalised service that serves as a great example of providing convenience and added value to clients.

Julien Chiavassa at Clarins points to an interesting way of promoting products. "We use WeChat to connect with Chinese travellers at their holiday destinations. Geolocation allows us to pinpoint Chinese customers abroad and send them messages. We use this to send localised offers and tips such as where to find the nearest 'Chinese-friendly' Clarins store," he explains.

### Overseas brands

For overseas brands that aim to target Chinese travellers visiting their destinations, it is important to realise the importance of the domestic online channel. With the majority of online luxury shoppers likely to start their search for overseas trips in online platforms in the next 12 months it will be important for them to partner with companies already in the travel business in China.

The main players in the Chinese OTA market are Ctrip, eLong and Qunar. The market is highly competitive and many of the players suffer from low or negative profitability due to price competition. Qunar entered the market focusing on lower priced trips, but due to its focus on mobile, it is growing rapidly and widening its offerings to include higher value trips

Overseas investors have demonstrated a keen interest in these firms, with both Priceline and Expedia making strategic investments and partnerships with some of these domestic players



## SF Express

Leslie Tse, VP for E-commerce

Leslie Tse is VP for e-commerce at SF Express, one of the leading distribution and warehousing companies in China. With nearly 370,000 employees, close to 16,000 vehicles, and 18 aircrafts they handle millions of packages every day.

### SF Express and e-commerce in China

From the various interviews that we conducted in preparing this report it is clear that SF Express truly is riding the e-commerce wave as it has had such a massive effect on shaping its business. Tse explains "Initially the B2B market - i.e. moving packages from one business to another - used to be our core business. But it has completely moved to B2C today, with most of our packages being delivered to consumers all over the nation. We cover 34 provinces so we pretty much have full coverage."

With annual revenue of around 40 billion RMB, SF Express sees about 20 to 30% growth year on year. There are two key drivers for these impressive growth numbers, says Tse: "Firstly we expanded our network tremendously across lower tier cities, now totaling up to 12,500 SF centres. Secondly, the e-commerce market is simply booming, supported by big promotions like double 11 sales days. We now handle between 5 and 10 million packages per day, and these tend to be more of the higher value items."

This turnaround in SF Express' business has given the brand a strong name among Chinese consumers according to Tse: "The move towards e-commerce has led to SF Express now working with all major platforms including Alibaba's. As we support nearly all the big brands the consumer now has a level of comfort when they see that delivery is powered by SF"

### O2O strategies in delivery

And Tse underwrites our China's Connected Consumers report finding that e-commerce in China is a two way, online and offline street. Says Tse: "We are already moving to O2O strategies, for example linking with neighborhood shops and offering 'click and collect' type services. The shops that provide this service are called the Heike shops. Currently there are around 2,200 of them in operation across China and we expect to have a network of around 3,000 by the end of 2015"

The shops can even be used to try-on physical products and then order online through using QR codes or in-store terminals.

### International e-commerce

Another growth area in SF Express' business is the increasing demand for delivery into China from international and overseas e-commerce sites. "We bring products to China for many overseas international e-commerce brands. We do the consolidation, shipping of products to China, and distribution within China. We see overseas delivery into China as a growing trend and expect to see our business grow significantly in this area."

### Competitive Challenges and Economies of Scale

SF Express does see challenges and they mainly come from other low cost logistics players. However, Tse feels that with their "own staff" they can offer the best standard of services and this is something that their clients are very focused on. Furthermore, as Tse says: "We also benefit from our economies of scale. We now have 84 major distribution centres across China and that is a competitive advantage; still many customers use just one

warehouse for their B2B business but this thinking is now changing, giving us another advantage."

### New developments

SF Express is always looking ahead and one of their recent new ideas was 'Fung Chow' which translates loosely as 'Hive box'. This constitutes a delivery network system with locker collection points in commercial buildings across Chinese cities where you can enter a passcode and collect your package.

Furthermore, SF Express will be looking to benefit from using analytics better across the huge volumes of transactional data it collects. "It's about balancing the entire supply chain costs for our customers and we are increasingly looking at using Big Data to unlock new opportunities"



## Baozun

Nicolas Zurstrassen, Senior Vice President, Marketing Services

Nicolas is senior vice president at Baozun, a leading e-commerce service provider in China. The company was founded in 2007 and in May 2015 realized their IPO (NASDAQ:BZUN). The Alibaba Group is one of the investors in the company.

### Overview of Baozun

Baozun provides a full range of services to brands that want to enter China's e-commerce market. The company helps brands develop their own storefronts, or open up stores at one of the e-commerce platforms such as Tmall. Besides technical and IT support it provides strategic marketing advice, warehousing, logistics, customer services, and online marketing services. As Zurstrassen explains: "Baozun is one of the leading service providers in this area, with about 20 percent share of the market according to iResearch Consulting Group. We work with over 100 brands, including such brands like Burberry, Nike, Zara, Microsoft, and NBA among others. For these brands we help develop the e-commerce strategy and then roll this out by doing store set-up, online marketing services, warehousing, logistics, etc."

### Continued e-commerce growth

Asked whether he sees the China e-commerce market continue to grow as quickly as it is, Zurstrassen replies: "While the percentage growth may decline, we shouldn't forget that the base keeps increasing, so for the next few years we'll still see absolute e-commerce growth increasing. Going forward I think a very substantial part of the total retail market may be online – perhaps 30 to 35 percent."

Zurstrassen's views correspond with what we see in our China's Connected Consumers report; for most companies the e-commerce portion of total retail sales is still relatively small. Says Zurstrassen: "If we look at the brands

we work with today the percentage e-commerce of their total retail varies. Many brands have e-commerce portions in the single digit percentages. But we also have more aggressive brands and they can reach double digits and higher in terms of e-commerce percentage of sales."

### Platform versus brand owned

Zurstrassen tells us that Baozun assists brands with both platform and owned store fronts. It all depends on what their client's brand objectives and long term goals are. As Zurstrassen explains: "For companies with a strong network of offline stores in China that already provide a good presence we would recommend building their own site. But if you're just entering the market, it may be a better short term strategy to open up a store on Tmall. Overall, we don't see the platform model disappear in China at all for the foreseeable future."

### International expansion

Baozun is not solely focused on China for its future growth. It already has a presence in Hong Kong and Indonesia and will have future presence in Taiwan and India. "In the future we want to expand our model to cover other areas of Asia Pacific. For instance we already operate e-commerce sites in Hong Kong for Nike and Microsoft, and I expect we will open more sites outside of China up in the future."

### Baozun and online to offline sales

Regarding online to offline integration, Zurstrassen remarks: "What makes China different is that offline store infrastructure is not as widely developed as in Europe or the US. So you have a large percentage of Chinese consumers that are simply not able to interact with a brand offline and can only purchase it online." However, Zurstrassen does tell us that they often develop online to offline concepts and he gives a few examples: "We are one of the largest

e-commerce partners to the automotive industry. There we build solutions that connect online consumers with offline dealers for a test drive. Another example is an ice-cream brand where we work to tie online interactions to store visits for pick-up of ice-cream products in-store."

### Demanding Chinese consumers

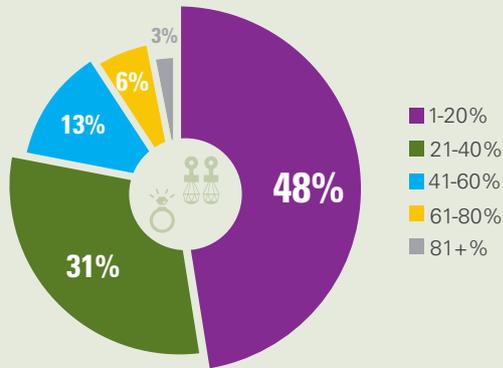
In Zurstrassen's view, the Chinese consumers are much more demanding than other overseas e-commerce consumers. Partly this is due to the different position that e-commerce takes in consumers' overall shopping behavior. Zurstrassen explains: "In the US for instance, consumers are looking at online and digital often as a means of making purchases more efficient, i.e. they go online to save time. In China on the other hand, consumers go online to kill time. They want to be entertained and they can easily spend a couple of hours browsing Tmall in the evenings."

### Other Trends

Asked what he sees as some other main trends around China's Connected Consumers, Zurstrassen mentions a number of interesting points. "Firstly I would say the rise of local Chinese brands that are fully online.

There are a few examples of luxury brands and for instance Mo and Co is one that draws attention. Another trend is that Chinese e-consumers become more 'individualized'. They like to buy things that are different and make them stand out from the crowd. They have increased confidence in their personal taste and are moving away to an extent from the large brands that many people already know."

## What percentage of your luxury online purchases were done overseas?



On average **28%** of all luxury online purchases are done overseas

Source: Survey analysis, China's Connected Consumers, 2015



**Thibault Villet**  
CEO of Mei.com

*For Chinese luxury buyers, purchasing items overseas remains a hot trend due to price arbitrage opportunities.*

As Thibault Villet of Mei.com says, "For Chinese luxury buyers, purchasing items overseas remains a hot trend due to price arbitrage opportunities. Also, international websites increasingly target China to build a direct channel to the Chinese consumer."

## Tariff Cuts

More recently the Chinese Government announced tariff cuts on a large number of key consumer goods. The government seems to be aiming to 'on-shore' overseas purchases by Chinese shoppers to help power domestic consumption. They do this by reducing the price advantages of purchasing items overseas, where rates, taxes and tariffs are often much lower than in China. Some examples of tariff cuts can be seen in the table below.



**Christopher Xing**  
Tax Partner, KPMG China

*Whilst the e-commerce market in China offers tremendous opportunities to offshore sellers seeking access to Chinese consumers through on line platforms, careful planning, monitoring and execution are essential to ensure that overseas operators' operating model is able to successfully navigate through China's complex web of regulatory, foreign exchange and tax regimes. China tax rules in particular are evolving in the e-commerce space and cross border on line trading platforms would need to be continually evaluated for compliance with the rules and tax effectiveness.*

### Examples of announced tariff cuts:

	From:	To:
	18.5%	8.5%
	23%	12%
	5%	2%

Source: Financial Times, 1 June 2015, "China slashes tariffs on range of consumer goods"

The government's actions may well come at the right time, as our study indicates that there is a large and growing segment of Chinese luxury consumers which purchases items overseas. However, whether this will indeed stem Chinese luxury online shoppers' increasing appetite for buying overseas remains to be seen.

Thibault Villet of Mei.com has the following view: "The recent government initiatives to cut tariffs are pushing brands to reduce the price gap between prices offered in China and internationally. But for many brands, price differentials are



**Thibault Villet**  
CEO of Mei.com

*The recent government initiatives to cut tariffs are pushing brands to reduce the price gap between prices offered in China and internationally. But for many brands, price differentials are much higher than just tariffs and VAT, and hence it may take them a long time to converge prices.*

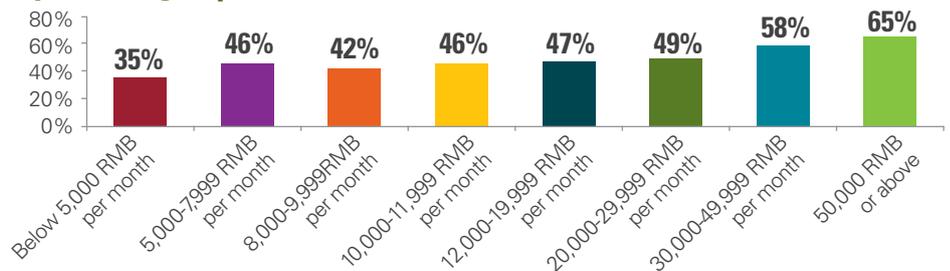
much higher than just tariffs and VAT, and hence it may take them a long time to converge prices. My advice to new brands entering China is that they should carefully position their China retail prices versus other international prices as consumers' awareness of global prices is increasing very fast"

### Overseas purchasers: Higher incomes and higher tier cities

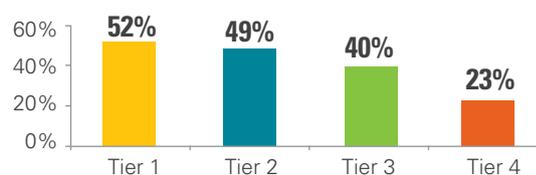
Our study results reveal that it is mainly the higher income segments in top-tier cities that purchase luxury items online overseas. Almost twice as many luxury consumers with RMB 50,000 or higher monthly incomes shopped overseas compared to the group earning below RMB 5,000 per month. While 52 percent of luxury consumers in Tier 1 cities shop online overseas, the equivalent is only 23 percent in Tier 4 cities. Clearly, overseas purchases are linked to more expensive items, and potentially require certain sophistication levels with regard to overseas online ordering and delivery mechanisms, which is more likely to be found in Tier 1 and Tier 2 cities.

### % of luxury consumers that purchased luxury online overseas (In the past 12 months)

#### By income groups



#### By city tiers



Source: Survey analysis, China's Connected Consumers, 2015

## Pricing challenges

As mentioned before, price arbitrage, or the phenomenon that prices for the same product can vary wildly across global territories due to local taxation, exchange rate movements, and import tariffs, is a large driver of overseas e-commerce.

An important part of this challenge is how global brands set their prices in a connected and global village, or in other words: 'price transparency'. As Julien Gaubert-Molina of the e-commerce consultancy 'SAME SAME but different' says, "Indeed, price transparency is a challenge for the industry. Foreign exchange rates moved rapidly over the past year and this will likely continue. Moreover, due to many luxury brands working with distributors and resellers who have stock within the supply chain, it is not very easy to mandate price changes globally. Few brands can really do this except for those that own their stores and distribution themselves."

Julien Chiavassa of Clarins agreed, saying, “The biggest challenge that comes with Chinese people becoming increasingly globally aware is price transparency. Consumers can easily price shop the same product in a number of markets, and recent movements in exchange rates have exacerbated this issue. The industry is still looking for the best solutions around price transparency and it remains a challenge. It’s also hard to resolve as it requires global-level decision-making.”

## Strong growth in online travel market expected

Besides the earlier described challenges that overseas shopping brings in terms of price transparency, there are also big opportunities around Chinese luxury shoppers increasingly travelling the world. Many sources and studies point to the growth in Chinese visitors to global cities, and this growth is expected to continue rapidly over the next 12 months. According to some sources<sup>9</sup> the number of Chinese people travelling overseas exceeded 100 million in 2014 and investment group CLSA predicts the number will be close to double that in 2020.

Our findings in this report also point to steep growth. We see a near doubling of Chinese luxury online consumers planning to buy overseas trips online – from 35 percent of luxury online consumers who indicated they bought an overseas trip online during the past 12 months, to a forecasted 61 percent during the next 12 months. That is growth of more than 70 percent.

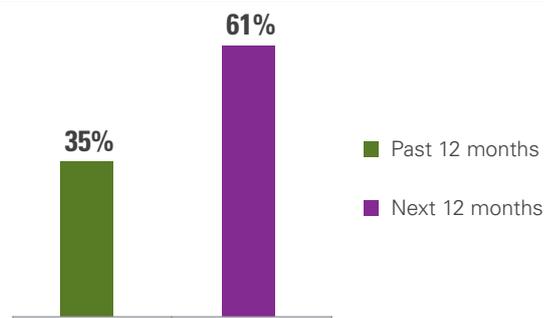
It is clear that tourism will grow rapidly – and that online bookings will be a main beneficiary of this.



**Julien Chiavassa**  
Head of Digital and  
E-commerce for the  
Asia Pacific region at  
Clarins

*“The biggest challenge that comes with Chinese people becoming increasingly globally aware is price transparency. Consumers can easily price shop the same product in a number of markets, and recent movements in exchange rates have exacerbated this issue.”*

### % of online luxury buyers buying or planning to purchase overseas trips online



Source: Survey analysis, *China's Connected Consumers, 2015*

<sup>9</sup> Source: ‘China’s Tourists Set Sights Beyond Hong Kong, Protests only One Reason’, The Wall Street Journal, 21 January 2015, <http://blogs.wsj.com/chinarealtime/2015/01/21/chinas-tourists-set-sights-beyond-hong-kong-protests-only-one-reason/>



# Online payments – Non-bank payment systems on the rise

## China's payment landscape

China tends to stand out from the rest of the world in many areas, including the fact that many e-commerce purchases are done through platform sites rather than directly through branded sites.

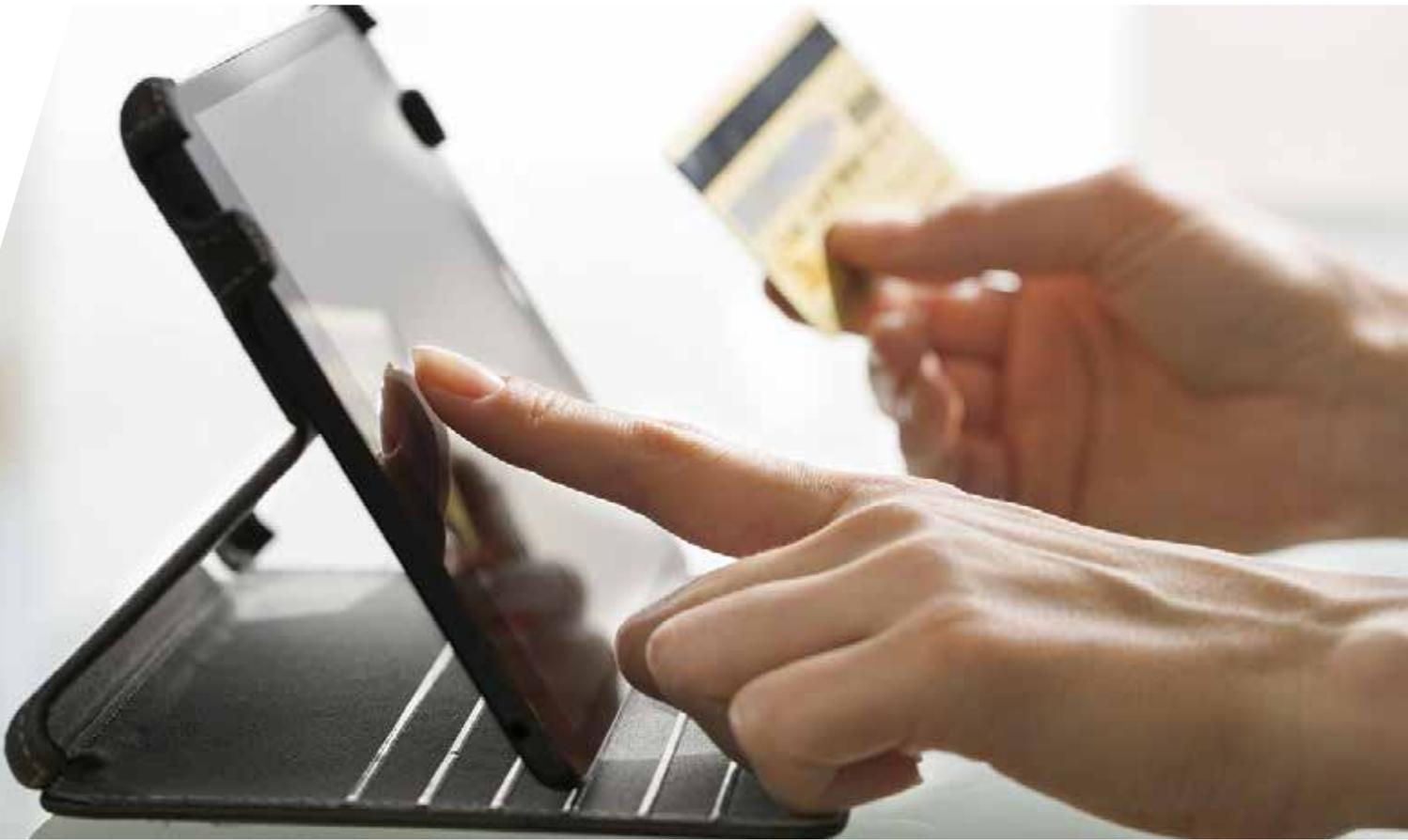
In terms of the payments market, the landscape in China is different from many other regions where most e-commerce transactions are paid through credit or debit cards.

One of the key differences is that up until recently, China has not allowed foreign companies to clear electronic payments in its domestic market. This effectively made it impossible for companies like Visa, MasterCard and American Express to process domestic transactions in China. A strong state-owned company – China UnionPay – has emerged as leading brand in the local credit and debit card bank cards market.

More recently though, the government has announced it will allow foreign companies into the payments market<sup>10</sup>, a market that is valued at USD 6.84 trillion in 2014. From 1 June 2015, foreign companies would be able to apply for licences for bank card clearing businesses. We can expect to see more competition in the credit card payment in the future, as overseas entrants will likely attempt to convince consumers to use their cards rather than the UnionPay cards for spending.

Another key difference in the China payment market is Alipay. The Alibaba Group launched this payment service in 2004 and it was specifically built to enable online payments for transactions of goods and services. The service includes an escrow service that allows users to verify whether they are happy with goods ordered before releasing money to the seller.

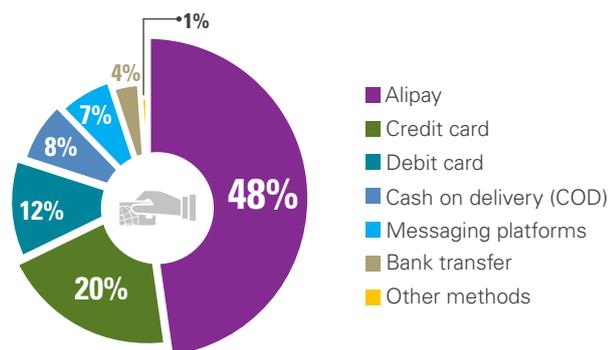
<sup>10</sup> Source: 'UPDATE 2-China to open bank card clearing market to foreign firms from June', Reuters, 22 April 2015, <http://www.reuters.com/article/2015/04/22/china-banking-services-idUSL4N0XJ28E20150422>



## Domestic e-commerce transactions: Alipay dominates

*China's Connected Consumers* looked into the payment behaviours of a group of luxury online shoppers, and found that Alipay is taking the largest share of domestic online e-commerce payments by far.

### Breakdown of purchases by payment types



Source: Survey analysis, *China's Connected Consumers*, 2015

Alipay takes close to half the market, with 48 percent of all e-commerce spend amongst luxury online shoppers, which is more than twice as much as the second largest payment type, credit cards. Alipay is indeed perceived as a convenient means to pay by many luxury online buyers.

Credit and debit cards are still the second most used payment method in China, with a combined 32 percent of all e-commerce spend on luxury. Most of this is transacted in RMB and hence virtually all of this revenue would be processed through domestic banks using the China UnionPay platform.

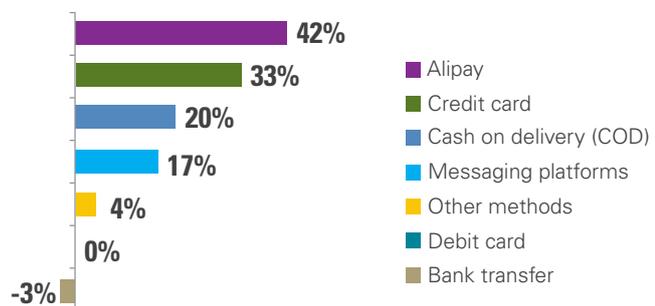
Beyond credit and debit cards, we see that cash on delivery (COD) is used for 8 percent of all transactions, meaning it is still used reasonably often as a means of payment in China. This mode of payment is still important in China – and especially to luxury brands – as there remains a lingering concern with Chinese shoppers around authenticity of products purchased. The COD approach gives consumers a certain level of confidence as it enables them to pay after they have seen the products they have purchased.

The next group is formed by messaging platforms such as WeChat, Sina Weibo and Tencent's Tenpay. Together, these three brands take up around 7 percent of luxury e-commerce purchases among a group of luxury online shoppers. These messaging platforms have added payment options to their services, and this has allowed them to quickly become important players in the payment market. The percentage may not yet be very large among luxury online shoppers, but that is most likely due to the higher amounts transacted in luxury online purchases, for which consumers still prefer to pay with Alipay or credit and debit cards.

### Looking at the future – Alipay to remain strong in luxury online purchases

When we looked to the future by asking our respondents whether they plan to use more or less of each of the various payment methods, the following picture emerged:

### Net % of shoppers that expect to use each payment method more often (In the next 12 months)



Source: Survey analysis, China's Connected Consumers, 2015

We clearly see that Alipay is only likely to grow bigger as a preferred payment alternative.

We also see credit cards becoming an even stronger part of the payment mix in the future, though it remains to be seen how quickly overseas credit card brands can enter this market. After all, the licensing application process that allows them to process local RMB transactions was only permitted from June 2015.

Interestingly, COD is also a growing payment option. Many consumers find the peace of mind it provides a comforting thought. Luxury brands may well embrace this by looking for ways to personalise and deepen the client engagement that occurs as result of COD payment.



## Alipay International, Ant Financial

Sabrina Peng, President of Alipay international, Ant Financial Services Group

Sabrina Peng is president of Alipay International, a unit of Ant Financial Services Group responsible for the payment service provider's international development. The company is an affiliate company of the Alibaba Group, which Peng joined in 2000 and where she fulfilled various operational and commercial leadership roles.

### Overview of Ant Financial

Ant Financial Services Group provides financial services and products to individuals and Small to Micro Enterprises (SMEs) in China and beyond. Its brands include Alipay, Alipay Wallet, Ant Micro Loan, Yu'e Bao (a money-market fund), Zhao Cai Bao (a fund management platform), Sesame Credit and MYbank. In Sabrina's own words: "We are building an open financial ecosystem that provides secure, efficient and seamless financial solutions for our users. We currently have over 180 partners from the traditional financial sector, including banks and fund management firms. And we provide financial solutions to over 10 million small and micro enterprises in China."

### The secret of Alipay's success

Our China's Connected Consumer report shows that Alipay is used in up to 48% of domestic e-commerce purchase. Asked what explains this success Peng explains: "Consumers in China have used Alipay for over 11 years — it was a payment option only for Alibaba's marketplaces, but the payment services have extended to most e-commerce websites in China and abroad. Security is the most important for Chinese consumers and the 100% guarantee provided by Ant Financial for funds in Alipay accounts are very important for our consumers."

### Majority of transactions are Mobile – and highest in less affluent regions

According to Peng mobile payment transactions accounted for over 50%

of total Alipay transactions in 2014. Mobile payments are the trend and Alipay Wallet is a one-stop solution for users. Users can simply use their mobile phone to scan QR codes on e-commerce websites to pay for their purchases.

Interestingly, this percentage is higher in the less affluent regions of China: "Tibet Autonomous Region topped the rank for number of mobile payment transactions for three consecutive years since 2012. The top four regions that have the highest percentage of mobile payments are Tibet Autonomous Region, Shanxi Province, Ningxia Autonomous Region, and Inner Mongolia, with the ratio standing at 62.2%, 59.6%, 58.3% and 57.6% respectively."

### International expansion: need for localization

Chinese citizens are traveling, and Ant Financial is heavily involved in signing up more overseas merchants in accepting Alipay. Says Peng: "Alipay is already a credible payment option for over 2,000 merchants and service providers worldwide, including Macy's, TopShop, ASOS, Uber and AirBnB. And in Korea, over 12,000 shops accept Alipay as an offline payment option. We are promoting the same payment methods in Thailand, Singapore and other popular tourist destinations among Chinese tourists."

Answering the needs of Chinese consumers led Ant Financial and Alipay to grow — and this experience has taught Ant Financial that meeting local needs is the key to success. Peng explains: "When Ant Financial goes abroad, we embrace the same theory that local wisdom is key to success in overseas markets — and this is the very reason that Ant Financial is looking for local partnerships in overseas market. We believe local partners have the know-how to answer the needs of merchants and retailers in their own market."

### Rising middle class gives rise to wealth management products

China's middle class is expected to rise considerably over the next 10 years, and Peng explains how Ant Financial is looking to service this rising segments' appetite for wealth management: "China's middle class consumers demand for effective wealth management will grow. Ant Financial currently provides China's largest money-market fund, with a capital pool of over 578 billion yuan as of December 2014. Our wealth management platform, Zhao Cai Bao, offers hundreds of funds and other wealth management products for our users. It has leading big data analysis capabilities, allowing fund management firms to promote their products for the rapidly growing middle class in China."

And in this area Ant Financial is also looking at international expansion, as Peng says: "Obviously there are regulatory issues to promote wealth management products in the overseas markets. But again, Ant Financial is seeking local partners who have the local licenses to provide wealth management products for local users."

### Views on new payment market entrants

A final question, we asked Peng how she views the opening up of China's domestic payment market to other overseas credit card brands and whether she perceives this as a threat: "Ant Financial currently has over 180 partners in the financial sector, including banks and other financial services providers. It is important to note that Ant Financial is building an open ecosystem that any players in the ecosystem are potential partners for Ant Financial and not threats."

## Messaging platform payment providers

2014 saw heated competition in the market for peer-to-peer payments using mobile messaging apps. In particular, Alibaba (through its Alipay Wallet app) and Tencent (through its WeChat app) have been going head to head in a "digital lucky money war"<sup>11</sup> that happened around the Chinese New Year in February 2015. Several hundred million RMB has been given away as cash and several billion RMB has been given away to consumers in the form of e-coupons. One of the main reasons for this giveaway has been to encourage consumers to activate and link their mobile apps to their bank and/or credit card accounts, opening the way for further payments using these apps.

These messaging platforms are fast becoming a key payment option for smaller payment amounts and in peer-to-peer payments. Although they still have a small share in luxury online e-commerce payments today, it is growing.

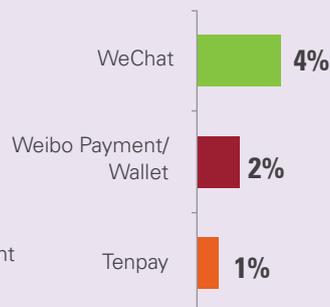
Among our sample base, the WeChat, Sina Weibo and Tenpay messaging platforms collectively made up about a 7 percent share of payments in luxury online purchases. Most of this is handled through WeChat (4 percent out of 7 percent), with Weibo Payment coming second (with 2 percent out of 7 percent total share).

According to findings from consumers who use these messaging apps, the next 12 months will likely see strong growth. Thirty-two percent of WeChat payment users are planning to use this platform more often, while 17 percent of Weibo users plan to increase their usage.

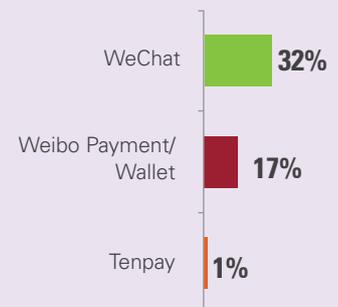
**% of luxury online purchases - by payment method**



**Breakdown by messaging platform**



**Net % of current users planning to use more**



Source: Survey analysis, China's Connected Consumers, 2015

Messaging platform payment options are therefore growing quickly in China and are expected to take an increasing portion of luxury online purchases in the future.

<sup>11</sup> Source: 'Tencent and Alibaba at Digital Lucky Money War', Tracey Xiang, TechNode, 11 February 2015, <http://technode.com/2015/02/11/digital-lucky-money-war/>

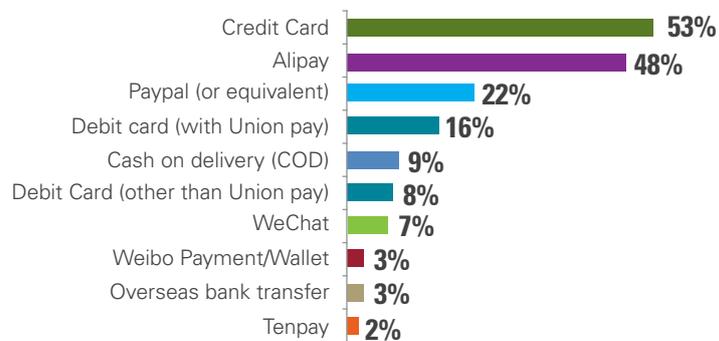
## Overseas payments – credit cards dominate, but are not uncontested

The payment alternatives that Chinese consumers choose are quite different if we consider payments to overseas e-commerce shops. Although the global credit card brands have a much stronger presence when it comes to overseas e-commerce payments, their position is not uncontested.

While RMB-denominated payments can only be processed by domestic providers such as China UnionPay and Alipay, the global credit card brands are able to offer their services to Chinese consumers shopping online overseas.

The chart below shows payment methods used among luxury online shoppers who have made international purchases in the past 12 months:

### % of overseas online luxury buyers using each payment method



Source: Survey analysis, *China's Connected Consumers, 2015*

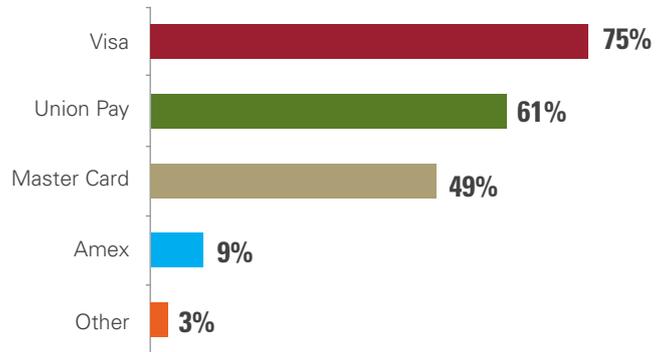
As the chart shows, while it is impressive that Alipay is used in 48 percent of overseas e-commerce transactions, credit cards are used most often, at 53 percent.

Alipay has made great progress in being accepted overseas as payment. For example, the 'Alipay ePass' system has allowed US retailers to let Chinese e-commerce shoppers pay through their domestic Alipay accounts.

Moreover, overseas e-commerce providers are becoming aware of how to customise and localise their websites to offer Chinese consumers more convenience. We therefore expect to see a growing number of global e-commerce sites accepting Alipay and UnionPay in the future.

When asked to break down which credit cards they have used, overseas online luxury shoppers gave the following responses:

## Usage of different credit cards for overseas payments



Source: Survey analysis, *China's Connected Consumers, 2015*

Visa is the most frequently used credit card for overseas luxury online purchases, followed by UnionPay (the local, domestic player), and MasterCard in third place.

However, considering Alipay's share of overseas payments was not far behind that of all credit cards combined, it is likely that Alipay – as a single brand – still commands the largest share of overseas luxury e-commerce payments compared to Visa and MasterCard. Their position therefore does not go unchallenged, and Alipay remains a strong competitor for Visa and MasterCard even in overseas payments of Chinese Luxury Online shoppers.

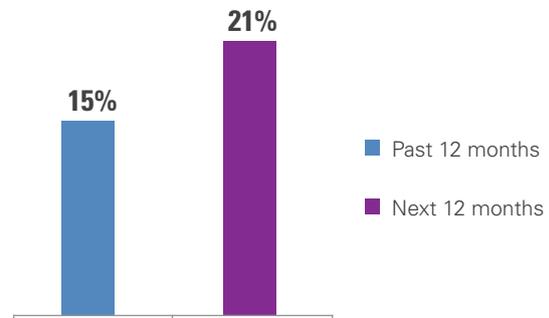
## Online financial services – usage expected to rise

The last subject we mention with regards to payments and finance-related services is Chinese consumers' rising interest in online financial services.

While in the last 12 months some 15 percent of luxury e-commerce shoppers claimed to have purchased investment services online, this is likely to increase – in the next 12 months, 21 percent said they plan to buy investment services online. This is effectively an increase of 40 percent year–year and opens up excellent opportunities for banks, investment managers, as well as peer-to-peer lending services.

11 Source: 'Tencent and Alibaba at Digital Lucky Money War', Tracey Xiang, TechNode, 11 February 2015, <http://technode.com/2015/02/11/digital-lucky-money-war/>

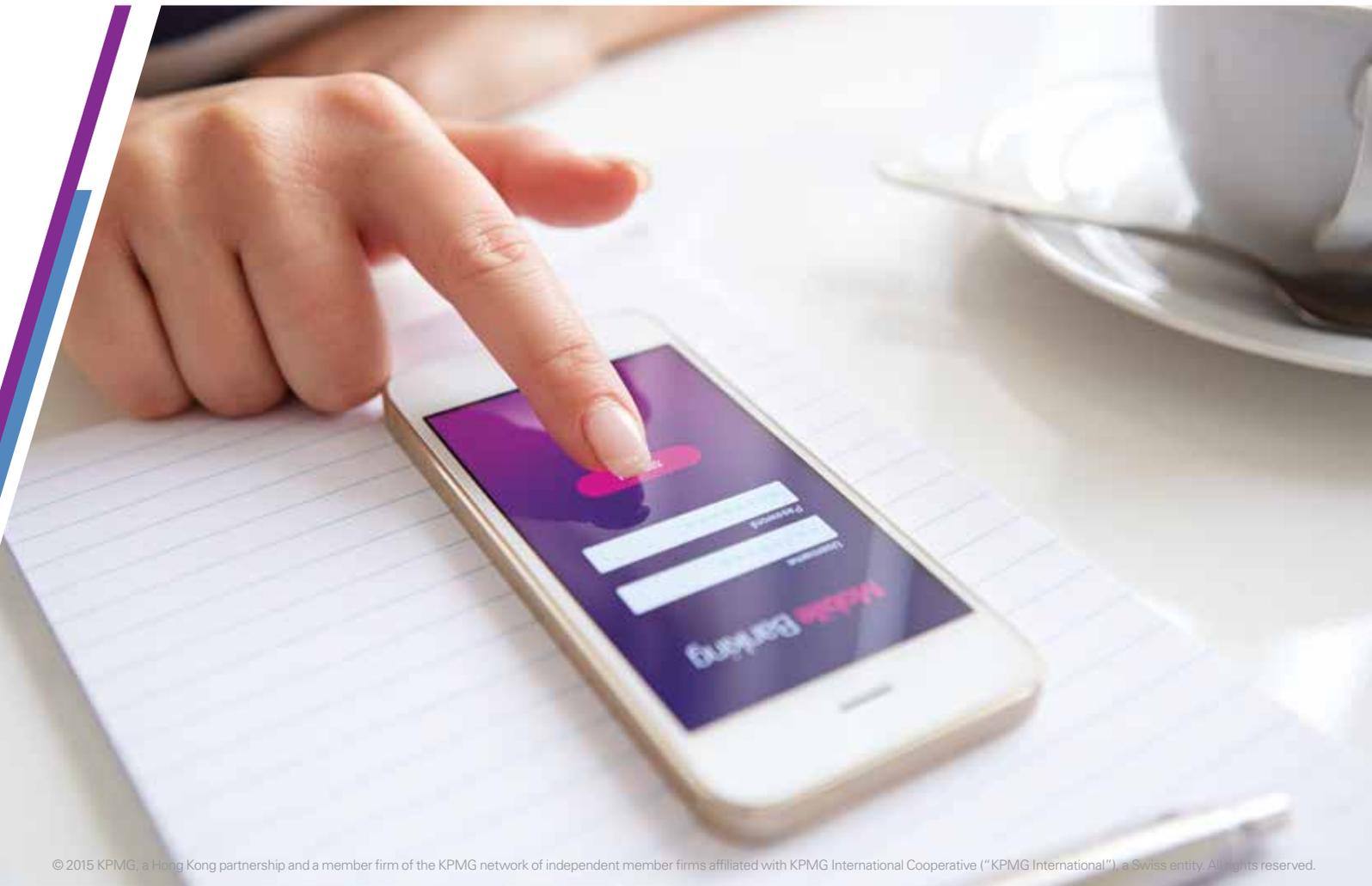
## % of online consumers buying or planning to buy investment services online



Source: Survey analysis, China's Connected Consumers, 2015

And indeed China has seen a large number of new online financial services emerge, ranging from online lending sites (peer to peer lending), crowdfunding of property development, online money market funds, and new online banking concepts. While these new entrants to the market may form a minority of the total size of the financial services market today, their growth is likely to remain high as more middle class Chinese consumers look for investment opportunities.

We conclude this report with a case interview with one of the leading peer to peer lending companies in China, which – corresponding to the trend we described above - is expanding its business into other areas of financial services.





## Lufax

Hubert Tai, CMO and Head of platform

Hubert Tai is one of the senior most executives at Lufax, one of China's leading peer to peer (P2P) lending groups; part owned by the Ping An insurance group. We talked to him about the online financial services sector in China, about Lufax' growth, and about the evolving Chinese online consumer.

### About Lufax and its recent growth

We asked Hubert Tai how they started the business and what really brought about its strong growth over the past years. Tai explains: "When we started 2.5 years ago, consumers had to go to a physical location for literally any type of financial transaction. We were looking for financial services that could be moved to an online platform. We also thought about traditional P2P lending, which in its offline form has been around for centuries. We brought these two ideas together and figured there would be a market to bring offline P2P lending to an online platform."

Tai describes the size of Lufax business: "Today Lufax is about 5 times larger than its nearest competitor and has about 10 to 15 billion RMB outstanding loan balance. That represents growth of about 4 to 5 times compared to our last year. On a day to day basis, we process about 1500 to 2000 new loans."

A key reason for this success Tai mentions that banks in China don't really cater to the segment of the market that Lufax serves: "Most banks don't do non-collateral, unsecured loans, and they normally won't do business in loans below a value of 200K RMB. Loans that go through our platform sit below that value, and average between 100 to 300K RMB."

### Lufax combines on- and offline channels

Our China's Connected Consumers report clearly established that brands today need to be active in both the

offline and online world for sustainable growth. Lufax actually is a good example case of that point of view.

While most outsiders might consider Lufax as a fully online business, a key part of its business process happens in the offline world. Each borrower will need to apply in person through its branch network, and each new borrower is screened and validated through a separate unit that operates very much in the offline real world. Says Tai: "We very much piggy back on Ping An's physical network for the offline part. Once we accept the borrower's application and our process and system sets the size of the credit line, we put it on our online platform where it essentially becomes an investment opportunity for any interested lender. We really are an offline to online platform."

### The client base

Most of Lufax borrowers come from Tier 2 and Tier 3 cities, where a lot of entrepreneurship is happening within small to medium sized businesses. On the investor side, the sweet spot is the mass affluent Chinese consumer which Lufax define as those that have investable assets between 100K and 1M USD. As Hubert says: "It's only 1% of the population, but still means roughly 15 million people! They mainly come from Tier 1 cities, are between 30 and 45 years old, both male and female, highly educated and mostly from the coastal provinces."

Returns to lenders are higher than what bank deposits would yield; Tai explains that most loans through LuFax pay around 7 to 8% to lenders, while borrowers pay around 11 to 12% interest.

### Technology and analytics

Asked what the role of technology and analytics is to Lufax, Tai says: "The main two pieces of technology in our

business are our credit risk systems, and our ability to analyze big data. So yes in these areas we are quite advanced technology users. We are also looking ahead at using new technology in our user authentication processes, for instance we're looking into using voice and facial recognition to authenticate users. Ultimately this helps us reduce risks and improve our systems."

### Product mix and future growth

When we spoke with Tai about future growth he mentioned: "In terms of volume of transactions, P2P lending is only around 20% of total transactions, but it represents about 80% of revenues. In the future though, we expect to grow stronger in other areas of financial services, including structured financial products, mutual funds and stocks."

On international growth Tai says: "While we believe China is a large enough market for us now we won't rule out overseas partnerships in the future"

From speaking with Hubert Tai it became crystal clear that the Chinese Consumer is indeed increasingly interested in financial services online – and as per our survey findings this is expected to continue growing in the future.



## OnePlus

### Carl Pei, Co-Founder

Carl Pei is the co-founder of OnePlus, a relatively new smartphone brand launched in late 2013 and that released its first phone model in 2014. While the company is based in Shenzhen, China, the brand ships smartphones all over the world and positions itself as a global brand.

And indeed it is a global company; from the launch of their first smartphone they have been shipping products to customers worldwide. While they initially estimated to sell several tens of thousands of phones, their first model – called the 'OnePlus One' – sold many more than that. Says Pei: "We did not expect the sheer volume of sales, but we ended up selling over a million phones across the globe. Today our business can be split roughly in a quarter from each of China, India, the EU, and North America."

25 year old Pei considers himself an international entrepreneur; Swedish by citizenship and having grown up in Stockholm and New York he entered business some 12 years ago, selling Chinese products in Sweden. Over the years he developed a global community of partners and friends and this helps explain OnePlus' global business focus today. Pei explains: "We have an engineering team in Taipei, we work with teams in Bangalore, have an office in Singapore and are looking to open up offices in London or Dublin. We want to utilize the advantages of the different geographical regions."

One of the key reasons we spoke with OnePlus in preparing this report is how they built their distribution channels, which – thus far – revolve mostly around direct to consumer e-commerce. A good example of this is how their latest phone model – the 'OnePlus 2' – is being offered to consumers.

Obtaining the OnePlus 2 may be a challenge, as it utilizes a unique direct sales model where prospective customers need to first join an online waiting list, and then wait to receive an invitation to purchase a phone. And it's not just about waiting; taking part in contests or promotions can push waitlisted customers up the list so they receive their buy-invitations quicker. While it seems like a smart approach to building a community of fans, Pei explains that the main reason is to simply manage supply and demand: "We now have over 5 million registrations for the OnePlus 2 on our booking system and we want to ensure that all those interested can actually buy the phone. So it's not so much a marketing tool but a way to balance demand and supply."

Social media also is a strong component of OnePlus' customer and prospect engagement strategy, says Pei: "We are re-inventing the world of marketing. It's all about word-of-mouth and generating buzz, which is easier if you have a great product. We sell our devices through an invite only system. For instance, recently we posted a contest on Facebook called 'Race for Invites'. The post reached hundreds of thousands of people, our highest since the OnePlus 2 launch."

Talking about e-commerce and traditional retail, Pei also sees clear changes in how retail is functioning in a connected world: "I think traditional retail might disappear or at least change very significantly. Our economies become more inter-connected, new generations of young tech savvy consumers emerge in China and elsewhere in the world. At the end of the day, marketing channels will always change. But if you build a great product and a great service you become more of a 'pull' brand that has higher customer

loyalty and therefore more sales in the future. I don't see ourselves just as an e-commerce company, but we are looking for the right model which will include O2O [Online to Offline] as well."

Asked what future mobile phones will look like at OnePlus, Pei says: "Product development needs to be driven by product visionaries. Humans are not always particularly rational and technology to an extent has become a cultural product. So in the future we look to be more engrained in pop-culture."

Another future priority for Pei is the OnePlus 2016 model: "We're already thinking about the OnePlus 3 and it will launch in 2016!"

# ABOUT KPMG

KPMG International is a global network of firms providing Audit, Tax and Advisory services. We operate in 155 countries and have 155,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

In 1992, KPMG became the first international accounting network to be granted a joint venture license in Mainland China. KPMG China was also the first among the 'Big Four' in Mainland China to convert from a joint venture to a special general partnership, as of August 1, 2012. Additionally the Hong Kong office can trace its origins back over 60 years. This early commitment to the China market, together with an unwavering focus on quality, has been the foundation for accumulated industry experience, and is reflected in the Chinese member firm's appointment by some of China's most prestigious companies.

Today, KPMG China has around 9,000 professionals working in 16 offices; Beijing, Chengdu, Chongqing, Foshan, Fuzhou, Guangzhou, Hangzhou, Nanjing, Qingdao, Shanghai, Shenyang, Shenzhen, Tianjin, Xiamen, Hong Kong SAR and Macau SAR. With a single management structure across all these offices, KPMG China can deploy experienced professionals efficiently and rapidly, wherever our client is located.



毕马威全球中国业务

KPMG Global China Practice

## KPMG's Global China Practice

KPMG's Global China Practice is a community of professionals whose core objective is to provide high quality, consistent services to China inbound and outbound investors around the world. With teams of China experts, cross-border investment advisors and Mandarin speakers in KPMG's network of member firms, the Global China Practice brings China insights and China investment experience to Chinese clients investing overseas, and multinational clients interested in investing or expanding in the China marketplace.

With senior professionals based in China working together with local member firms in roughly 60 key locations around the world, KPMG's Global China Practice has the technical, regulatory and industry experience – and the commitment – to help clients achieve their internationalisation and globalisation strategy.

[kpmg.com/GlobalChina](http://kpmg.com/GlobalChina)

# ABOUT MEI.COM



MEI.COM (previously known as Glamour Sales China) is a leading online flash sales retailer of luxury and designer fashion, lifestyle and beauty for Women, Men and Children in China.

Co-founded by Thibault Villet, current Chief Executive Officer, it operates in China since 2010 (www.mei.com & www.glamour-sales.com.cn)

MEI.COM works directly with 2000+ brand partners, with direct sourcing from brands and official distributors, which guarantees product authenticity, quality and best prices.

With over 6 million registered members, MEI.COM delivers products to customers (Men and Women aged 25 to 45) in over 1100 cities across China, equally split between first, second and lower tier cities.

At 9am every morning, the company launches 10 to 15 new brand events and these flash sales only last for 3 to 7 days, combining discounted items with limited edition products.

MEI.COM is strongly mobile driven and operates 2 apps (IOS and Android ) as well as a H5 mobile site, all contributing for 70% + of revenue. We partner with over 600 local bloggers and understand the Chinese social ecosystem very well.

After launching a permanent outlet for Galleries Lafayette and retailing its 200 designer brands in 2015, the company is now building an additional website to complete its existing offer by proposing in-season luxury products at retail price. This new platform to be launched in 2016 will allow luxury brands to have an e-commerce solution that they can control and manage, yet with a qualified traffic provided by the company.

MEI.COM is headquartered in Shanghai and employs over 320 Full time employees. Investors include Alibaba, Chow Tai Fook, Investec, Ardian and Mitsui.

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# ABOUT Sina Weibo



As a leading social media platform for people to create, distribute and discover Chinese-language content, Weibo provides an unprecedented and simple way for people and organizations to publicly express themselves in real time, interact with others on a massive global platform and stay connected with the world. Since our inception in 2010, Weibo has amassed a large user base. In December 2014, Weibo had 175.7 million MAUs and 80.6 million average DAUs, increasing from 129.1 million MAUs and 61.4 million average DAUs in December 2013, and 96.7 million MAUs and 45.1 million average DAUs in December 2012. A microcosm of Chinese society, Weibo has attracted a wide range of users, including ordinary people, celebrities and other public figures, as well as organizations, such as media outlets, businesses, government agencies and charities.

Weibo combines the means of public self-expression in real time with a powerful platform for social interaction, as well as content aggregation and distribution. Any user can create and post a feed of up to 140 Chinese characters and attach multimedia or long-form content. User relationships on Weibo may be asymmetric; any user can follow any other user and add comments to a feed while reposting. The simple, asymmetric and distributed nature of Weibo allows an original feed to become a live viral conversation stream.

For many people in China, Weibo allows people to be heard publicly and exposed to the rich ideas, cultures and experiences of the broader world. Media outlets use Weibo as a source of news and a distribution channel for their headline news. Government agencies and officials use Weibo as an official communication channel for disseminating timely information and gauging public opinion to improve public services. Individuals and charities use Weibo to make the world a better place by launching charitable projects, seeking donations and volunteers and leveraging the celebrities and organizations on Weibo to amplify their social influence.

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# ABOUT Intuit Research



Intuit Research is a boutique market research consultancy providing high quality research and business insights services. From offices in Singapore and Hong Kong it has completed consumer insights projects in over 25 countries globally for a range of customers in Financial Services, Technology, Media, and Consumer sectors.

Intuit Research also is a go-to agency for thought leadership development projects, and has been involved in such projects for major brands in the Asia Pacific region. Such projects have included public speaking engagements and white paper development.

Intuit Research works with partners in data-collection and analytics to cover a full range of methodologies – quantitative (online, face to face, telephone surveys) and qualitative (in-depth interviews, focus group discussions), as well as helping companies unlock insights within their own internal information warehouses.

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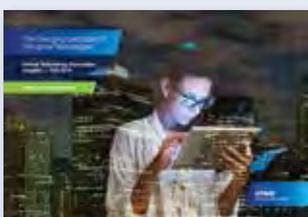
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