

How Internet is Changing Retailers' Business in China

The Internet has given rise to a revolutionary reform in industry. It has changed the way of manufacturing, the way of buying and selling, The Internet brings new opportunities as well as challenges to the retail industry, and it is rapidly changing people's lives. The internet connects more people from rural area in China to the market, at the same time increases consumers' essentials. Hence, the retailers have become consumer-oriented to provide more friendly services and experiences. The rapid development in China is in multiple sectors, such as the economy, the use of the internet and other infrastructure in the country. These changes have led to the booming of E-commerce and online shopping, which caused pressure on traditional retail industry.

Authors: Qianqian Zhang and Shaidul Kazi

E-commerce in China

In the global perspective, E-commerce is dominated by the United States, European countries and Asia. The United States was the first to start E-commerce and is the most mature market for E-commerce. Although European countries started E-commerce after the United States, the rapid development also gives it a lead in the world market. Asia is new to E-commerce, but the huge potential market and fast penetration of latest technologies let Asia keep a high growth rate. E-commerce has developed so fast in China that it has affected all industries, including online retail, internet finance, the society and even people's daily life. As early as in 2013, China surpassed the U.S. to be the world largest E-commerce market. In 2016, China eclipses the U.S. as the largest retail market in the world with total sales of \$4.886 trillion (e-Marketer, 2016). In August 2016, e-Marketer also forecasted China to top \$899.09 billion by the end of the year, which takes up 47% of digital retail sales worldwide, and 18.4% of the nationwide total retail sales. (figure 1)

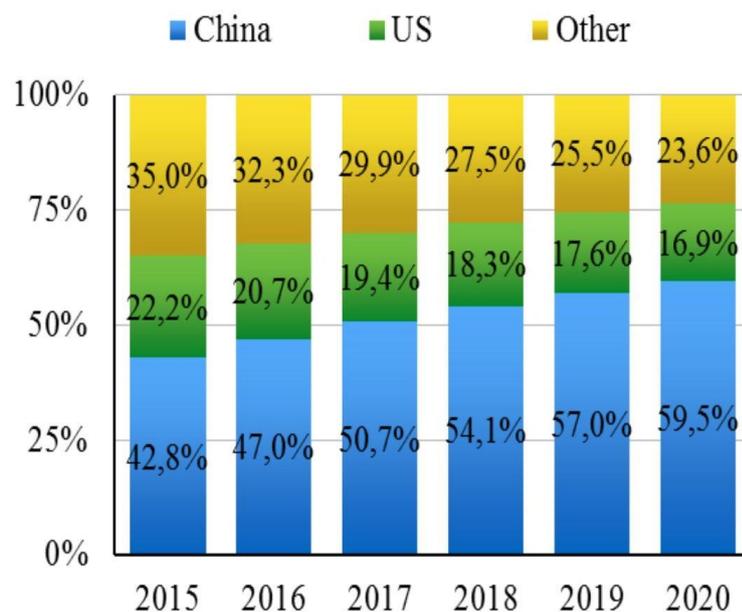


Figure 1. Retail E-commerce sales share of worldwide, China vs US (e-Marketer 2016)

Retailers transforming

In the era of the Internet, consumers have unprecedented number of choices so that the competitiveness among retailers are increasingly intense. The Internet has enormously changed people's life, as well as the patterns of how people buy and sell. With smartphones and internet, consumers could make the purchase at any time. As more online shops are being created, the physical stores are facing the reducing number of customers, but increasing cost of rental and employees' salary. Now about 90% of Chinese electronic retailing are on virtual marketplaces such as Taobao and Tmall, where the retailers can receive marketing and site-design services, payment fulfilment, delivery and logistics solutions, customer service and IT support (Dobbs, Chen, Orr, Manyika, Chui & Chang 2013). The preconditions have been attributed to the fact that small companies open their online shops mostly on Taobao or Tmall, and both of them are owned by Alibaba. As a consequence, Alibaba gradually build their ecosystem, and it is rather impossible for new players to build their own marketplace.

Case Suning

Suning is one of the largest retailers for 3C products in China. For a long time, Suning has been the third largest B2C retailers in China, after Tmall and JD. Suning and Alibaba started cooperation in 2015, the action brought large profits and competitiveness to both parties. For Alibaba, the cooperation could reinforce its strong position in E-commerce competence, and for Suning, it is an opportunity to broaden its B2C markets to compete with JD and Gome. The collaboration of two retailing leaders was breath-taking when it first came out. Suning started to sell on Tmall, and Suning's after-sales service centers provide repair and maintenance for Tmall consumers. It benefits both merchants and consumers. The collaboration reflects the future of retailers, especially for giant companies like Suning and Alibaba that Omni-channel retail is going to be the megatrend.

The method of payment and transactions

The development of online payment has made online transactions more convenient. In 2004, Alibaba Group launched the online third party payment platform Alipay, till now, it has more than 400 million registered users, 80 million transactions per day, (Smith 2016) taking up to 50% of the online payments in China, and 78% of the mobile payments. According to China E-commerce Research Center (CECRC) that as of December 2014, mobile online transactions in China reached 928. 5 billion yuan, a growth of 240% from 2013, and the trend is fast growth.

The payment provider has made purchasing and even life much easier. Alipay allows users to pay mobile phone, electricity, water bills, transfer money to friends without transaction fee, pay at a convenience store with the Alipay App. More individual online stores are adopting Alipay, as well as a number of physical stores, recently physical stores in Japan, the United States and some countries in Europe start to support Alipay. With the mobile payment technology further developing and penetrating, and because of the convenience and security of such services, users are fond of using them to complete their payments. It is expected that more than half online transactions in the future are done with mobile phone.

Online shopping

With the faster internet speed and continuous drop in internet prices, more and more people in China are accessing to internet. Internet related actives are gradually being accepted by the public; from 2006 to 2015, the number of online shoppers increased drastically, especially after 2010, when smartphones took over the mobile phone market, the growth rate of mobile shopping doubles year on year, the mobile phone internet user penetration is expected to reach 65% by 2020. (Statista Mobile Users 2016) (figure 2; figure 3)

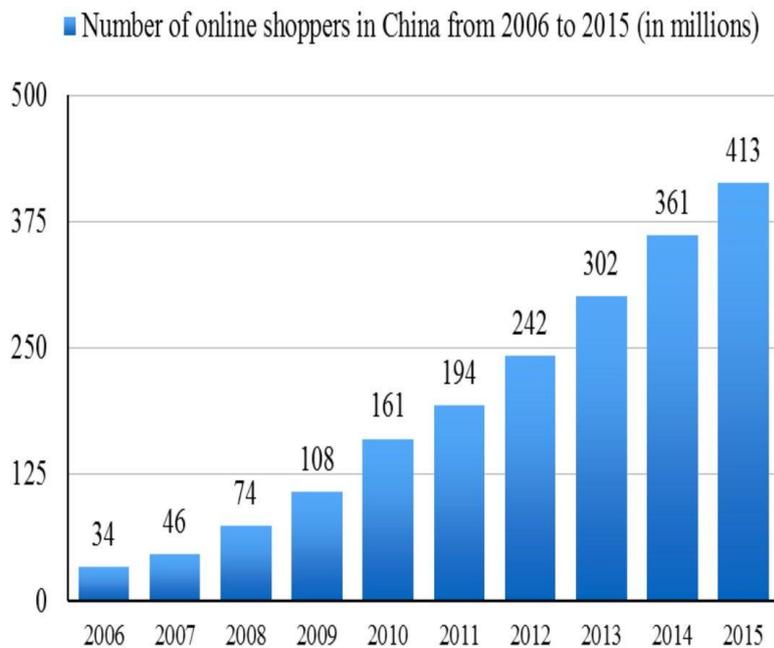


Figure 2. Number of online shoppers in China from 2006 to 2015 (Statista 2016)

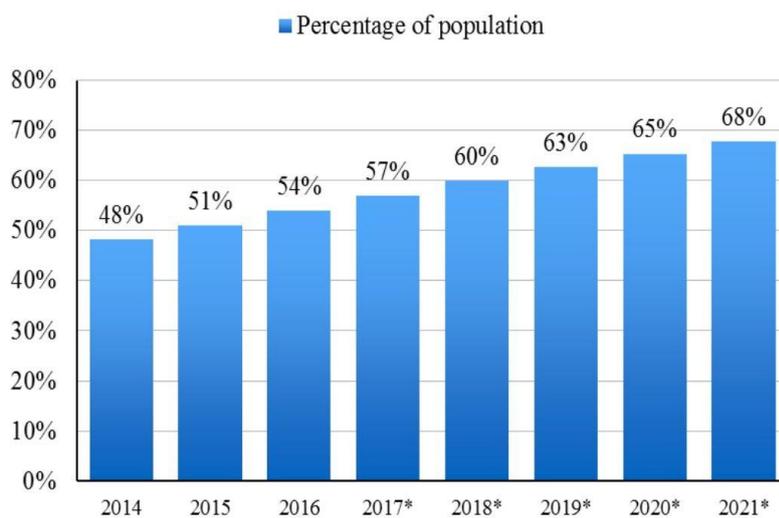


Figure 3. Mobile phone internet user penetration in China from 2014 to 2021 (Statista 2016)

Today's technology changes rapidly, in this context, consumers are able to interact with a variety of mobile social networks at any time, as well as doing shopping with their smartphones in anywhere. Similar with most societies, the main population of mobile shoppers in China is young people, who grew up together with the Internet, which has

already become a part of their daily life. In the first-tier and second tier cities in China, 43% of the mobile shopping and payment users are from 21 to 29 years old, and 35% are from 30 to 39 years old (CIW Team, 2016). Retailers should take into consideration that young people make up for most proportion of the market, and provide corresponding service to make their business more competitive.

E-commerce is not going to replace traditional retail, but working as an assistant to catalyst it. On one hand, the Internet offers small-scale companies a marketplace to open online shops and multiple ways to promote their products. On the other hand, the Internet is an opportunity for giant companies to access Omni-channel retailing. With the fast development of the Internet, increasing acceptance of online payment, better logistics network, deeper penetrations of online shopping in rural areas, the digitalization of retail industry in China is going to develop even faster and more steadily.

References:

- E-Marketer. 2016. Retail Ecommerce Sales Share OF Worldwide, China vs US 2015-2020 (% of total). Released 02.08.2016.
- Dobbs, R., Chen, Y., Orr, G., Manyika, J., Chui, M., & Chang, E. 2013. China's E-tail revolution. McKinsey Global Institute
- Smith, C. 2016. Alipay Statistics Released 12.10.2016.
- The Statistics Portal. 2016. Number of online shoppers in China from 2006 to 2015.
- The Statistics Portal. 2016. Mobile phone internet user penetration in China from 2014 to 2021.
- CIW Team. 2016. More than 6 out of 10 China internet users pay by mobile. Released 12.09.2016

About the authors:



Qianqian Zhang, from Shanghai, China finished her Master Degree in Business Administration in Tampere University of Applied Sciences, with the major in International Project Management. She has several years work experience in Logistics and International Trade companies. After this she worked in a Hotel Design company, in the position of Project and Marketing Management



Shaidul Kazi, PhD, has over fifteen years' teaching experience in cross-cultural management and international business related courses. His PhD dissertation topic was "Managerial Decision-Making Behaviour and Impact of Culture". He is a senior lecturer in the degree program of International Business, at TAMK.