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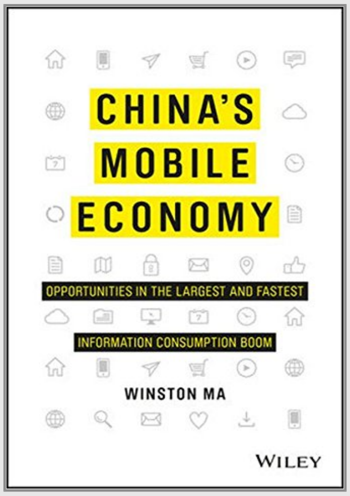

China's Mobile Economy

Opportunities in the Largest and Fastest Information Consumption Boom

Winston Ma
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Rating

7

8 Applicability
7 Innovation
7 Style

Focus

Leadership & Management
Strategy
Sales & Marketing
Finance
Human Resources
IT, Production & Logistics
Career & Self-Development
Small Business
Economics & Politics
Industries
Global Business
Concepts & Trends

Take-Aways

- The rapid expansion of China's mobile economy is a significant international business, social and technological development.
- China, now the world's largest e-commerce economy, had 620 million mobile Internet users at the end of 2015.
- China is a leading competitor in the "online-to-offline" (O2O) e-commerce space.
- China's successful mobile e-commerce programs are fun, simple and "sticky" – they actively engage their users.
- The "BAT" companies – Baidu, Alibaba and Tencent – dominate Chinese search, online sales, networking and messaging.
- Alibaba is the globe's biggest e-commerce firm.
- The Chinese government sees "information consumption," including e-retail and online banking, as an essential national growth engine.
- More Chinese access the web via smartphones than any other way.
- International firms must adjust their marketing strategies to fit China's mobile sector.
- The Chinese adapted quickly to mobile payments; most never use credit cards.

Relevance

What You Will Learn

In this book summary you will learn: 1) Why mobile e-commerce is burgeoning in China; 2) How "online-to-offline" (O2O) transactions create synergies in e-retail, online banking and other services; and 3) How major e-commerce providers are shaping the mobile marketplace in China.

Review

China's surge in mobile means the world's largest e-commerce economy is quickly becoming fully digitized. Author Winston Ma, a managing director of China's sovereign wealth fund, the China Investment Corporation, describes the country's turbocharged mobile e-commerce market and its ongoing technological revolution. *getAbstract* recommends his eye-opening report to anyone doing business with China, anyone who wants to and everyone working in e-commerce.

Summary

At the Spring Festival marking the Lunar New Year, the Chinese traditionally give their relatives and friends *hongbao* – red envelopes filled with money – for good luck. In 2014 (the Year of the Horse), the Chinese e-commerce firm Tencent used its WeChat social network platform to create a digital version of the red-envelope tradition. People could send digital red envelopes linked to online banks and other payment sources through WeChat Pay. The hongbao recipients could use the virtual cash for e-commerce purchases such as mobile taxi-hailing.

"Internet firms [must] hook the users on their online platforms to their mobile payment systems."

Tencent gave away animated red-envelope gifts to many potential new users of its mobile payment system. Recipients had to download Tencent's payment app to their mobile devices to claim the gifts. The promotion required recipients to "grab" the online envelopes quickly, transforming a passive experience – receiving a physical red envelope – into a proactive one – downloading an app to get the gift. Participants found the program fun and easy to join.

WeChat users could share their gift money with their WeChat group friends. An app algorithm allocated the money randomly to each member of a group. This created "stickiness" – participants in a gift-givers' group engaged by discovering how much money their red envelopes held and by telling their friends and contacts.

"The combination of mobile terminals and online content creates different and extra demand for content, not purely a shift of consumption from personal computers to mobile devices."

Hundreds of millions of Chinese spent the 2014 Lunar New Year season on their smartphones, hoping to capture more red-envelope money. Tencent's program fulfilled the requirements of a successful mobile e-commerce promotion: "fun, stickiness and simplicity." Tencent's promotion increased its number of active users, gathered valuable Internet data – including users' banking information – and enabled millions of Chinese to become comfortable with the WeChat online payment service. Tencent accomplished all this with minimal expense.

Alibaba's Alipay, China's leading online payment service, introduced its own digital red-envelope program for the Lunar New Year season in 2015. But Tencent blocked WeChat distribution of Alibaba's digital red envelopes. The red-envelope war had enormous stakes: dominance of China's mobile Internet business. China has the world's largest e-commerce economy and the world's biggest "mobile-first" and "'mobile-only" market. The major participants battle ferociously for every percentage of market share.

"As Internet companies transform smartphones into a platform for financial transactions, China is way ahead of the rest of the world in terms of how widely Internet finance is adopted."

Tencent developed WeBank, China's first online bank. In the Chinese language, "WeBank" implies a "bank for 'micro' and 'many'," – that is, banking with links to the Internet and social networks for everyday people and small businesses. China's premier, Li Keqiang, participated in the bank's 2015 ceremonial launch by hitting the "enter button on a computer to send out WeBank's first loan," which went to a truck driver. WeBank provides microloans to people who typically cannot secure funding. All WeBank operations are only online.

"Online to Offline"

Mobile online firms Tencent and Alibaba use e-commerce to get users to switch over to their respective competing mobile payment systems. This is a critical component of online marketing. Mobile payments enable online-to-offline (O2O) transactions for restaurant reservations, food deliveries and movie ticket purchases.

"The eager adoption of social media by Chinese consumers has created unique opportunities for companies that want to gain insights about, and to engage with, the enormous middle class."

China is a leading competitor in the O2O e-commerce space. In China, the popularity of O2O correlates with greater urbanization and the development of a huge middle class – all of whom are potential online and offline buyers. The O2O system consists of consumers, retailers and online platforms. Merchants use online platforms to tell consumers about special products and services and to direct them to their physical stores.

For example, one O2O promotion sends information and coupons directly to customers' smartphones for redemption at retailers' stores. "Mobile e-retailing" is an essential element of O2O. Customers can buy online through their mobile devices as they navigate their offline lives.

China's Scale

"Smartphones and tablets are becoming pocket libraries for millions of avid readers in China, and their mobile reading apps make it possible for busy urban people to read wherever they are."

China now has "the world's largest digitally-connected middle class" – 620 million mobile Internet users out of an overall 688 million Internet users at the end of 2015. As the "world's biggest mobile economy," the country depends on mobile payments, which the Chinese have embraced. Unlike Western consumers, most Chinese have never used credit cards, so they don't have to give them up to use mobile payments for their e-purchases.

"BAT"

China's BAT companies – Baidu, Alibaba and Tencent – dominate the three most critical parts of the mobile environment: search, online sales, and networking and messaging. JD.com is another major rival.

"As city markets become more saturated, rural areas provide the most growth potential for e-commerce companies."

E-commerce, social media and entertainment are merging in China. As the number of mobile users increases, the nation is shifting from "a global trend follower to a trend setter." The Chinese middle class's widespread adoption of digital and mobile services has enormous implications for the way businesspeople and the general population use technology in China and worldwide. For the Chinese, the mobile Internet primarily offers access to "socializing and entertainment." This benefits Tencent Holdings, which specializes in social media and games. Tencent owns five of China's "top 10 mobile applications."

Other major domestic competitors include China's dominant smartphone manufacturer Xiaomi – "the Apple of China." In 2014, it announced that it had $1.1 billion in investment financing. That same year, the firm became the world's most valuable start-up, with a

$45 billion valuation – an increase from its initial funding of $40 million in 2010. Xiaomi's business plan, which resembles Apple's strategy, uses its top-of-the-line smartphone to build a loyal customer base.

"China is playing a leading role globally in the development of the online-to-offline (O2O) e-commerce model."

Apple remains the premier smartphone seller in China, followed by Samsung. Other leading domestic manufacturers are Lenovo and Huawei. Among top high-tech Chinese firms, LeTV is big in media content and ZTE is active in telecom and smartphones. As of late 2014, ZTE became the fourth biggest smartphone brand in America. Setting up operations in the United States and in other nations has been a "bumpy road" for most Chinese firms.

Traditional Retail

While China's giant Internet firms are moving to mobile e-commerce, they are not ignoring traditional retailing. In 2015, Alibaba invested $4.6 billion to become part owner of the Suning Commerce Group, a giant retailer. The same year, JD.com took a 10% participation in Yonghui Superstores, a large supermarket firm.

"Chinese customers are ready adopters of social network technologies. They socialize online and actively redistribute information."

These moves are part of a recent and far-reaching "omni-channel" push by Chinese e-commerce providers. This fits into the government's "Internet Plus" philosophy of integrating the nation's manufacturing industries and commercial sectors with Internet technologies. Chinese president Xi Jinping cites "innovation, economic restructuring and consumption" as essential elements of China's 13th Five-Year Plan (2016–2020).

E-Commerce Trends

Significant Chinese mobile e-commerce trends include:

- **An unprecedented e-commerce boom** – As of 2013, China roared past the United States to become the planet's largest e-commerce market. China's annual November 11 Singles' Day – which Alibaba first made into an online shopping festival – is bigger than America's Black Friday and Cyber Monday combined. In 2015, Singles' Day sales totaled $14.3 billion in gross merchandise volume (GMV), "the total value of all online transactions."
- **Rapid consumer migration to the mobile Internet** – Compared to the wired infrastructure in advanced nations, China's system is in a rudimentary stage. But its consumers have adapted easily to mobile wireless technology, particularly in rural areas with little or no wired infrastructure: Landline phones were never ubiquitous in China.
- **Consumer fondness for international products** – The 2015 Singles' Day promotion featured upward of 16,000 international products. One-third of all Singles' Day buyers purchased products manufactured by firms located outside China.

"Chinese consumers are 10 times more reliant on social media in…purchasing decisions than are Americans."

The Chinese government sees "information-consumption," including e-retail and online banking, as an essential national growth engine. The country initiated a "Broadband China" strategy in 2013 to build its information infrastructure. This includes developing "smart cities" with advanced Wi-Fi and installing up-to-date fiber-to-the-home (FTTH) connections.

"If the appetite of Chinese consumers maintains its growth rate, China will be on track to surpass the US to become the world's largest box office market in just a few years."

Foreign Companies

International firms must adapt their marketing strategies to China's mobile sector. PepsiCo took this step in 2014 with its "Bring Happiness Home" marketing campaign on WeChat. Leveraging this social network, PepsiCo helped people exchange Chinese New Year greetings by enabling them to meld a recording of their own voices with PepsiCo's theme song. Friends and relatives could hear these personalized tunes on their smartphones.

Coca-Cola instituted a “Lyric Coke” campaign. When consumers scanned Coke bottles with a reader embedded in WeChat, they activated clips of popular Chinese songs. Then they could share these songs via WeChat’s app and other social networks.

Alibaba versus JD.com

Alibaba and JD.com are China’s two most dominant mobile e-commerce firms. In 2013, Alibaba’s GMV was nearly $250 billion; JD’s was approximately $20 billion. But the two companies work with different operating systems and business strategies. Alibaba maintains the largest online marketplaces for its web customers, but it has minimal physical assets, few employees and no distribution infrastructure. Like eBay, Alibaba serves online buyers and sellers. Its delivery-company partners handle logistics.

“A large part of the Chinese population has skipped credit cards entirely in favor of digital payments, just as people in many parts of China are skipping landline phones to buy a smartphone to access the Internet for the first time.”

JD.com, China’s biggest online seller, maintains an extensive infrastructure with numerous warehouses (166 as of 2015) and broad inventory. It resembles a combination of Amazon and UPS. One big question for the future is whether Alibaba will need to build up its infrastructure or if JD.com will divest part of its infrastructure. It’s unclear which business model will prevail in China’s mobile e-commerce sector and what direction Chinese e-retailing will take in the future.

Mobile Entertainment

More Chinese access the Internet via smartphone than by any other method. Chinese people love the entertainment aspect of their smartphones, which appeals to a younger audience. More than three out of four Internet users are ages 10 through 39. They play games, assume online personas, watch movies, read e-books, and participate in online communities.

“Western brands… cannot simply turn their global advertisement into Chinese language.”

Chinese social media firms both produce and promote popular movies. One example is *Tiny Times* 3.0, which was developed, created and distributed by social media. This film series franchise, which depicts the life and times of a group of 20-something women, is the Chinese equivalent of *Sex and the City*.

Released in 2014, it generated close to $20 million in revenues. The producers based the story on a well-known web book and turned to the novel’s social media fans to determine who should direct and star in the film. Instead of buying traditional billboard advertising, the producers relied on young fans’ peer-to-peer communications on popular social networks.

“Chinese e-consumers, probably among the most mobile-advanced in the world, are still demanding more innovative online shopping experiences.”

The abbreviation “So-Lo-Mo” (“Social-Local-Mobile”) captures the three major trends in China’s film industry:

1. **Social** – As accessed via smartphones, social networks in China link online users to movies at every stage of their development.
2. **Local** – Increasingly, Chinese movie audiences are now turning to domestic films instead of movies produced in other nations.
3. **Mobile** – Smartphones and other mobile devices have become the primary media bringing Chinese movies to their audiences.

About the Author

Winston Ma is a managing director of the China Investment Corporation (CIC), the country’s sovereign wealth fund.