

# E-commerce 2018: business. technology. society.

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## CHAPTER 1: THE REVOLUTION IS JUST BEGINNING

### LEARNING TRACK 1.2 GLOBAL E-COMMERCE 2018: CHINA

#### OVERVIEW

In 2017, China's gross domestic product (GDP) hit \$12 trillion, growing by 6.9% compared to 2016. China currently accounts for about 15% of the world's estimated GDP, but according to the World Bank, it is expected to generate over 35% of global GDP growth between 2017 and 2019. With a population of over 1.4 billion, China has the potential for explosive growth as it develops its manufacturing, services, and logistics capabilities, and transforms itself into a consumer-driven economy. Nowhere is this potential more evident than in the retail and e-commerce sectors.

Currently, China is the world's second largest retail market at \$4.9 trillion, surpassed only by the U.S. retail market of \$5 trillion in 2017. By 2021, it is estimated that China's retail market will hit \$6.5 trillion, while the U.S. market is expected to reach about \$5.7 trillion. China is the world's largest retail e-commerce market in 2017 with \$1.1 trillion in sales, about 47% of all e-commerce retail sales worldwide, while the U.S. retail e-commerce market is in second place at about \$450 billion. China tops all countries with almost 23% of its total retail trade occurring digitally.

#### DEMOGRAPHICS

The demographic patterns of digital buying in China are similar to, but different from, other regions like Europe and North America. E-commerce in China is more unevenly spread among age groups and physical location than in more developed economies. E-commerce is a much more recent phenomenon in China. Young people (18-to-25-year-olds) are always early adopters of new technologies in all countries, but in China the disparities in wealth and education among age groups means young people have far more income than their parents, grew up in an Internet world unlike their parents, and are far more comfortable using mobile platforms for transactions. As a result, 18-to-25-year olds account for 40% of all e-commerce in China, compared to 46-to-55-year-olds, who account for only 15% of e-commerce. The large Tier 1 cities (Beijing and Shanghai) account for 37% of e-commerce, while Tier 4 cities (Luzhai and Yichuan) account for only 16% of digital sales.

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These patterns characterize many areas of e-commerce in China from use of the Internet, to the use of smartphones, attitudes about buying online, social media use, video consumption, and music streaming services. These patterns would have been even more evident had it not been for the “one child” policy of Chinese authorities which retarded the growth of China’s Millennial generation, created a male-dominated age band, and lessened overall reproduction rates. One result is that China now has one of the oldest populations in the world. That policy has been abandoned, and the next generation will grow up in a far different world, accelerating the growth of digital purchases.

## CHINA’S LARGEST RETAIL E-COMMERCE PLAYERS

**L**ike the United States, there has been an explosion in online retailers in China, numbering over an estimated 1 million sellers. But over 85% of all e-commerce in China occurs on the country’s top three sites. Tmall is the largest online store by far, garnering over 55% of all Chinese B2C e-commerce, followed by JD (25%) and Suning (4%). China’s largest retail e-commerce sites typically do not stock items like Amazon does, but rather leave the stocking of goods to merchants selling on the platform. These merchants generally use Tmall’s payment and logistics systems, called AliPay, similar to PayPal in the US.

Tmall (spun off from Taobao) was founded by Alibaba Group in 2003. Tmall is a marketplace similar to eBay (which has since withdrawn from China) that provides a platform for millions of merchants to sell their goods. Some listings are from consumers selling goods, while other listings are from online stores that use Tmall as a transaction platform. Alibaba is also the leading B2B site in China, focusing on sales of industrial parts, chemicals, and maintenance goods.

As in the US and Europe, China is experiencing rapid growth in “click and collect” commerce where consumers purchase goods or services online, and then pick up the products in physical store, or consume the service offline. This is often referred to as “Online-2-Offline” or “O2O.” Food delivery and restaurant meals are the most commonly purchased services. This category also includes hotel and room reservations (similar to Airbnb), travel, transportation, and other services. Analysts estimate O2O sales in China in 2017 amounted to almost \$80 billion, growing at over 20% a year. O2O also includes purchasing retail goods online and picking them in local physical stores and drop-off points. Much of the rapid growth of O2O in China, and elsewhere around the world, is due to the widespread adoption of mobile devices and payment systems. Growth of O2O is most rapid in urban areas and is dominated by younger online consumers.

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## SOCIAL E-COMMERCE AND PAYMENT SYSTEMS IN CHINA

**S**ocial networks are playing an increasing role in China's e-commerce growth. According to eMarketer, over 80% of Internet users in China (over 625 million people) regularly used social networks in 2017. The key to Chinese social networks is their evolution from mobile messaging apps into full-fledged social networks where users can post and share user-generated content, and which provide other functionality like payment services and crowdsourced reviews. Access to U.S. and Western social networks is severely restricted or illegal in China, so Facebook, Twitter, Pinterest, and other popular U.S. and EU services are not available. In their place, China has developed its own social networks.

WeChat (owned by Tencent) is both China's largest mobile messaging service as well as its top social network, with over 490 million users in 2017. Over 200 million WeChat users have linked their bank cards to the service, making it the most popular mobile purchasing and payment platform as well. WeChat expanded from being a messaging service to a full-fledged social network for sharing photos (Moments), transferring money to individuals or institutions (WeChat Pay), paying for content both offline (tickets) and online (streaming music), utility bills, and shopping. WeChat is often called the Swiss Army knife of Chinese online life. WeChat users in China spend over 90 minutes a day on the platform.

## ONLINE PAYMENT SYSTEMS

**W**hile mobile platforms play an important role in online payment systems in China, large retailers and banks also have their own online payment systems. Alipay (owned by Alibaba) is the most popular online payment system. It is used to support the two largest e-commerce platforms, Taobao and Tmall. Alipay accounts for over 50% of the total online payment market in China, and nearly all online users with a cell phone account have the app. The second-largest online payment system is TenPay (developed by Tencent). TenPay has an estimated 37% market share of online payments. Alipay and TenPay can also be used as mobile wallets for offline transactions at restaurants, theaters, and retail merchants.

## M-COMMERCE

**M**-commerce in China in 2017 is estimated to have generated \$910 billion in revenue, growing 43.5% over the previous year. To put this in perspective, m-commerce accounted for over 80% of all e-commerce sales in China (around \$1.1 trillion) in 2017. Around 30% of Millennials (those born after 1990) are estimated to make eight or more smartphone purchases per month. The leading mobile sites are Taobao, followed Mobile JD.com, VIP.com, and Tmall.

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## CROSS-BORDER E-COMMERCE

**A**libaba, as well as its big Chinese competitors, JD.com, Kaola, and Amazon China, are also selling more imported goods to Chinese online shoppers. Cross-border e-commerce generated over \$100 billion in revenue 2017, with an estimated 23% of digital buyers in China making at least one cross-border purchase and spending an average of over \$880.

China's cross-border digital purchasing, as with e-commerce in general in China, is growing so rapidly in part because of growing disposable income, expansion of Internet access in rural and ex-urban areas, and international payment systems making it convenient and safe to purchase overseas goods and brands. Total cross-border retail ecommerce purchases are expected to grow to almost \$145 billion by 2021. The United States and Japan are the most popular sources of e-commerce cross-border purchases, especially for consumers seeking quality, and brand recognition.

## CONCLUSION

**C**hina's e-commerce is expected to continue growing at faster rates than other regions of the world, driven by rapid expansion in disposable income, large unserved populations outside of urban areas, expanding college attendance levels, and closer integration with digital economies in Europe and North America.

*SOURCES: "Retail Mcommerce Sales in China, 2016-2021," eMarketer, Inc., January 1, 2018; "Cross-Border Ecommerce Spending in China to Top the \$100 Billion Threshold in 2017," eMarketer, Inc., November 14, 2017; "China's Online-to-Offline Behe-moth Pulss \$4 Billion in Fresh Funds," eMarketer, Inc., October 20, 2017; "WeChat Users in China Will Surpass 490 Million This Year," by Corey McNair, eMarketer, Inc., July 13, 2017; "Global Ecommerce Platforms 2017: A Country-by-Country Review of the Top Retail Sites," by Jasmine Enberg, eMarketer, Inc., July 2017; "Mobile Payment Transaction Value Share in China, by Service Provider, Q4 2016," eMarketer, Inc., March 31, 2017; "Cross-Border Ecommerce 2017: A Country-by-Country Look at Consumer Behavior and Trends," by Krista Garcia, eMarketer, Inc., March 2017; "Millennials in China Have an Outsized Impact on Ecommerce Spending," eMarketer, Inc., December 19, 2016; "China's Millennials : Understanding the Post-80s and Post-90s Generation," by David Peter Green, eMarketer, Inc., December 2016; "China's E-Commerce Addiction Has Serious Market Potential," by Sara Hsu, Forbes, July 16, 2016; "What You Need to Know About Chinese Online Payment Systems," Sampi.com, July 13, 2016; "WeChat in China," by Andria Cheng, eMarketer, Inc., June 2016; "Cross Border Commerce: China," by Krista Garcia, eMarketer, Inc., February 2016; "2016 China Ecommerce Market: Key Facts and Stats," by Jaz Frederick, PFSweb.com, February 19, 2016.*