

Trends that will Matter Most in 2016 and Implications for Foreign Investors

What it takes to win?



Understanding and getting the most from the 13th FYP



Be vigilant and keeping up-to-date with government policies



Cultivating a “customer first” mentality and building experiential opportunities;
Quality of product and differentiation make a difference



Enhancing functionalities of mobile apps, integrating e-commerce with social selling



A strategic advantage is to leverage technologies and big data to understand customers better and provide better experiences



Anticipating disruptions and being more innovative



Achieving win-win: a stance increasingly open to partnerships and outside collaboration



Weaving the sharing concept into the O2O experience



Refining supply chain operations to keep pace with O2O and consumer demands



Speed to market and convenience is important



13th Five Year Plan

In October 2015 the Central Committee of the Communist Party of China approved the proposal on the 13th Five-Year Plan (FYP) for 2016-2020. The focus was to seek growth through economic transformation, optimising the industrial structure, improving the environment and enhancing quality and efficiency. The Plan sets a target of maintaining medium-to-high growth, highlighting the ideas of innovation, coordination, green development, opening up and sharing, to fulfill its goals. Other key tasks in the 13th FYP that impact the commercial sector include increasing the urbanisation rate and allowing all couples to have two children.

Implications:

Understanding and getting the most from the 13th FYP.

Domestic consumption remains the key driver of growth for China's economy under the "new normal". Increasing urbanisation will further boost consumption and create abundant opportunities for enterprises. The focus on environmental protection and green development means rising expectations on enterprises' social and environmental responsibilities. This will increase compliance and regulatory costs and force enterprises to invest more heavily in new technologies, energy-efficient machinery and production processes. The end of the one-child policy could boost the demand for baby and child-related products and services such as infant formula, baby care products, children's wear, education and others. Retailers should rethink their business strategies to seize the window of opportunity.

Strong government support for the commercial sector

Over the past year, the Chinese government has been determined to support the development of the commercial sector. It has promulgated a number of policies to promote the orderly development of various industries, including retail, e-commerce, the services sector and logistics. The government has also placed particular emphasis on O2O development, the “Internet Plus” concept, and the Belt and Road Initiative. The “Internet Plus “ concept marks the launch of a new model for traditional industries based on the evolution of the Internet – bringing together the mobile Internet, cloud computing, big data and the Internet of Things with modern manufacturing and fostering the development of new industries to include e-commerce, Internet finance and other digital developments. The Belt and Road Initiative, meanwhile, provides tremendous opportunities for enterprises in helping to facilitate international trade and promote cross-border e-commerce. Moreover, the 3.5 billion middle-class consumers within 65 economies along the Belt and Road routes also present huge opportunities for commercial enterprises.

Implications:

Be vigilant and keeping up-to-date with government policies. To capitalise on opportunities brought about by these initiatives, enterprises should pay close attention to how these policies will affect their businesses and operations. It is crucial for enterprises to constantly rethink their strategies and be able to come up with innovative ideas, new technologies and new business models.

New consumers and new expectations, a significant shift from conspicuous consumption to experience consumption

China's commercial sector will continue to be driven by preferences of the rapidly growing Chinese millennials or the so-called post-1980s and post-1990s generations over the next five years. Thanks to rising income levels, China's new consumers are brand conscious and quality-orientated, while at the same time they want the best possible value for money. They also expect to have access to a “long tail” of products, with huge product choices. Meanwhile, personal experience matters considerably to them. They are finding greater satisfaction in experience, rather than static material possessions.

Chinese consumers are also interested in mobile shopping and are avid users of social media. They want consistent and seamless experiences across all touch points: physical stores, online websites, mobile apps, social media, and also via delivery. They expect to order, pick up, receive and return products from anywhere, at any time and via any channel.

Implications:

Cultivating a “customer first” mentality and building experiential opportunities. Today, customers, not companies, are driving business decisions. The phrase “the customer is king” is more true than ever. The ability to meet the needs of today's empowered customers – quality products, mobile, social, O2O – can make or break a business. Winning players are those that can build experiential opportunities and offer integrated experiences at all touch points, based on a complete view of each customer.

Quality of product and differentiation make a difference. The seamless shopping experience is imperative in the “Internet Plus” era, but product quality and assortment are equally important as prices and inventory availability become more transparent. Enterprises poised to succeed are those that constantly review the product mix and product assortment, advance product development and, very importantly, differentiate themselves. Enterprises have to constantly identify the “white spaces” in the market. Some retailers, particularly department store operators, have started to leverage exclusive brands and private labels to make a difference.

Mobile continues to be a fast driver of growth; social media is more than an information source — it is a key selling tool

The Internet and smartphones are becoming integral parts of everyday life, and Chinese consumers have adopted mobile connectivity as the dominant approach to accessing the Internet. Indeed, the Internet has become an important tool for information gathering, shopping, communication, service scheduling, and other opportunities. The use of social networks such as WeChat is also becoming an integral part of the customer's shopping journey. Brands are increasingly using social media to market their products, interact with customers and provide various value-added services. Some big retailers such as Gome and Haier have even started to sell their merchandise via social networks by opening micro stores on WeChat.

Implications:

Enhancing functionalities of mobile apps, integrating e-commerce with social selling. Many enterprises have gone online and set up mobile-enabled websites or mobile apps. In the coming year, they need to step up their efforts by incorporating more functions within apps so that consumers not only use an app to look for product information and receive location-specific discounts, but use it to buy products in-store, purchase movie tickets and make use of other adaptations of an app. The same goes for social media. Enterprises need to use social networks not only to market products but to actually sell them.

Technological innovation and data analytics

China's commercial sector is benefitting from technological advances. Many retailers are utilising various technologies such as iBeacons, QR codes, digital shelves and data analytics to provide more personalised services to customers and enrich the shopping experience. For instance, some brick-and-mortar retailers are leveraging iBeacons as well as data analytics to provide customers with location-specific and customised product information and discount coupons, while others are using mobile apps with geo-location functions to entice customers to visit stores.

Implications:

A strategic advantage is to leverage technologies and big data to understand customers better and provide better experiences. Retailers need to embrace technologies in all sales channels and ensure each channel is seamlessly integrated. At the same time, they have to better manage all the consumer data collected and apply analytics that can generate actionable insights. The more enterprises can "humanise" data, the more they are likely to succeed.

New business models, disruptive forces

New technologies and new business models created by ubiquitous mobile connectivity are reshaping – and disrupting – the commercial landscape. An e-commerce eco-system dominated by key Internet players such as Alibaba, Tencent and Baidu has emerged in China over recent years. Meanwhile, such companies are servicing their ecosystem partners, and serving as "virtual department stores" with a wide range of merchandise and service offerings. More commercial enterprises are now operating their businesses with innovative models. Forming partnerships with leading Internet players is a common strategy.

Implications:

Anticipating disruptions and being more innovative. To survive in the competitive market, enterprises must gear up and prepare for ongoing disruptive trends. Consumer-facing enterprises need to transform their business models to adapt to new customer purchasing habits in the digital age. They must run businesses in ways that are customer-centric rather than operation-centric.

O2O is no longer a buzzword, enterprises cooperate with Internet giants to pursue O2O

In 2015, more retailers in China ventured into O2O. They were leveraging mobile, social media and innovative technologies to bridge the gap between offline, online and mobile channels. Many formed partnerships with Internet companies, to leverage their huge traffic flows as well as their payment platforms, social media networks, big data analytic tools and logistics capabilities. Significant examples included the strategic partnership between Alibaba Group and Suning Commerce, and between JD.com and Yonghui Superstores, in August 2015.

In 2016, catering and services industries are expected to show more rapid and significant O2O developments. Fresh food home delivery, in particular, is developing rapidly but at the same time competition within this segment is more intense.

Implications:

Achieving win-win: a stance increasingly open to partnerships and outside collaboration. Retailers have to consider forming partnership with Internet giants to pursue O2O opportunities. That said, retailers should be mindful of all possible post-integration issues such as conflicts of interests and differences in corporate cultures and values, as these may hinder the integration process. If these problems cannot be resolved, so-called integration may lead to the opposite of a win-win outcome.

The sharing economy is set to take off

The Internet makes it cheaper and easier than ever to aggregate supply and demand, while technologies make it easier for people to share excess items with each other. This forms the basis of a sharing or collective economy, which has become a global phenomenon. However, it was not until recently that the concept started to gain acceptance in China, due to a lack of trust in sharing. But the widespread use of smartphones to access the Internet has fuelled the growth of collective consumption. What has emerged is a range of Internet or mobile-based services that connect owners of underused assets with those willing to pay to use them. Typical examples are taxi-hailing apps such as Didi, Kuaidi and Yongche, along with lodging apps such as Xiaozhu and Mayi. Recently, crowd sourced delivery, a new type of delivery platform that utilises human resources to take up local delivery jobs, has become increasingly popular. These share-based services can offer more convenient access, better pricing and more choice.

Implications:

Weaving the sharing concept into the O2O experience.

The concept of the sharing economy is still new to China, but our experts see huge development potential. As outlined in the proposal on the 13th FYP, sustainable growth will be one of the primary goals and development aims for China in the coming years. The sharing economy enables companies to achieve sustainable development and helps alleviate certain social and environmental concerns. To monetise the concept, companies have to consider adopting “the sharing economy” business model in their operations and weave the concept into the O2O experiences they are creating. Leveraging well-established digital platforms is an effective way to kick-start all-sharing economic business models; these are hosted through platforms that connect spare capacity and demand. However, enterprises need to be aware of the potential risks involved, such as safety issues, legal questions, liability concerns and reputational risks.

Supply chains become more complex

In today's highly inter-connected digital world, traditional brick-and-mortar companies are going online, while pure-clicks are going physical. But selling online and offline is very different in terms of product assortments, warehousing and product return processes, among other factors. This affects not only how companies do business but also their relationships with customers, suppliers, distributors and other trading partners. The rise of new delivery and fulfillment options such as “click and collect” and same-day delivery has further put a strain on enterprises' supply chains.

Moreover, as consumer preferences continue to shift and become more unpredictable, enterprises' supply chains must remain nimble and able to respond quickly. At the same time, the product cycle for many products is shrinking. This also requires supply chains to be flexible enough to fulfill the needs of shrinking cycles.

Implications:

Refining supply chain operations to keep pace with O2O and consumer demands. Enterprises need to put in place supply chains that are nimble and flexible enough to adapt to and anticipate the changing landscape – such as O2O requirements, changing consumer needs and shrinking product cycles. This requires good planning, end-to-end supply chain visibility and clear communication among supply chain players. Enterprises may need to transform their business processes or apply new technologies to fit new business requirements.

A “last mile” revolution

Consumers are now expecting fast delivery. Indeed, some online players such as JD.com are offering same-day delivery for products offered on its supermarket channel. Others continue to make huge investments in logistics infrastructure, as JD.com does now. Indeed, JD.com has launched an O2O service platform, JD Daojia, to provide crowd sourced delivery services. For example, after shopping at local supermarkets, a JD Daojia user can place an order on the company's app and available couriers then bid for it. The first courier to accept the order secures the task.

At the same time, some traditional retailers are trying to strengthen their “last mile” capabilities. Suning Commerce Group, for instance, plans to open 1,500 service centres and 12,000 franchise depots in lower-tier cities by the end of 2015; these will provide pick-up points for online orders and other value-added services for customers in those cities and in rural areas.

Implications:

Speed to market and convenience is important. We expect to see e-tailers investing in infrastructure such as pick-up lockers, or partnering with convenience stores and mom-and-pop stores in communities, focusing on convenient pick-up services. Crowd sourced delivery would be a way of solving the last-mile delivery hurdle. But enterprises need to consider the potential problems that this new model may bring, such as safety and liability issues.

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