

AN OVERVIEW OF CHINA'S ONLINE RETAIL MARKET 2009

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China's Online Retail Market Reaches New Highs

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In a cooperation between CBC Marketing Research, Shanghai, and the Chair for International Management of the University of Fribourg, Switzerland, Hsiang-Ting Lee from the University of Fribourg has conducted an extensive study of the Chinese online market in Summer/Fall 2009.

China's Online Retail Market grew to USD 18.80 billion (RMB 128.2 billion) with a extraordinary growth of 128.5% in 2008. Online shopping can be a lucrative alternative for companies with competitive advantages in product uniqueness, service or branding. The number of 87.9 million Chinese online customers is expected to rise fast as a result of growing availability of internet access, increasing understanding of online applications, improved online shopping complementary services and expanding investments by companies. The online B2C annual growth is expected to exceed 100% over next two years.

With 338 million netizens, the world's largest online population, China's rapid economic growth in the last two decades largely increased disposable household income and fosters internet spending for information and communication purposes.

Meanwhile, the Chinese government has promoted internet access in rural areas and invested heavily in telecommunication infrastructure throughout the country to bridge the gap between cities and the countryside. The Internet penetration rate reached 25.5% in 2009, exceeding the world's average of 24.7%. The online shopping penetration rate reached 24.8%, meaning that one out of four internet users has shopped online in the past 6 months.

The online shopping markets are still dominated by C2C marketplaces (similar to eBay's model), which account for 93.2% of total sales in 2008. As more pure-play online retailers emerge, in particular specialists retailers with deep product assortments to satisfy specific needs, online B2C sales will become the main driver behind the market expansion in the future. More than 100% of year-over-year explosive growth is predicted until 2011. Particularly in these challenging economic times, online shopping significantly wins over offline stores by the price advantage and will attract more cost-conscious buyers.

Growing consumer mass-markets in second tier cities are penetrated gradually and its potential should not be overlooked. Online customers' primary concerns over purchase decisions are sellers' reputation, after sales service, other buyers' feedbacks, price, and delivery. Sellers'

reputation, after sales services and word of mouth from other users' comments are three elements which determine the level of perceived risk in online purchase.

Price quality is another crucial aspect in decision making as online price comparison lead buyers to best bargains in seconds. Convenience has gradually gained relevance and become another core value in online purchases, especially for the busy middle class. In the future, sellers will become more customer-centric and provide more user-friendly offerings, which will attract more customers becoming aware of positive advantages brought by online shopping.

In this market characterized by low entry barriers and overabundance of undifferentiated products and retailers, foreign firms with competitiveness in distinct products, services or marketing can rival large players with specialized niche products tailored to Chinese preferences.

Targeting urban white collars located in costal developed cities as the first step can avoid limited internet accessibility in rural areas. Lack of local market knowledge can be compensated by collaboration with well-established partners. Selling through large online generalized retailers requires having a local representative office or local partners to handle custom clearance and financial issues. Relevant importation regulations must be checked beforehand. Flexible payment systems should be provided to facilitate successful transactions. Local third party payment solutions are the most preferred for online purchase, followed by online banking and cash on delivery. For deliveries, it is important to select reliable local third party logistics providers covering target markets at reasonable prices. Postal service EMS can complement deliveries to far-reaching areas.

To succeed in the field, localized marketing to communicate brands and superior price quality are key factors in the competition. Fast reaction to user demands in all aspects is the integral part of fast-changing online environment, including speedy product launch, delivery and after sales service. Comprehensive customer services containing quality assurance are decisive to increase customers' confidence and differentiate from the crowd. Real time chats with buyers through instant messengers are essential to provide quick assistance, convenient communication and reliable images. In sum, be localized to markets, flexible to customers and innovative to competition are primary principles to run a successful online business.

Statistics

Online shopping in China has mainly been adopted by young and educated customer segments with higher income level. 84.9% of online customers at least visited junior college and 69.5% of online customers are 30 years of age or below. 51.1% of online customers have a monthly salary

of over USD 293 (RMB 2,000), compared to 27.6% of web surfers within this income level. The yearly purchasing amount per person reached USD 234 (RMB 1,600) in 2008, up 57% compared to 2007.

Top-tier cities including 4 municipalities and 15 sub-provincial cities are major centers for online transactions. Shanghai, Guangzhou and Beijing accounted for 33.1% of total online sales in 2008.

About the author

This article was researched and written by Hsiang-Ting Lee, student in the Master program of European Business at the University of Fribourg, Switzerland, during her internship at CBC Marketing Research in Shanghai, China in Summer/Fall 2009. This study is the result of a joint project between CBC Marketing Research and the Chair of International Management, University of Fribourg, in which master students are encouraged to investigate a timely issue with regard to the Chinese market. The study has been guided and supported by CBC, Shanghai, and Prof. Dirk Morschett, Chair for International Management, University of Fribourg.

The full report can be obtained by writing to info@cbcnw.com.