



UN- BLOCKED

How mobile commerce will
unlock China's eCommerce future



eCommerce has been THE hot topic in Chinese retail for the past few years culminating in the recent listing of Alibaba on the NYSE. Alibaba reached, at least on day 1, a greater market value than either Facebook or Amazon. Much of this hype has been focused on the ongoing potential of the eCommerce market, only half of the Chinese population is currently online (vs c.70-90% in most developed markets) and online's low share of wallet vs offline spend among many of the online population. However, this market is facing a mobile revolution with mCommerce becoming the driving force that will push online spending to ever greater heights.

**44% OF TAobao 11-11
SALES IN 2014 CAME VIA
MOBILE PLATFORMS**

**BY 2020 THERE WILL
BE ALMOST NO PC-
EXCLUSIVE SHOPPERS**

Mobile commerce (mCommerce) already represents c.8-10% of the eCommerce market and will be the key that unlocks and accelerates this heralded extra growth in eCommerce

Around 450 Mn people in China own a smartphone; representing 80% of the total online population and more than the current eCommerce population (c.300 Mn)

Smartphones are the main first access point for new online adopters - typically in lower Tiers and rural areas

Penetration of mCommerce is already high with most people who shop online using mobile for at least some purchases and weak barriers to further adoption

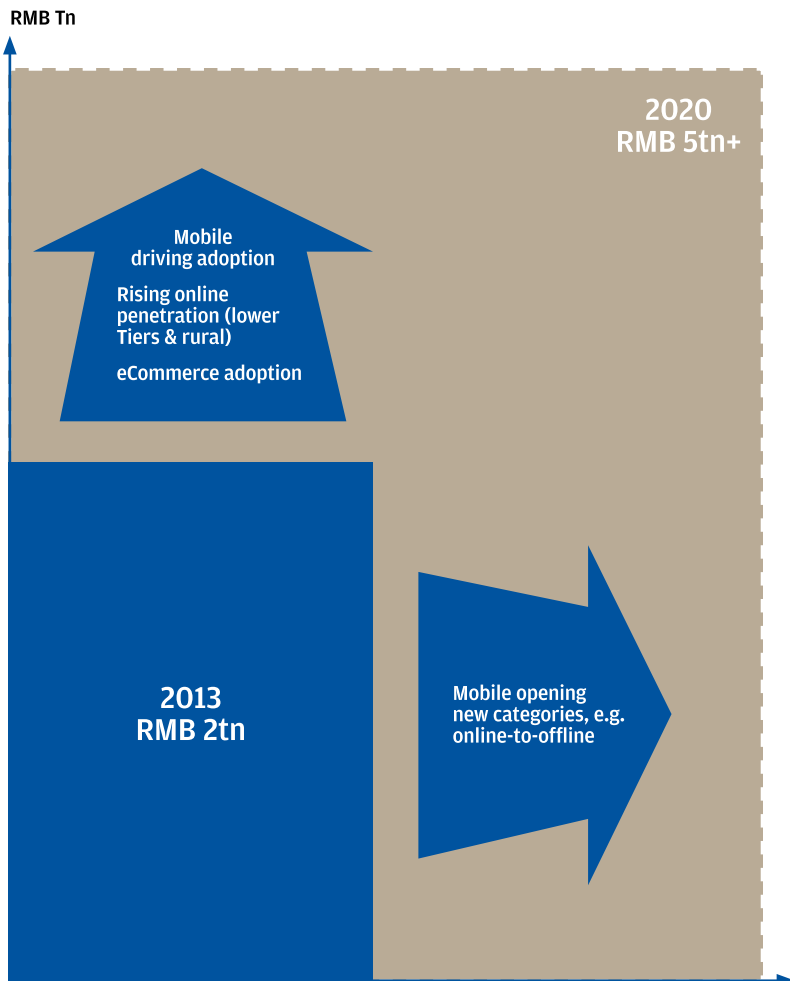
Online's addressable market will nearly double through new occasions opened up due to mCommerce; notably the online to offline (O2O) categories such as taxis and dining out

Mobile opens up opportunities for newer online retail players to challenge the current Alibaba dominance of eCommerce as O2O specialists and direct sales from proprietary apps become more pervasive

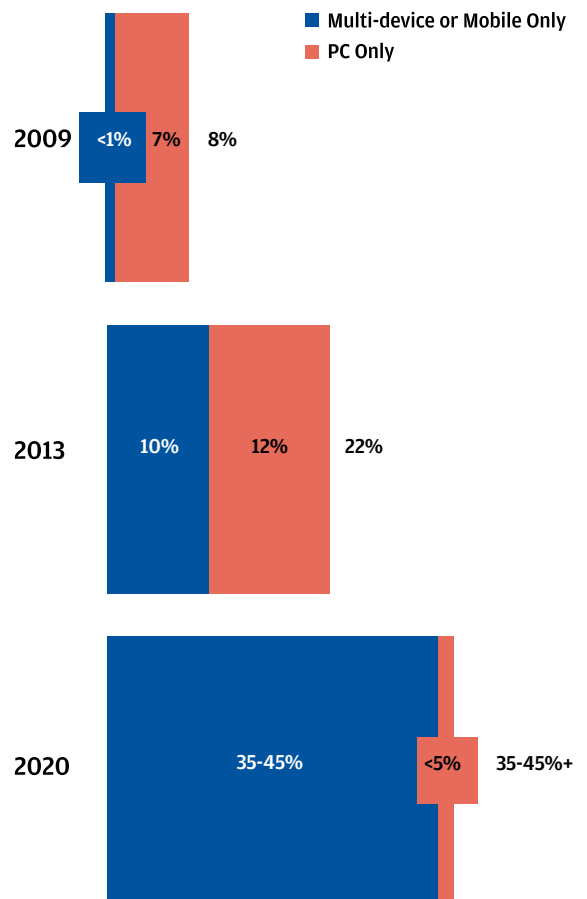
Driven by this we expect online spending to at least double over the next 5 years; continuing to put China at the forefront of the world in terms of e- and m-commerce.

As part of this research, OC&C has interviewed over 500 of China's urban online shoppers in different city tiers to help understand how the growth of mobile will change the shape of China's eCommerce landscape.

eCommerce market size overview, 2013-2020



eCommerce penetration, 2009-2020F
% of Population



Source: CNNIC, iResearch, OC&C analysis

ALWAYS ONLINE, ALWAYS SHOPPING

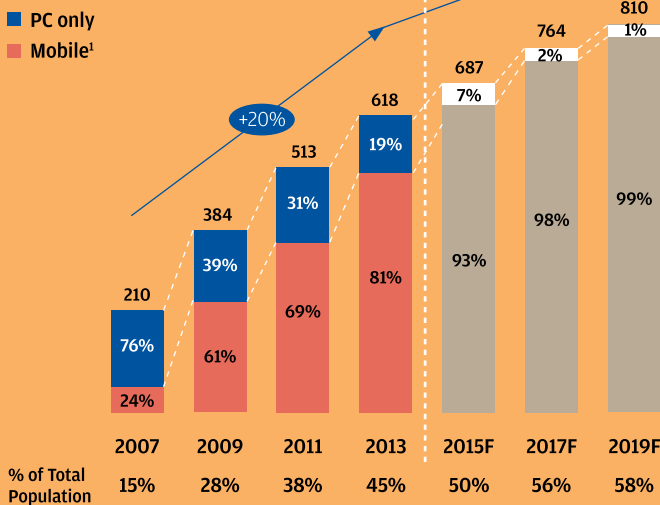
China is becoming increasingly mobile online, with smartphone penetration growing from near zero in 2007 to around a third of the population (c.450Mn) today or, to put it more potently, around 80% of the online population. While still below the penetration levels of many western nations (c.70-90%) it remains the largest national smartphone population in the world today.

This growth, supported by the accompanying investment from retailers, has seen mobile shopping adoption rapidly catch-up towards that of overall eCommerce in a matter of just a few years. In effect, if you shop online AND own a smartphone; you will likely also shop on your smartphone and become part of the mCommerce market.

IF YOU SHOP ONLINE AND OWN A SMARTPHONE; YOU WILL LIKELY ALSO SHOP ON YOUR SMARTPHONE

Mobile internet penetration overview, 2007-2019F

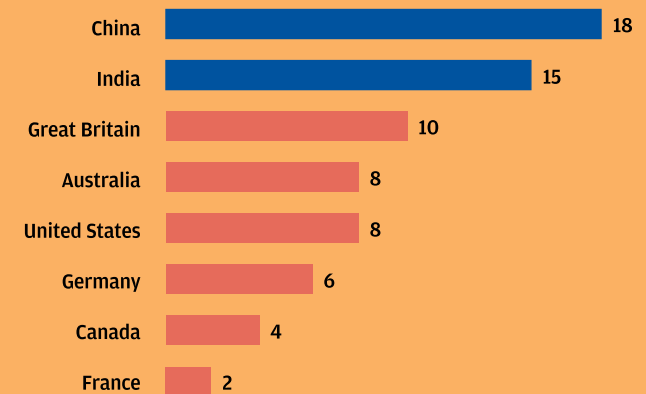
Market size of internet user in China by device
Mn people



1. Mobile includes smartphone & tablet, not limited to those who only use mobile device (include PC)
Source: CNNIC, iResearch, OC&C analysis

Mobile eCommerce market overview by country

Mobile eCommerce penetration by country, Jun 2013
% of internet user who purchase via mobile device



Source: Ipsos, eMarketer, RetailMeNot, OC&C analysis

We define mCommerce as any purchase made via an app from a smartphone or tablet computer. While mobile optimised websites could also be considered, this channel will, we believe, be of decreasing importance as app development continues. The app landscape in particular has proliferated over the past few years with a wide variety of options available to consumers.

Overview of mobile E-commerce app types



mCOMMERCE UNBLOCKED

With such strong growth over the past few years and such high penetration among online shopping it's perhaps not surprising that c. 50% of Tier 1 and 70% of Tier 2-3 mobile shoppers will "definitely" increase their mobile spending over the next few years.

The barriers to PC-heavy users moving further into mobile shopping will erode rapidly with the advancement of infrastructure and hardware technology as well as improvements to the existing shopping and payment platforms.

Small screen sizes & navigation issues (49%):

Mobile phones will continue to grow in size with even Apple (c. 40% of China's mobile market) acknowledging the need and launching a large screen iPhone

Improvements in mobile websites and app design, notably suggested items and navigation, will simplify the shopping experience

Payment Security Concerns (47%)

While a common fear at the start of the eCommerce boom that is now largely obsolete; mobile will likely follow a similar trend

The growth of Alipay as well as the emergence of credible alternatives (eg Weixin) will allow consumers flexible and increase confidence

Payment on delivery is pervasive and offers users an additional payment method they may feel more secure with

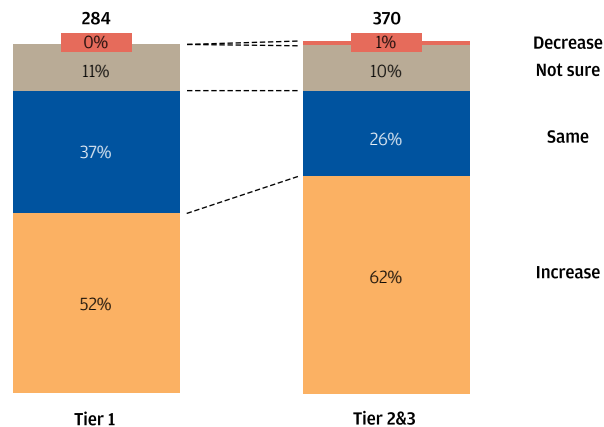
Mobile Network Issues (43%)

A barrier driven largely by China telecom's weak 3G coverage; an issue abated as 4G coverage is brought online over the next few years

Newer apps will likely require (relatively) lower bandwidth as developers work to streamline products

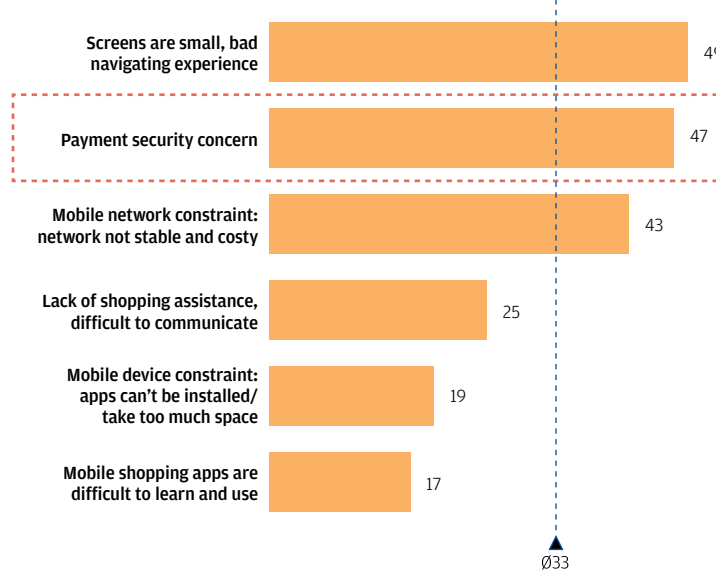
Customers attitude towards future mobile eCommerce

Customer attitudes towards future frequency on mobile shopping by city tier¹
% of respondents



1. Will you increase your shopping frequency on mobile?
Source: OC&C customer survey, OC&C analysis

Barriers/complaints for customers to switch to mobile, PC heavy users
% of respondents



What do you dislike about mobile online shopping?
Source: OC&C customer survey, OC&C analysis

AS LIFE GOES MOBILE, eCOMMERCE WILL FOLLOW

The average young Chinese consumer spends nearly 20 hours a week online, or half their leisure time. Within this, “social time” (social networks and instant messengers) take up 10 hours a week, emphasizing how the online environment is now the main social “location”. This online social interaction is very much in “always on” mode, with activity levels only dropping from 2am-8am!

The smartphone is now the prism through which many people view every aspect of their lives

Mobile commerce though is more than just making a purchase on a portable device. The ability to browse and purchase in situ has opened up whole new categories to mCommerce. These categories become part of the ‘online to offline’ group.

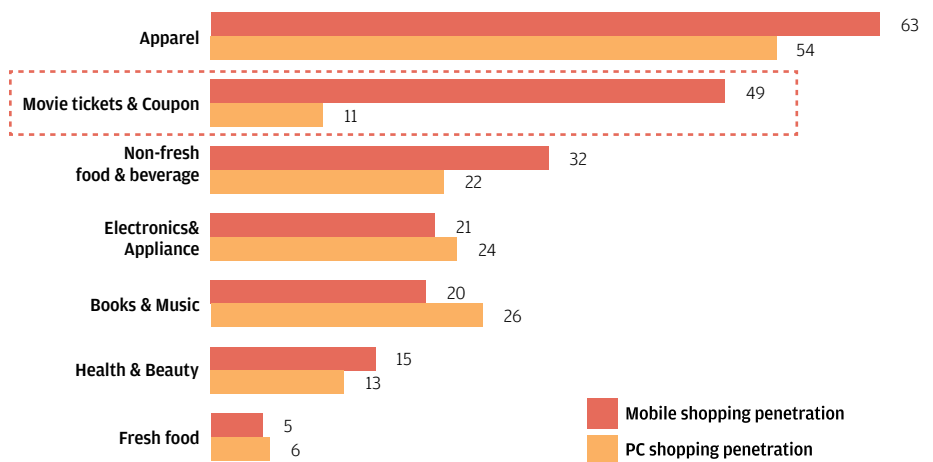
This group of categories comprises a wide range of offline services including restaurant dining and taxis but could easily extend to other services such as housekeeping and electricians. What began as simply a useful channel for information has evolved first into a booking system and now in many cases a payment system; either direct to merchant or via a voucher system.

The potential for these service categories is enormous if we look at their total size today vs the more ‘traditional’ product based eCommerce categories. While many of these were already online via the desktop PC world in the form of pre-booking; the mobile phone has enabled true online growth for these categories.

What seemed far-fetched in many of these areas only a few years ago is already a reality with staggering rates of adoption in some cases; especially among the upper-Tier cities. Anyone who has tried (and likely failed!) to hail a taxi at rush-hour in the rain without tipping over one of the taxi apps will understand the structural shift mCommerce has made for taxis!

Mobile-ever-shoppers tend to rely more on mobile platform in all categories except electronics & appliance, books & music

Mobile / PC Commerce Penetration by category
% of total respondents, N = 654



What PC platforms, mobile-end apps do you use for shopping certain categories, and the associated frequency, average spending? Vs. offline?
Source: OC&C customer survey, OC&C analysis

A day in the mobile life of a young consumer

25 years old Shanghai resident

08:00 - 11:00
The first thing I do right after opening my eyes everyday in the morning is to turn on my mobile phone. During breakfast I check Wechat (微信) to catch up with my friends and see what they are up to do; also I flip through Moments (朋友圈) and Weibo (微博) to find anything new. I am sometimes attracted by external links of interesting products my friends share on Moments, and have made purchase several times. Wechat is the major way I chat with my friends and family so I keep checking it from time to time.

11:00 - 13:00
It's about lunch time and I find a nice restaurant nearby which rates well on Dianping (大众点评). My colleagues and I buy vouchers via the app and split the bill before we arrive!

13:00 - 18:00
During idle time, I use an App called A Yi Bang (阿姨帮) to make an appointment of household cleaning service for my apartment during the weekends. Around 6 when it's about time to get off work, I call taxi via Di Di Da Che (滴滴打车).

18:00 - 22:00
During commute time I browse Taobao (淘宝), Tmall (天猫) or Yihaodian (一号店) to find if there're any good deals, or I just read articles from apps like Douban (豆瓣), Zhihu (知乎) or One (一个). Sometimes when I hang out with friends, I purchase movie tickets from Meituan (美团) which is usually much cheaper than offline. I also like posting photos via Instagram to share new clothes or anything interesting I see.

Wechat, Moments & Weibo

Dianping, A Yi Bang & Di Di Da Che

Taobao & One

Source: OC&C customer survey, OC&C analysis

As well as consumers overcoming their barriers; mCommerce companies have been actively attacking offline shopping occasions and indirectly encouraging people to fill their online wallets and thus facilitating the growth.

The battlefield first started from price check and comparison apps on mobile. A bar-code scanning app called Wo Cha Cha (我查查) has been popular since its launch

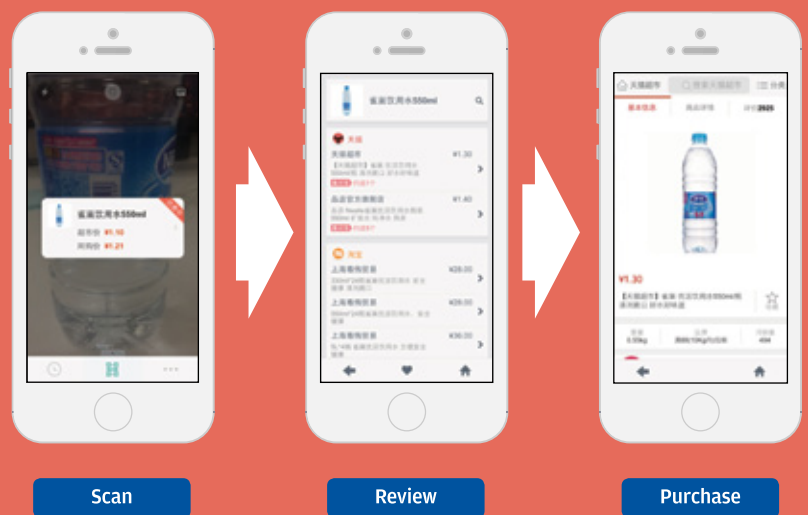
in 2010. It has more than 150 million users and is used by 5 million people everyday. The app allows consumers to check if they get the cheapest price from both online and offline channels as it covers most offline supermarkets and selected online retailers. In late 2012, Alibaba launched another price check app called Yi Tao Huo Yan (一淘火眼). The app focuses more on online channels, providing price not only from B2C retailers (Yihaodian, JD.com,

etc), but also online platforms like Taobao, Tmall. In addition to price comparison, the app can directly guide the users to the online retailer page. Though still an emerging business, the Yi Tao Huo Yan app highlights and facilitates how mCommerce has been gradually stealing share of wallet from offline channels.

Snapshot - Wo Cha Cha



Snapshot - Yi Tao Huo Yan: Three steps lead to purchase



Source: Desktop research, OC&C analysis

Another notable example during 2014 was Hongbao by Weixin. The Hongbao function added to Wechat for CNY 2014s allowed users to gift money to other users including some game-type features to raise the entertainment value. It attracted more than 5mn users and, more importantly, saw more than 8bn RMB transferred in 2 days; raising the liquidity in the payment system and putting money in people's mobile pockets. These figures were impressive enough to bring compliments even from Ma Yun.

"During this Chinese New Year, Weixin's Red Envelope is just like the Attack on Pearl Harbour. They have made perfect plan and perfect execution as well. They really taught us a lesson. Fortunately the spring festival will soon pass by and there's still a long run in the future."

- Ma Yun (Jack Ma), Chairman and CEO, Alibaba Group

IS mCOMMERCE ALL ABOUT ALIBABA?

With the vast majority of eCommerce today going via one or more of Alibaba's platforms what does the growth of mCommerce mean for the competitive landscape?

As it stands today the mobile landscape is as dominated by the same players as the PC world with Taobao and Tmall commanding 75%+ share of spend, app penetration. The growth we expect to see in non-traditional eCommerce categories may break this dominance.

Alipay is also the leading payment platform over mobile - potentially as a result of the ongoing strength of Taobao and Tmall on mobile platforms.

Top 10 eCommerce platform penetration of mobile shopper
% of total respondent, N = 654



Overall, what are mobile shopping apps do you most frequently use? Please give 3 and rank them?
Source: OC&C customer survey, OC&C analysis

The growth of lifestyle platforms and categories

The continued growth of the smartphone as an essential part of consumers' social lives is giving new platforms and businesses a mobile user base to build mCommerce offerings from.

O2O category specialists such as restaurant listing site Dianping and the

taxi apps (DiDiDaChe) are clear leaders in their respective fields. They have become one-stop shops for their in-situ needs with a consumer easily going for example from restaurant search through to voucher pre-payment on the one platform.

Meituan has successfully leveraged mCommerce to consolidate its position in group purchasing as the category has moved rapidly online. It's app was the second most downloaded mCommerce app among respondents after Taobao (29 vs75%).

Social shopping

Perhaps the most heralded, but as yet, largely untapped route is via social network and instant messaging apps. Tencent's Weixin has long been heralded as the great challenger in the space but as it stands today remains largely an epayment and branding platform in China rather than a strong mCommerce play. It's recently launched co-shop with JD.com [also partly owned by Tencent] will be a good test of

concept for the network but for many the question remains as to if it can succeed.

Mobile social shopping can expect to face the same challenges that PC social websites faced in terms of monetising the proposition. The majority of users simply want to socialise and will be turned off by prominent shopping or adverts

The growth of direct sales via apps

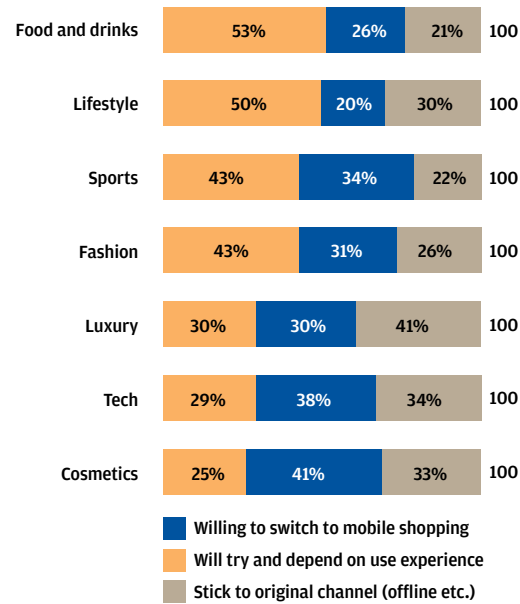
The ease with which consumers can download and access apps, along with the benefits of an O2O shopping experience makes own-apps an attractive route to market for many retailers and brands.

While a proprietary app will likely incur additional development and maintenance costs these can be outweighed by the margin benefit to cutting out the 3rd party platform.

We see already that consumers are drawn to the brand power of the major MNC players and are ready and willing to switch over their mobile shopping experience. Those among these players who have already begun investing in apps here in China or abroad are poised to reap their rewards.

Consumer willingness to use proprietary apps by categories

% of total respondents



Representative brands



If this brand has developed a mobile apps that you can directly purchase their products and deliver to you, would you use it?
 Source: Chinese Youth Street Intercept & Online Survey 2013

The New eCommerce Category Landscape excl. Fresh Food, 2013

RMB tn

Category	Key players	Relative market position	Owner/ Investor
14 ¹ Others Taxi	DiDiDaChe	Slight leader	Tencent
	KuaiDiDaChe	Strong player	
Performance & Travel Tickets	Meituan	Clear leader	
Dining & Drinking Out	Dainping	Clear leader	Tencent
	Ddmap.com	Minor follower	
Traditional Commerce Categories • Alcohol & Tobacco • Apparel & Footwear • Non-Fresh Food • Electronic Appliances • Personal Care	Tmall/Taobao	Clear leader	
	Yihaodian	Strong grocery player	WAL*MART
	JD.com	Strong player in certain categories	Tencent

1. Total market size, not only eCommerce
 Source: iResearch, Euromonitor, OC&C analysis

**THE INVEST MADE
 BY SOME MNCs IN
 PROPRIETARY APPS IS
 POISED TO PAY-OFF**

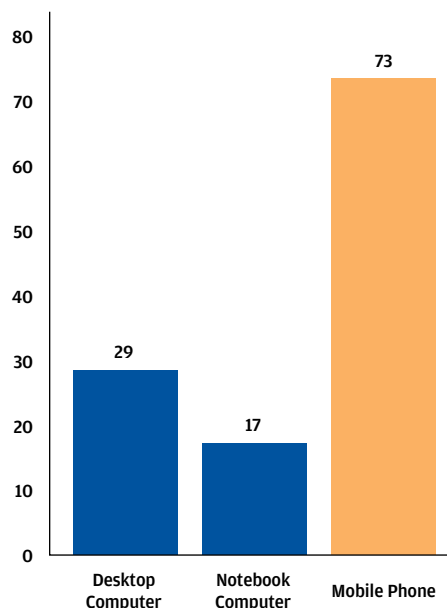
GOING DOWN AND GOING MOBILE

Mobile shopping will be the major force behind growing online penetration and adoption of eCommerce in lower Tier cities.

Mobile already represents the access point for nearly three quarters of new internet users - double that of desktops and laptops combined. The smartphone makes a more attractive first purchase for new users offering a cheaper, more complete product (with portability and IM services) than a desktop/laptop would. With this trend likely to continue, mobile will be the de facto device to shop online with for new entrants to the online world.

Lower tier shoppers are already more mobile focused than their Tier 1 counterparts with a greater share of spend and occasions focused on mobile. c.20% of mobile shoppers in Tier 2 and 3 are already mobile exclusive.

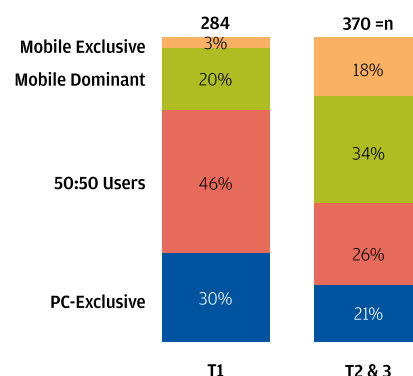
Use of internet devices by new internet users in 2013
% of new internet users



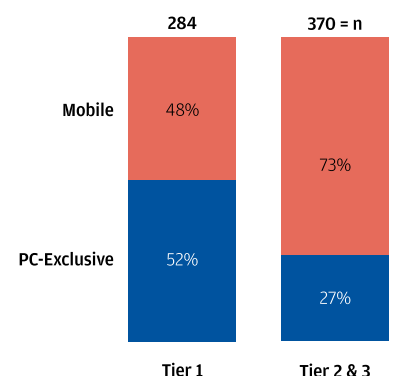
OF THE NEW INTERNET USERS IN 2013, OVER 70% SURFED THE INTERNET VIA MOBILE PHONE

1. Mobile includes smartphone & tablet, not limited to those who only use mobile device (include PC)
Source: OC&C customer survey, OC&C analysis

Mobile shopper segment by city tier
% of total respondent, N = 654



Mobile-PC online shopping spending split by city tier
% of respondents, N=654



Have you ever purchased products or services on mobile devices (smartphone or tablet, via apps only) in the past 6 months?(Exclude online travel booking)? In your current total online shopping spending, how much do you spend on PC and how much do you spend on mobile? (100% as total online spending)? What PC platforms, Mobile-end apps do you use for shopping certain categories, and the associated frequency, average spending? Vs. offline?
Source: OC&C customer survey, OC&C analysis

CAPTURING mCOMMERCE SPEND

The rapid and ongoing growth of mCommerce has profound implications for how businesses in China approach eCommerce and also channel strategy more generally. We see 5 key areas for businesses to be acting on.

mCommerce will be ubiquitous not additional

Your eCommerce consumers will all use mCommerce as part of their buying journey. Consumers expect to be able to shop on any device in any place and to receive the same offering and quality of service

Offline potential will decline in lower Tier cities

Offline retail and roll-out potential may never fully mature in lower Tiers as mobile accelerated eCommerce beats it to consumers

Online is now a sales channel to service providers

Service providers (eg F&B) must see mobile as a sales channel not simply a marketing one as it has been historically. Consumers make buying decisions earlier in the purchasing process than previously and will rely even more so on peer reviews

Direct sales over proprietary apps will become more commonplace

Proprietary apps offers a viable opportunity to achieve direct sales and bypass platforms, particularly more service based players such as fast food restaurants

Many eCommerce teams are not set-up in line with how consumers see the world

As online commerce platforms merge (laptops, smartphone apps, tablet apps etc) consumers will see increasingly little difference between choosing one or the other. However, for many businesses the purchases for these channels may sit in different (sometimes competing) P&Ls and have different teams managing the interface and merchandising

Offices

www.occstrategy.com

Belo Horizonte

T +55 31 3481 0010

Boston

T +1 617 896 9900

Düsseldorf

T +49 211 86 07 0

Hamburg

T +49 40 40 17 56 0

Hong Kong

T +852 2201 1700

Istanbul

T +90 212 285 4020

London

T +44 207 010 8000

Mumbai

T +91 22 6619 1166

New Delhi

T +91 11 4051 6666

Paris

T +33 1 58 56 18 00

Rotterdam

T +31 10 217 5555

Sao Paulo

T +55 11 3053 0434

Shanghai

T +86 21 6115 0310

Warsaw

T +48 22 826 24 57

For further information, please contact

Wai-Chan Chan, Partner

wai-chan.chan@occstrategy.com

Cynthia Chen, Partner

cynthia.chen@occstrategy.com

Jack Chuang, Associate Partner

jack.chuang@occstrategy.com

Richard McKenzie, Partner

richard.mckenzie@occstrategy.com

Jacques Penhirin, Partner

jacques.penhirin@occstrategy.com

Henri-Pierre Vacher, Partner

henri-pierre.vacher@occstrategy.com

Hunter Williams, Associate Partner

hunter.williams@occstrategy.com