Chinese retail innovation

What can Western retailers learn from the Chinese?

The Chinese retail industry was once known for its strategy of rapidly adapting American concepts to fit local tastes, but over the past few decades, the country has made major technological strides to eclipse US retail and place itself at the forefront of innovation. Leadership from retailers such as Alibaba and JD.com, with help from technology companies like Tencent, is pushing new retail concepts to the masses with impressive results. While the sheer growth and practices of the Chinese retail industry can offer Western retailers a vast array of valuable lessons, it’s important to note that Chinese strategies cannot be simply copied and replicated in the West. Yet, by observing the similarities and differences between the Chinese and Western retail industries, Western retailers can find a treasure trove of lessons to fuel future growth.

Setting the stage

As the internet came of age in the 1990s, entrepreneurship in China was alive and well, taking cues from the United States. Many of the most successful U.S. companies were imitated by similar businesses in the Chinese market. For Amazon, there was e-commerce giant Alibaba; for Google, there was Baidu; in lieu of AOL Instant Messenger, the Chinese answered with Tencent. "BAT," a commonly-used acronym when discussing Chinese technology companies, refers to Baidu, Alibaba, and Tencent. These companies may have drawn inspiration from their U.S. counterparts, but they quickly localized their offerings and grew rapidly from focused services to expansive platforms.

Meanwhile, U.S. retailers looking for growth in the global market began expanding into China via partnerships. For example, around 2006, Best Buy partnered with the Chinese appliance retailer Jiangsu Five Star Appliance Co.[i], while Home Depot partnered with Chinese retailer The Home Way[ii]. In both cases, the American retailers forced their models onto the Chinese consumer with disappointing results. Chinese consumers rejected their approach to selling, and sales failed to grow. By 2012, both retailers threw in the towel on the Chinese market.

But it wasn't all bad. Companies like Ikea, Metro, and Walmart were able to thrive, and local companies like Alibaba and JD.com did well, too. As the Chinese population moved to cities and formed a strong middle class, they set up a fertile environment where retailers could grow and expand—so long as they addressed the needs of consumers.

Mobile payments set the foundation for innovation

Innovation often requires a catalyst: something that acts as an enabler and provides a starting point. For the Chinese retail market, the primary catalyst for change came in the form of mobile payments. To some extent, the Chinese breezed past the PC era and went straight to mobile devices, a rapid shift that naturally led to a need for mobile payments.

How big is Singles Day?

The unofficial retail holiday called "Singles Day" started on Chinese university campuses in the 1990s and resembles Black Friday sales that take place in the US. Held on "11/11," a date that looks like a Chinese term for "bachelor" when written out, the holiday was first leveraged by Alibaba in 2009 to run massive sales that now include entertainment extravaganzas.

In 2018, Amazon's Prime Day was estimated to bring in $4.2 billion in sales over just 36 hours. By comparison, Alibaba's Singles Day hit that same mark in the first 10 minutes, then went on to sell $30.8 billion in 24 hours. Meanwhile, Black Friday sales in the US bring in around $6.2 billion and Cyber Monday deals around $7.9 billion.[v]

For comparison, the situation was very different in America. In 1999, PayPal was founded with the purpose of supporting payments for eBay but spread to more general usage for other websites. Although the technology supports payments in physical stores, its use there has not yet caught on with customers, possibly because credit cards are so easy to use.

In 2004, Alibaba saw the same need and created Alipay to handle payments from online customers. Instead of focusing on the website payments via PCs, they launched mobile payments using QR codes and adoption quickly spread. Then in 2013, Tencent, then China's largest social platform, launched WeChat Pay, a similar mobile payment service embedded in their social app. In both cases, consumers use the camera on their phone to "scan" the unique QR code that identifies the merchant. Then the consumer enters the total amount to pay on their mobile phone and enters a PIN to authorize the transfer of funds. Today, Alipay and WeChat Pay account for about 90% of mobile payments in China[iii], and very few Chinese actually carry cash anymore.

Meanwhile, in the U.S., Americans saw mobile carriers launch Google Wallet, Apple Pay, and Isis (now Softcard). All three services were built on top of existing credit card networks, so they failed to reduce costs or increase convenience by a noticeable margin. As a result, market penetration has been inconsistent at best.

Along with the almost universal use of mobile phones, the ubiquity of mobile payments set the foundation for Chinese retail innovation. eMarketer reports that about 79% of Chinese smartphone users are doing mobile payments at the point of sale, compared to 31% of U.S. consumers and 22% of German consumers[iv]. With a base of shoppers who pay using their mobile phones, Chinese retailers found it easier to digitize stores, leveraging mobile phones to communicate directly with consumers while they shop. This major step has paved the way for "New Retail" in China.

The promise of "New Retail"

In a 2017 letter to shareholders[vi], Jack Ma, the founder and Chairman of Alibaba, announced a five-pronged strategy to propel the company forward by addressing different parts of the business: retail, finance, manufacturing, technology and energy. He went on to describe the concept of New Retail by saying, "E-commerce is rapidly evolving into New Retail. The boundary between offline and online commerce disappears as we focus on fulfilling the personalized needs of each customer."

When U.S. retailers first moved to the web, they made a huge mistake by building a siloed channel completely disconnected from physical stores. Since growth was the most important metric, and because retailers didn't fully understand the ways in which consumers would eventually want to shop, stores and e-commerce businesses remained separate entities with only a logo in common. Retailers then spent decades trying to move from multi-channel to omni-channel retail.

In China, the online-to-offline movement was better planned. Evolving a pure online business to open stores has some distinct advantages, including the assumption of mobile phone usage. This is evident with Amazon's Go stores as well. New Retail is embodied by the merging of online, offline, and logistics, where the customer is able to shop the way they want, and retailers can be more efficient and reduce costs. Some would call it a win-win.

Alibaba's grocery brand, Freshippo, is a retail trailblazer. There are 65 stores located in various cities that provide the ultimate in convenience. Firstly, 60% of their sales are conducted online with a blazing-fast delivery system that guarantees 30-minute delivery times within 1.5 miles of a Freshippo store. That means each store also functions as a distribution center whose processes can be broken into three 10-minute increments: employees roam the store picking orders, they place the orders on overhead conveyers to be sorted, and the items are delivered to customers.[vii]

Every product has a barcode that can be scanned to see product information, including details like freshness and price. And of course, customers can check out using Alipay on their phones, or in some stores simply using facial recognition.

Alibaba also runs Tao Café, a cashier-less grab-and-go store that functions similar to Amazon's Go stores. When customers exit the store, the items they have selected are detected using multiple sensors, then facial recognition identifies the customer and charges them. The process takes about 15 seconds and can handle only one customer exiting at a time, so it can sometimes cause a bottleneck.[viii]

Another interesting grab-and-go retailer is BingoBox, a smart convenience store that might be better characterized as a walk-in vending machine. The 300+ existing store locations are cashier-less, reducing costs by a significant margin. Consumers use their mobile phones to unlock the door and enter the store, then they select items and place them on a checkout counter where cameras recognize the items and calculate the total. Alipay and WeChat pay are leveraged for payment, and the consumers exit using their mobile phones.[ix]

At the entrance and exit of the store, consumers must identify themselves via QR codes on their mobile phones to help with loss prevention. There are also surveillance cameras monitored by remote employees, and there's a video call option for customers that want to speak to an associate.

EasyGo is a similar convenience store that uses technology powered by Tencent's WeChat. While Tencent also provides the technologies that operate CityBox and Miss Fresh, the company has mostly avoided direct participation in retail and instead makes investments and provides enabling technology. Tencent chairman Pony Ma says, "We don't do retail, not even any e-commerce, but we only serve as a utility provider, offering an IT ecosystem for retailers … and giving opportunities to all partners."[x]

Wumart, a large grocery chain, found that younger Chinese shoppers are more interested in ordering online and having their groceries delivered. Similar to Instacart, Wumart partners with an online grocery delivery startup called Dmall to deliver groceries within two hours. Dmall's app allows customers to choose a nearby store, see the store's inventory, and purchase items to be delivered. It also provides digital advertising on behalf of stores, saving them the cost of traditional printing.[xi]

Korean cosmetics company Innisfree has over 500 stores in China, but recently opened a new one that merges physical and digital using several pieces of technology. It starts with a smart skin analyzer that uses a camera to instantaneously assess your skin condition and recommend products. Then a "magic mirror" uses augmented reality to allow consumers to experiment with different looks virtually. Finally, there's a smart shelf that detects when a product has been removed and displays detailed information about that product to the customer. All of these technologies enable purchase, either immediate or delivered, via the Taobao mobile app.[xii]

Outside the four walls, other impressive innovation is also occurring. For example, JD.com began a drone delivery program back in 2015 and now claims more than 400,000 minutes of delivery flight time experience.[xiii]

Does new retail translate to the West?

Keeping in mind the fact that Best Buy and Home Depot failed in China because they didn't adapt their models to the Chinese consumer, Western retailers must carefully consider how the Chinese approach translates to local markets.

The Chinese market differs in some important ways. First, as previously described, the mobile phone is ubiquitous and easily ties the online and offline worlds together. The successful adoption of mobile payments facilitates cashless checkout and provides a foundation for retail experiences. The use of QR codes is prevalent, and very little consumer training is necessary. This is certainly not the case in the U.S. and Europe, at least not yet.

Culturally, the Chinese seem to less concerned about privacy and more willing to have all their purchases tracked and analyzed. In addition, there's less consternation about using facial recognition and other identifying technologies, while early experiments tracking US mobile phones in retail stores were met with protests. American consumers are very weary of sharing too much information, although this is changing with younger generations.

As the Chinese middle class continues to grow, they are learning new ways to shop. This parallels US history in the 1960s, when chain stores and big box retailers aligned to the post-war economic expansion. There are certain times in history when a society can be influenced, and China is adopting changes at a steady pace while the US and Europe are less flexible and more resistant to change.

Lastly, Alibaba, JD.com, and Tencent have consolidated retail technology so that Chinese consumers have only a handful of mobile apps to deal with. Meanwhile in the US, each retailer has its own mobile app with separate accounts, passwords, and experiences—which makes it much more inconvenient for shoppers to participate in a connected retail ecosystem. While Amazon could be the unifying force for all retailers, this will likely never be allowed to happen.

For these reasons, there's no clear path for New Retail to take hold in the US and Europe—although many individual concepts may thrive.

Recommendations

Here are a few lessons from the Chinese retail industry that Western retailers can learn from as we enter the world of New Retail:

1. **Remove friction**. Consumers want shopping to be easy. This means they want to find things fast, have all the necessary information to make a purchase decision, have options for pickup or delivery, and when necessary, access easy returns. These ideas have been around for centuries, however, Chinese companies have made the large technology investments needed to make them a reality.
2. **Converged commerce**. A key tenet of New Retail is the seamless merging of online retail, offline retail, and the supply chain. Most omni-channel retail has been achieved by connecting silos, which on the surface allows some friction to be removed. However, real convergence of systems is what's required to truly achieve transparency and flexibility.
3. **The new store**. The definition of a store is changing. A store is now hub for information, entertainment, and distribution. Western retailers need to consider how their store formats should change to better serve customers.

Important companies in China

Alibaba	Hosts the largest B2B (Alibaba.com), C2C (Taobao), and B2C (Tmall) marketplaces in the world. Also provides electronic payments via Alipay. Has about 601M annual active customers. Its chairman coined the term "New Retail" in a shareholder letter.
Tencent	Launched QQ messenger, the WeChat social site, and WeChat Pay electronic payments. Known for gaming and its investment in JD.com.
JD.com	B2C online marketplace, owned partially by Tencent. Largest competitor to Alibaba. Has about 314M annual active customers. Piloting drone delivery in rural areas of China.
Freshippo	Grocery chain owned by Alibaba, previously called Hema, which exemplifies the "New Retail" concepts of blending online and offline processes. Since 2016, have opened 120 stores in 20 cities.
Bingobox	Auchan (French) owned cashier-less convenience store chain that relies on a mobile app to identify shoppers and collect payment.
Tao Cafe	Pop-up stores owned by Alibaba that sell drinks, snacks, and some products.
Wumart	Founded in 1994, Wumart is one of the earliest and largest retailers in China.
Dmall	Provides a mobile app that allows consumers to order groceries that are delivered to their homes in 1-2 hours. Similar to Instacart in the US.
Auchan	French retailer that entered into joint venture with RT-Mart to form Sun Art Retail Group. Alibaba later bought a 36% stake in the venture.
RT-Mart	Brand owned by Taiwanese retailer Ruentex Group that entered into joint venture with Auchan to form Sun Art Retail Group. Alibaba later bought a 36% stake in the venture.
Pinduoduo	Began as a WeChat mini program and has evolved into a group buying application with over 300M annual active customers. Leverages WeChat to gather friends to make purchases at a discount. 18.5% owned by Tencent.
Vipshop	Established in 2008, vip.com is China's third largest e-commerce site and the world's largest flash sale platform.

About Infor Retail

Infor, a leading provider of industry-specific cloud applications, launched its retail division in 2015 with a focus on software delivered via the cloud, beautifully designed user experiences, and the infusion of machine learning. Its products for retailers fall into three categories: Converged Commerce, Demand Management, and Enterprise suites.

Converged Commerce Suite of products that enhance the selling experience	**Demand Management** Suite of planning products leveraging machine learning.	**Enterprise** Several suites of products that ensure smooth operations.
POS for Retail	Inventory Optimization	Birst Networked Analytics
Store Inventory Management	Assortment Optimization	Infor Nexus CloudSuite Fashion/ Food & Beverage/Distribution
Store Fulfillment	Price Optimization	CloudSuite PLM
Networked Order Management	Machine Learning	CloudSuite HCM/Workforce Management/ Talent Science
Service Center	Forecasting	CloudSuite Financials & Supply Management
Loyalty	Allocation	Customer Experience Management
Promotions Management	Replenishment Planning	CloudSuite EAM
	Price Management	CloudSuite WMS

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