

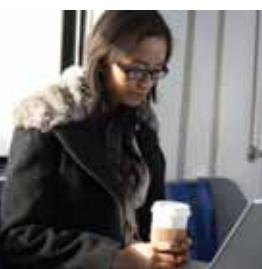
The Changing Face of Commerce: Innovation in China

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Foreword

Our first 'The Changing Face of Commerce Insights' Forum was held in Hong Kong on 25 September 2012, with subsequent events in Shanghai and Beijing. This series of forums focused on how innovation and technology is changing the way consumers and business interact.

This report is a compilation of the presentations and discussions held across the three cities.

We will continue to bring you topics that reflect the current mood of the market and which impact executives now and in the future – enjoy!





What's going on in the market?

Egidio Zarrella

Clients and Innovation Partner
KPMG China

Egidio (Edge) Zarrella, Clients and Innovation Partner, KPMG China, opened the forum and discussed the changing focus of the broader market. Over the last decade, the pace of technological change across the globe has impacted us all, and in order to keep up with the market, companies need to be innovative.

It is a known fact that we are creating huge amounts of information and executives are asking: How am I going to deal with all this data? How do I know what this information is telling me? How do I extract the information I need? How do I obtain the right analytics that I need to help me make the right decisions? How can I take advantage of any growth in the market or opportunities to reduce cost? What insights should I be drawing from this information?

With the potential development of Cloud infrastructure, we can all access our information anywhere at anytime, regardless of what device we use; a screen and internet connection is all that is required.

One point we are sure of is that consumer behaviour has forever changed with the introduction of these new technologies, especially in Asia. "Consumers in Asia are buying on the move," stated Edge. In order to meet the customers' needs, companies need to have a customer view and focus on the consumer experience. Consumers are embracing new technologies as they launch so businesses need to adapt to this if they wish to succeed.

We also live in a time where China's impact on innovation will be influential. This is a changing world, where the order is being shaken up.

In 5 years time



In 10 years time...?



This bodes well for the world as two of the largest economies will now drive innovation



Global innovation and technology trends

Gary Matuszak

Partner, KPMG Global and U.S. Chair
Technology, Media & Telecommunications



Gary Matuszak, KPMG Global and U.S. Chair, Technology, Media & Telecommunications, opened with a global view, discussing the slowdown of the U.S. and European economies. He commented that everyone is facing a difficult time and we should continue to look to Asia and potentially China for growth.

Even in this economic downturn, there is still significant growth in consumer purchased technology, such as mobile phones, mobile services, entertainment services, and mobile apps. Gary mentioned that "The next indispensable technology is going to be Cloud," as seen by over 650 executives in KPMG's Global Technology and Innovation Survey. So the technology and applications that enable this will see significant growth.

We have found that consumer perceptions are also starting to shift. While security is still a concern when it comes to Cloud, the pricing model is more important and consumers are willing to give up certain privacy entitlements in exchange for free services.

The enterprise market predicts that Cloud will be one of the biggest drivers of business transformation. Consumers expect to use Cloud and mobile technology to improve business efficiencies and productivity. However, security, privacy, and governance are believed to be the most challenging areas to overcome in the Cloud/mobile adoption journey. This transformation will likely happen in the next four years with the U.S. and China paving the way. Of particular interest is what senior business executives believe innovation will come from in future years.

Many companies have spent millions in new technologies, but they have not been able to measure the value that these technologies bring to them. In this current environment, executives must ask the following question: is technology improving the customer experience and satisfaction or reducing cost?





How can we foster innovation?

Hong Kong

Technology such as mobile phones and applications are changing the face of consumer behaviour. Spending patterns are also starting to shift. The Asian consumer is on the rise.

Anson Bailey, Partner, KPMG China, stated that the demand for smartphones has significantly increased and consumers are more connected than ever. The smartphone market is huge in Asia and many countries are shifting from 2G to 3G/4G, giving them more access to content. The winners so far are the manufacturers, network carriers and app developers. Increasingly, however, businesses are starting to adopt this technology as well.

We all know that China is an enormous market, and becoming a centre for innovation. However, that does not mean that it will overtake Silicon Valley. People are just too focused on the win/lose game. **Edge Zarrella** took a similar view: "It is not a fight between the U.S. and China. You cannot have just one country as the centre of innovation. People are looking for new ways to do things. The consumer is going to drive the market. It is a good thing that China will play a key role in innovation."

Historically, companies have looked to top-tier universities in the West for talent. But the trend is

shifting as the level of higher education increases in Asia. Businesses are now sourcing talent from Chinese universities as well. If we consider China, we need to remember that such a vast number of students currently in the system will surely foster the next wave of innovation.

With the development of this vast array of technologies, businesses are starting to look at social media and trying to understand what social media can offer them. The huge change in consumer behaviour is apparent, especially in Asia. However, businesses are only now trying to understand what the impact is for them.

One discussion point during the panel focused on how innovation is fostered by companies. One panelist suggested that companies should ignore the existing structure and just focus on what the market needs or what consumers are doing. In order to be innovative, companies sometimes have to do things which seem to hurt them financially in the short-term. Some panelists were of the opinion that in order to innovate, there should be increased communication and collaboration of ideas with front-line employees given their constant, direct contact with consumers. Others suggested that there should be a greater focus





on understanding and listening to the younger generation as these are the innovation drivers of the future.

There are two questions that companies will always have to ask themselves in order to innovate: why and why not? Once companies can understand consumer behaviour, they can react and aim to provide what they want and ultimately improve customer satisfaction.

Panelists:

Gary Matuszak

Partner, KPMG Global and U.S. Chair,
Technology, Media & Telecommunications

Tony Melloy

Vice President, Asia Pacific, BT

Urho Karjalainen

Regional Managing Director, Asia Pacific,
Research in Motion

Christopher Lau

Director of Future Services, Smartone

Thomas Crampton

Director Asia Pacific, Ogilvy Social

"It is not a fight between U.S. and China. You cannot have just one country to be the centre of the world. People are looking for new ways to do things. The consumer is going to drive the market."

Edge Zarrella

The New Digital Consumer

Marc de Lange

Director of Finance
Services and Technology Sectors
TNS

Marc de Lange, Director of Finance, Services and Technology Sectors from TNS, a market research company, gave an update on how some of the data being captured is now used to create new business models. Marc elaborated on the significant influence and use of social media technologies by consumers, which has now surpassed email and multimedia usage.

Social media use is now integrated into daily life for many consumers who engage on various social media platforms to exchange opinions, comments, experiences and ideas. Marc indicated that a large number of consumers enjoy writing and reading comments about brands, especially Chinese consumers.

Social media platforms also offer consumers a space where they feel as if they are receiving independent insights and opinions. However, Marc noted that consumers are generally more likely to share negative experiences, and as such, companies need to encourage and incentivise consumers to provide positive feedback via social media.

It is very apparent that social media is having a dramatic impact on consumer buying behaviour, and as a result, businesses need to have both a strong awareness and understanding of the power of social media.

The other big trend Marc discussed is the use of mobile devices to access social media and content. Consumers have now become so reliant and emotionally attached to their mobile devices. This is especially apparent in Asia where the level of smartphone ownership is one of the highest in the world.

Companies need to ensure they understand how consumers use their mobile devices in order to enhance the user experience. One such opportunity is through location-based services. There needs to be a focus on convenience, ease of use and ensuring consumers are continually entertained.



In conclusion

1

Consumers have gone digital

2

Mobile technology is amplifying the impact of social media, and bringing it into the purchasing decision.

3

Location based services and entertainment are some of the avenues that brands are using to break into this new channel







Hong Kong



Edge Zarrella, as moderator, opened the discussion asking the panelists how they view innovation in China. Some panelists believe that in the past, China just took ideas from other countries and simply copied them; however, this has started to change. China is now promoting and developing its own ideas and localising innovation.

The panelists commented that Chinese brands are much more innovative and creative than ever before even when compared to the rest of the world. Mobile commerce is now booming in China, and the speed of growth and advancement is commendable, however, it is yet to mature in China. There is a perception issue around trust and security, and this is impacting China's ability to create their own e-commerce platforms.

There was a general consensus that mobile, mobile/social commerce and social media are going to start affecting consumer behaviour globally. Trust is certainly one of the most important factors for e-commerce or mobile commerce. But it also relates to certain generations, and is impacted by convenience. But these two things are leading to innovation in China.

In terms of social media in China, many purchases made nowadays such as insurance, clothing, and groceries, are done via the many social commerce platforms on offer. However, businesses need to have a strong understanding and appreciation of Chinese culture to really grasp Chinese consumer behaviour. Chinese consumers enjoy connecting to like-minded people and are very open to sharing their experiences. This is why social media has such mass appeal and has been widely adopted as a key marketing/PR tool for Chinese consumers: it is all about the ability to connect and share real-time ideas and views with friends and family.



How do you see innovation in China?

Data quality, data analytics and security will always be the interesting factors when companies discuss social media, social media, yet consumers want convenience. Measuring the value that social media can bring to companies is never easy. Many organisations that conduct surveys have ignored the fact that consumers may buy products at the store after consulting social media channels first. Some companies are starting to examine actual consumer behaviour, and monitoring their use of social media. However, companies need to consider how the use of this information is perceived and complies to the ever-increasing regulation in this area to ensure that trust is developed in the model to make it a sustainable channel.

Panelists:

Gary Matuszak

Partner, KPMG Global and U.S. Chair,
Technology, Media & Telecommunications

Marc de Lange

Director for Finance, Services and Technology
Sector, TNS

Philip Chan

General Manager, Google Hong Kong

Pablo Mauron

General Manager China, Digital Luxury Group

Rebecca Fannin

Author, Silicon Dragon - How China is winning the tech race





What has been driving innovation in China?

Alonson Bailey, as moderator, opened the discussion around innovation drivers in China. The panel believes that while significant innovation is yet to be seen, China is certainly starting to make inroads. However, improvements to the education system need to be continually made in order for China to really stamp its authority on innovation globally.

In China, innovation has been driven by both necessity and convenience. China has enthusiastically adopted e-commerce online transactions and social media platforms, which will fuel future mobile technology innovation. As China is relatively new in the technology space, it has the advantage of not being constrained by legacy systems. As such, China is already leading the way globally in mobile payments, which is driving innovation across social networks and Cloud Computing.

The topic of supply chain development was raised by the audience - a significant sector for China. Panelists commented that supply chain vendors are not responding rapidly enough to the development of the Cloud. At the same time, since China is becoming wealthier, and the middle class is expanding, it may no longer be the centre of manufacturing as resources shift to the services industry. Therefore, as the cost of labour gradually increases, the only way to lower costs will be to drive automation.

Another question posed to the panel pertained to security issues. Panel members agreed that while it is a hot topic, Chinese consumers are generally not too concerned about security risks. In part, this may be due to the fact that technology is evolving with the integration of facial recognition and privacy technology.

Panelists:

Gary Matuszak

Partner, KPMG Global and U.S. Chair, Technology, Media & Telecommunications

Jeff Kwek

Head of Branding & Strategy, Tencent

Steve Mushero

Co-Founder, CEO & CTO, ChinaNetCloud

Eric Rongley

CEO, Bleum

Ashok Sethi

Regional Development Director, GfK Consumer Experiences

China - The online economy

Jeff Kwek

Head of Branding & Strategy
Tencent



Jeff Kwek, Head of Branding & Strategy at Tencent, presented the company's vision and mission to the audience. Jeff believes that companies operating in the current marketplace need to primarily focus on their customers' experience as this is the fundamental key to continually evolving and improving their services.

Tencent, founded 14 years ago, is a worldwide player and aims to be the leader in the digital consumer segment in China. Tencent's core business in Communication, Information, Entertainment and E-commerce is driven by China's national need for communications and information. In general, Chinese consumers prefer digital communications over direct communications as the former allows them to share their ideas and information online. China is still very strict in terms of information sharing and the digital world has provided a platform for people to share their opinions. Using the online network is cheap, allowing for more and more Chinese consumers to access the digital world. China sees their network identity as no different to their real life identity; this is a further reason why the adoption of the digital society in China has been so fast.



“513 million online users in China”

“Chinese online users are always in touch”

“Chinese netizens spend a total of 1.37 billion hours online”

The consumer is driving innovation

When comparing the Chinese market to European/U.S. market, Chinese consumers are more open and more willing to perform online-commerce transactions, stated **Edge Zarrella**, who moderated the panel. The panelists thought that this was due to China having more trust towards e-commerce than other countries. Especially for areas that are outside of tier 1 cities, online shopping may become their first experience of some products. With the development of social media applications or platforms such as Weibo and Wechat, the relationship between brands and social media is evolving. This is creating new revenue streams, and as a result, companies are increasingly interacting with social network users. There is a high instant demand from consumers nowadays and companies need to develop new channels through social media to provide fresh experiences to consumers. Consumer demand is driving much of the innovation that we see. The panel believed that true innovation can bring consumers and brands together. By increasing interaction through innovation, this will improve brand awareness and ensure the right brand is delivered to the right consumer.

So how can companies utilise social media? Moving to a social media platform can be very costly and companies are still unsure whether social media can bring the value that they desire. In order to sustain growth, panelists believed that the more variety you can provide to the consumer, the easier it is to sustain growth. As such, e-commerce may be part of the solution as social media enables businesses to track and collect information. This provides a clear comparison between the value of social media campaigns versus traditional advertising campaigns.

During the Q&A session, the audience and panelists discussed how technology can improve the consumer experience. Panelists thought that this can be enhanced by creating unique experiences for consumers. As the experience is enhanced, consumers will want that experience continuously, especially for luxury products, and they will tell their friends about it. There is no limit to the amount or value of products bought online. Companies can identify the right consumer by analysing the information we have collected through e-commerce, and providing them the experience they want. However, companies will always have to bear in mind that there is no one 'right' solution/platform for all. They will need to be clear with their objectives, and clearly develop their execution plan.



Panelists:

Pablo Mauron

General Manager China,
Digital Luxury Group

Thibault Villet

CEO, Glamour Sales

Simon Henry

Co-Founder, Juwai.com

Kay-Meng Soh

Co-Founder, Mpupa

Andre Suguiura

Managing Partner, LifeStyle Logistics





What is the future of innovation in China?

Beijing

The Beijing event was a more intimate affair. **Edge Zarrella** moderated the discussion by putting down the challenge in China getting innovative. **Gary Matuszak** discussed the findings of the Global Technology and Innovation Survey. According to over 650 executives globally, they believed that over the next five years, the U.S. and China will lead innovation. Similar topics were discussed and participants agreed that the environment that the Chinese government has created enables people to take risks in an attempt to innovate in business as it was relatively cheap to fail. However, they were surprised that India did not occupy a more prominent position in the technology innovation space.

Success in the China market initially requires the adoption of innovations and/or technology from elsewhere and subsequently adapting it to the local market. The consensus was that it does not matter who drives innovation - it is about how we can learn from it and adopt it.

There is an innovation dilemma:

“Where did it come from?”
“How do we use it?”

Historically China has copied. However, it is now enhancing, and in the future, it will innovate on its own.





How can one make oneself attractive as an investor?

Beijing

China is now starting to be seen as a place where global private equity, venture capitalists and hedge funds are taking positions on new technology plays. There are many interesting start-up companies in China across different sectors including technology, mobility, healthcare and new energy.

China is flushed with potential funding. The difficulty is how does one make oneself attractive as a significant investor.

The issue is how to ensure people make the right investment. One needs to pay critical attention to the company as a whole including management, governance, and further earning potential and cash flow. Transparency is a critical factor in any investment.

There was a great deal of positivity towards the future of China's innovation amongst the panelists, however there was a belief that China is not immune to technology bubbles such as ones that have happened in the U.S.

There is a firm belief that domestic consumption will drive the majority of new innovation in China - China will innovate for China's sake. This is supported by the Chinese consumer who is driving the desire for local brands, which are unique to the Chinese market. In order to facilitate this innovation in Chinese brands, many Chinese organisations are keen to create innovation hubs where their research and development can thrive. This will also help to bridge the gaps where Chinese brands are having difficulty in penetrating the global market beyond their domestic borders.

Panelists:

Yicheng Zeng

Assistant Manager, China Valuer International Co., Ltd

Philip Johnson

Advisor, ChinaNetCloud

Vincent Zhao

Business Development Manager, CTF Motor Group

Eric L. Schmidt

President, CEBEX Group

Niels Frik Olsen

Vice President, Finance, Danfoss China

Jean Michel Floc'h

CEO President, FIOCH International

Henrik Prössdorf

VP, Technology and Finance, T-Systems China

Bernd Pichler

CFO, Volkswagen Group Import Co. Ltd







Thank you

Thought leadership

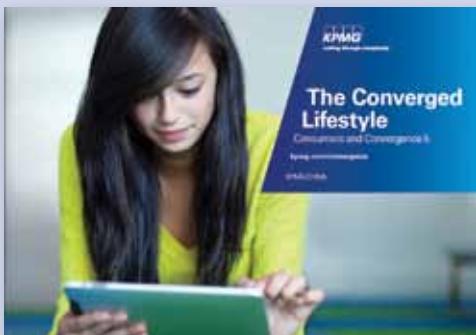
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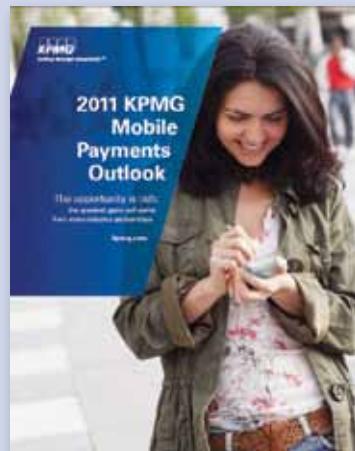
Mobilizing Innovation: The changing landscape of disruptive technologies



The Changing Face of Commerce:
The Converged Lifestyle



The Converged Lifestyle: Consumers and Convergence 5



KPMG Mobile Payments Outlook:
The opportunity is rich



Client On-boarding – State of the Nation

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