



rapidly The Changing Face of *d*Commerce:

Insights from the
Changing Face of
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China leads the way in digital innovation

The progress of China's digital evolution has been rapid, innovative and unstoppable. China is no longer a follower when it comes to the creation and adoption of new technologies, but has instead become a leader and trailblazer in most things digital. From developing services on the mobile platform to analysing cause and effect from the petabytes of data which are generated, the nation is on a journey of digital discovery and improvement.

From an international perspective, things are often a little more sedate for many developed regions. This is in contrast to the developments which take place in more emerging markets, where excitement drives technology adoption. KPMG's global Technology Innovation Survey shows that over 30 percent of respondents in Europe as well as in the US view mobile as the technology to support the next indispensable consumer services. However, for China and India – and much of Africa as well – the mobile platform has already arrived. For consumers in these locations, it is all about maximising value from improved cloud services delivered over the mobile ecosystem, while for organisations it involves the consumer behaviour knowledge which can be gleaned from these mobile transactions.

In the US and EMEA, a lot of focus is placed on security and privacy concerns. Consumers in these regions are generally older and therefore more accustomed to having control over their information, and can be relatively restrained when considering adopting new technologies. The young, affluent and educated consumers in China are far more willing to experiment with new ways of engaging with companies if they can reap the benefits of convenience and good deals.

In addition, the desire to expand into new business areas has resulted in large online service providers such as Alibaba expanding into financial service products and obtaining licences for an affiliate to provide banking services in Hangzhou. In contrast, China Construction Bank is keen to get closer to the consumer, creating an online store (e.ccb.com) that offers a variety of consumer-based shopping opportunities.

Digital innovation is not just about the technology – to be an effective digital player, organisations need to implement the right business models and offer services in the right market. China, like much of Asia, provides an ideal market for continued digital innovation and expansion, and we will continue to see major players try new ideas and operate in different ways. Technology developers such as Xiaomi, the Chinese electronics company providing cutting-edge mobile devices, will continue to provide the tools needed to assist the mobile digital consumer, and more importantly, reduce the cost of entry for the masses.





Disrupting the status quo

Technology has always been an enabler – even though it may not always have felt this way for many organisations as they have tried to implement and establish new business products and propositions on the latest platforms. Projects frequently overrun their budgets and miss deadlines, often resulting in a disappointing user experience. However, in recent years, the old method of implementing technology advances has shifted away from multimillion-dollar development projects to the world of ‘disposable computing’.

The level of disruption caused by this phenomenon has had a significant impact on consumers’ expectations. In China, this is evident from the high penetration of over 1.2 billion mobile devices, which has helped ensure the nation stays connected. This level of access, combined with the technology growth in China, provides an ecosystem for continued disruption to normal business practices (IDC predicts that China’s IT spend will grow to be the same as the US, although the market is only one-third of the size).

Major investors in China also believe in the current level of disruption. Jack Ma, founder of Alibaba, believes that 50 percent of commerce will be online in China within the next 10 years – and he is willing to support this view by betting RMB 100 million with Wang Jianlin, China’s former richest man.

This disruption and change is not going unnoticed by the government. Legislation and regulation are being developed and rolled out to boost consumer confidence and provide a framework for existing and new e-commerce players. China’s State Administration for Industry and Commerce has issued regulations which, in effect, provide consumers with statutory rights when shopping online. The combination of regulations and business innovation will continue to make the China market an interesting and profitable place.

The internet is intrinsic to China’s continued cultural revolution. A combination of technology advances and rising consumerism will continue to fuel the country’s continued expansion.

Regulation can negatively impact growth as innovation slows down in order to meet mandatory requirements. However, consumers’ increased confidence is likely to far outweigh any slowdown. Asian consumers’ desire for new ways to interact on the digital platform will help ensure that the improvements keep coming.





The changing executives

The digital evolution taking place is forcing organisations to look at their leadership and ensure that those in charge have the relevant skills and experience required to meet changing market requirements.

The new CEO: Customer experience officer

The power of the consumer to influence business decisions has never been stronger. Trends and fads used to be set based on the products and services delivered by large consumer-focused organisations. Advertising companies would work with senior executives to determine which brand direction and trends would appeal to the masses.

The adoption of social media is fuelling the 'age of the individual'. To succeed in this environment, companies need to listen more closely to their customers and innovate based on customers' ideas and desires, rather than trying to establish the next trend on their behalf.

The new CIO – from chief information officer to chief innovation officer

Adapting a business to the digital world is not just about replicating an existing business model onto an online and mobile platform – it is about placing the customer at the centre of everything that is delivered and providing a unique and all-encompassing experience. In the past, developments and improvements in online services have focused on technology to make things faster, prettier and more functionally rich. However, the modern consumer is now looking for new ways to perform common tasks. The digital environment is increasing the pressure on organisations, and those responsible for technology need to improve their business understanding and continue to develop new solutions to meet consumer demands. The role of the CIO has not come to an end, but its function will never be the same.

CTO x CMO = CIO²

Combining the operational understanding of the chief technology officer with the business awareness of the chief marketing officer can help create the CIO of the future.

The traditional CIO has tended to be based in the back office; but that is now changing as the demand for consumer-focused services increases. CIOs need to go beyond protecting their empires – it is time to expand beyond the confines of delivery and start innovating new ways of doing business.





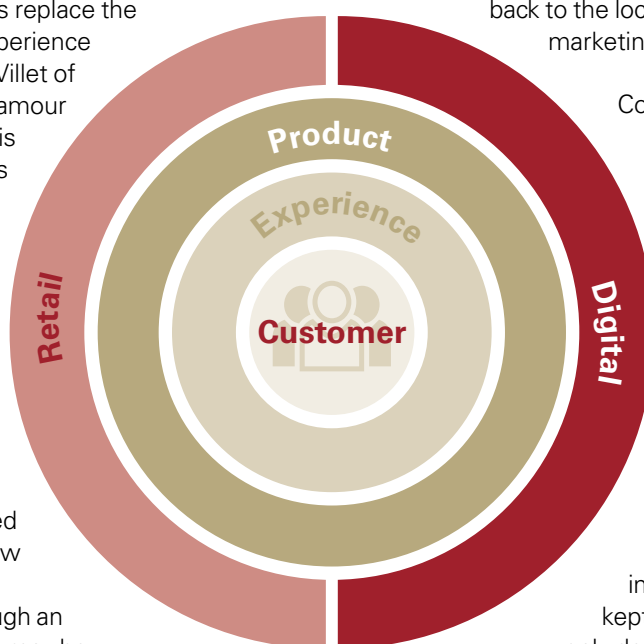
Showrooming – the new purpose for ‘bricks and mortar’ stores

We all know that online shopping has been embraced by consumers across Asia, especially in China. The ability to compare prices, read reviews, track fashion trends and boast about purchases to friends on social media is a common activity for many shopaholics. However, the one thing it cannot do is replace the therapeutic and real-life experience of visiting a store. Thibault Villet of online authorised outlet Glamour Sales highlights that there is still a need for real products in real stores which allow consumers to touch and feel the goods they are buying before exchanging funds.

For most retailers, there is a clear divide between online and offline sales channels, and success and profitability are all measured in silos. The challenge is how to track online sales which have been generated through an in-store experience, as this may be the only way a retailer can fully understand the effectiveness of its consumer engagement approach.

Offline to online to offline (O2O2O) capabilities are increasingly being adopted by retailers and franchise owners in order to bridge the void between traditional offline retail experiences and the digital channel. The use of in-store digital enablement through technologies such as QR codes in point-of-sale (POS) materials can help identify when consumers are in-store but actively reviewing content on the mobile platform.

The tracking of how and when users engage on mobile apps is another mechanism which retailers can use to determine if digital sales activity is being generated from in-store experience. Geolocation capabilities built into smartphones allow consumer apps to report where a customer is at any point, which can then be correlated back to the location of retail outlets and marketing activities.



Confidence in logistics and delivery activities in Asia continue to improve.

According to Thibault, around 80 percent of all online transactions in China are now being performed with electronic payments, and ‘cash on delivery’ is no longer the accepted norm. However, with concerns still remaining in some areas, organisations are also looking at site to store solutions, where in-store inventory management can be kept tighter as new merchandise is only delivered on an as needed basis.

The digital interaction up front also helps retailers communicate with customers before they go shopping.

In-store Wi-Fi solutions are growing in China in order to support greater online to offline integration. Organisations such as Suning (electronics retailer), Intime (department store) and Alibaba are enabling multiple levels of client engagement, including mobile payments, as well as consumer loyalty through registration for Wi-Fi services and online purchasing.



The power of analytics

Everywhere we go and with everything we do, we leave digital fingerprints behind – telltale signs which identify us or allow organisations to discern certain information about us. From the items we buy, to the places we buy them, to the people we tell about it, a myriad of facts can be pulled together in order to provide a fuller picture.

‘Big data’ is commonly used to describe the activities employed to make sense of all of these interactions, even though most CIOs and CMOs will state, “I don’t need any more data – just help me make sense of what I have.”

Analytics is the process used to understand the digital fingerprints which are left behind by consumers and customers. Traditional analytical techniques based on aggregating and correlating structured data which exists in corporate databases provides a degree of understanding, but more recent advances are providing richer insights into consumer behaviour.

Cognitive computing and neural networks are enabling data scientists to provide executives with knowledge about their customers which they have never had before. The models being built are allowing different strategies to be tested and closer management of operational activities. This enables organisations to move away from the reactive model of looking to the past and determining business objectives based on predictive analysis. One example is that by understanding consumer behaviour, decisions can be made on dynamic stock management to maximise how much inventory goes onto the racks and ends up out the door. While this may seem like a small change to existing operations, the fundamental shift in basing stock requirements on expected sales rather than predetermined stock levels can often be a difficult thing to accept.

The true power of analytics will only be realised once executives have confidence in the results and feel they are able to make decisions based on their output. Trusting the work being done will take time, and those who trust sooner will have the advantage.



Adopting improved analytics will take time; but it is important not to underestimate the long-term benefits of adoption or to overestimate the short-term benefits which can be realised.





Full price or discount — a digital debate

The digital channel in China has for a long time been seen as the channel offering quality products at discounted prices. Alibaba's 'Singles' Day' on Taobao in China is a prime example of this phenomenon, where massive sales volumes are seen in a short time span as significant discounts are offered on many famous brands. While the promise of massive sales revenues continues to attract retailers and manufacturers alike, there is also a desire to achieve full-price sales on the digital platform.

However, the customer base which has both the desire to buy full-price goods and the disposable income to afford them is not the same as those visiting Taobao. So where will consumers be coming from and is it worth all the effort? Will we be seeing cannibalisation of other channels as organisations try to establish this business model?

Darryl Andrew from WIMI highlighted that the secret to achieving a full-price retail model on the digital platform in China is about access. He explained that when you look at the current

demographics of consumers who buy full-price goods through traditional channels and consumers who buy discounted goods through digital channels, both groups already have access to stores and the goods in question. The key drivers which separate this group are therefore 'Do I want it first?' or 'Do I want a bargain?'

Darryl further explained how growth is being seen in Tier 3 and Tier 4 cities where direct access may not be available through traditional channels, leaving only digital channels. These consumers still want the latest fashions and are ready to spend more to get them. The challenge is how to build up consumers' trust in a digital channel, which they may be unfamiliar with. Taobao customers, for example, tend to have a high degree of stickiness to the site, exhibiting strong loyalty which comes from trust in the service that the e-tailer provides.





Establishing trust and confidence is not a simple task and cannot be completed overnight. Common aspects which help companies establish trust in the digital channel are the provision of high-quality, authentic goods with low rates of return, punctual delivery of goods, and a customer services department which is responsive to problems and concerns. While these may sound like three simple aspects to implement, without appropriate infrastructure in place, they can be difficult to establish and maintain at a high level. Potential strategic options to consider include:

Know the market: Establishing a national capability in China may not be appropriate due to logistical issues and costs. One effective strategy is identifying hot spots where a high concentration of potential customers exists and developing an operating model there first.

Maximise existing digital presence: While Taobao is perceived to be a major discount site, other online stores have different value points, such as Tmall which is attracting mainstream brands such as Estée Lauder, Burberry and Stuart Weitzman. Organisations may establish relationships with these brands in order to accelerate adoption.

Deliver on promises: A high level of service needs to be backed by effective execution. Companies should manage consumers' expectations and not overcommit on delivery schedules and response times.

Use social media: Companies should have a balanced social media campaign strategy which combines corporate messaging with support from fashionistas and platforms for consumer discussions. One of the best ways to convince consumers that a service is for them is to hear it from friends and family.





Listening to the social buzz

Love it or hate it, social media is now a key component of any digital solution for consumers. The variety and nature of the platforms being used across Asia is only one dimension of the complexities involved in delivering an effective social media strategy.

Mary Chong, a partner at KPMG, highlighted that an effective social media plan will see organisations establishing a conversation with customers. This two-way interaction which the technology enables is the real secret. However, these conversations will not just be with the organisation – customers will talk to each other too, and it is critical that consumer opinions and sentiment is monitored and acted upon to maintain a healthy social media approach.

Mary also said that while social media is a public forum, consumers can react badly if they feel that organisations are listening to conversations in the customer community. This is why the nature of organisations' responses to customers' views is critical – they need to be measured and appropriate.

Thibault Villet of Glamour Sales said that social marketing at his own company showed that celebrity endorsements were generally not as effective as social buzz created by key opinion leaders (KOL). One example he provided was Glamour Sales' 'Glam Dog' campaign, which saw site traffic increase from 4 million to 6 million and sales increase by 47 percent during the campaign period.





Considerations for an effective social media capability

Know your goals: Social media has a rich set of functionality, from social networks and media sharing, to chat networks and microblogging sites. These various capabilities can have different impacts on consumers, depending on where an organisation is operating. Companies should research which capabilities impact their particular market and should not assume that the same applies everywhere.

Choose your platforms: Social media is not just about Facebook, Twitter and Instagram. Local country solutions such as Renren (China) and GREE (Japan) are social networks which have significant user bases in their respective countries, so companies operating in these locations should have a strategy to address and include such platforms too.

Listen, listen and listen some more: Many organisations use their social media strategy as a conduit for distributing messages to their customer base (e.g. delivering timely offers through WeChat is an emerging trend). While this is an important and effective approach, the real power of social media is being able to listen to and understand what consumers are saying about a company's products. Social analytics should therefore be a key component of social media plans.

Do not let your approach stagnate: Social media is an ever-changing environment – the nature of the technology means that a massive group of content providers is supplying an equally massive group of content consumers. Companies therefore need to be perceived as active and committed social media participants.

Respond appropriately: Social media is instantaneous – as soon as information is posted, it is read, reposted, copied, shared and generally consumed. It is this instantaneous nature which gives it power, but which also creates risk. Social media will likely continue to be an asset, but it may not always contain the desired information. Companies should make sure they have planned how to respond in these situations, which senior members should be involved in generating responses, and how to escalate issues when needed. Crisis management is not a new concept for organisations, but the proliferation of social media means companies have to be able to react a lot quicker.





Know me, but do not stalk me

There is a fine line between making customers feel appreciated and making them feel as if they are being watched. Although companies should strive to provide a personalised level of service, they need to avoid the '1984'¹ effect, giving consumers the feeling that Big Brother is peering over their shoulder at every moment.

Historically, personalised service grew from the personal relationships which were built between consumers and service providers. The power of data analytics is now allowing organisations to find out details about their customers which their customers may not even know about themselves. Trend analysis and the correlation of consumer information across the digital and traditional channels are resulting in patterns of consumer behaviour being identified with a customer segmentation of 'one' – no longer are we as consumers being classified into groups, we are being targeted based on our own uniqueness.

One complication is trying to understand what level of targeted marketing is acceptable. Various digital user groups and consumer profiles have different tolerance levels regarding what is acceptable and what is not. In general, the older a consumer is, the less tolerant they tend to be towards receiving targeted marketing – a lifetime of having to deal with junk mail and cold calls has created an increased sensitivity to targeted advertising based on accurate segmentation. Conversely, younger consumers tend to be hungry for these latest products and services, and generally do not mind this marketing as much. There is one area where all consumers agree though – if they receive personalised service from an organisation with which they have a relationship, it can have a positive impact, but only if the service is relevant to them.

These differences are equally applicable when it comes to providing personal information – the younger population consisting of Gen X, Millennials and Gen Google is happy to share contact information and knowledge of their likes and dislikes because they feel this will help them receive value from organisations. In contrast, many older consumers select the 'opt out of direct marketing' box when completing contracts.

1. 1984 is a novel by Orson Welles which describes a dystopian view of the future.





Marcus Vass from law firm Bird & Bird highlighted that consumers want to feel empowered when it comes to organisations using their information to determine consumer behaviour – providing consent and understanding the impact of providing information are two major privacy tenets which help consumers establish trust with merchants. Only by establishing trust can personalised services truly be developed and delivered.

Thibault Villet from Glamour Sales highlighted that success in traditional retail is highly dependent on a detailed understanding of customers and making sure that everything delivered resonates with them. When moving to the digital platform, focusing on the details becomes even more important – companies need detail² (squared) in order to meet expectations.

KPMG's Head of Clients & Innovation, Edge Zarrella, suggested that to achieve this, organisations can take a holistic approach to analysing consumer behaviour. In addition, as well as analysing what people do, companies should also consider what they have not done. For example, knowing how many people visit a site can help a company understand whether it is receiving foot traffic; but organisations can only understand the stickiness of their sites if they know how many people return.



The Millennial Generation (or the Millennials) is the generation of consumers born between 1982 and 2002. Their size is commensurate with the Baby Boomers and they will replace the Baby Boomers in the workforce as they retire.

Generation Z (or Gen Z) is the generation of consumers born after the Millennial Generation, which is generally accepted to be from the mid-2000s to the present day.

Generation Google (or Gen Google) includes young people who were born or who have been brought up in the internet age, and encompasses both the Millennials and Gen Z.







Thought leadership

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The changing landscape of disruptive technologies: Global Technology Innovation Survey 2014



MNCs in China
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The Changing Face of Commerce:
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The Mobile Evolution: The Challenges and Opportunities of Mobile (Volume 2)



China's Connected Consumers



Technology Industry Outlook
June 2014: The next data-driven future (US)



Big Data comes of age in FP&A:
Financial planning, budgeting, and forecasting (US)



Global Consumer Executive Top of Mind Survey 2014 – Transforming for Growth: Consumer Business in the Digital Age



Inside the Dragon 2013:
Outsourcing Destinations in China

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Chinese



The Great Payments Transformation: Insight into the payments ecosystem

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