China's iConsumer 2015: A growing appetite for choice and change

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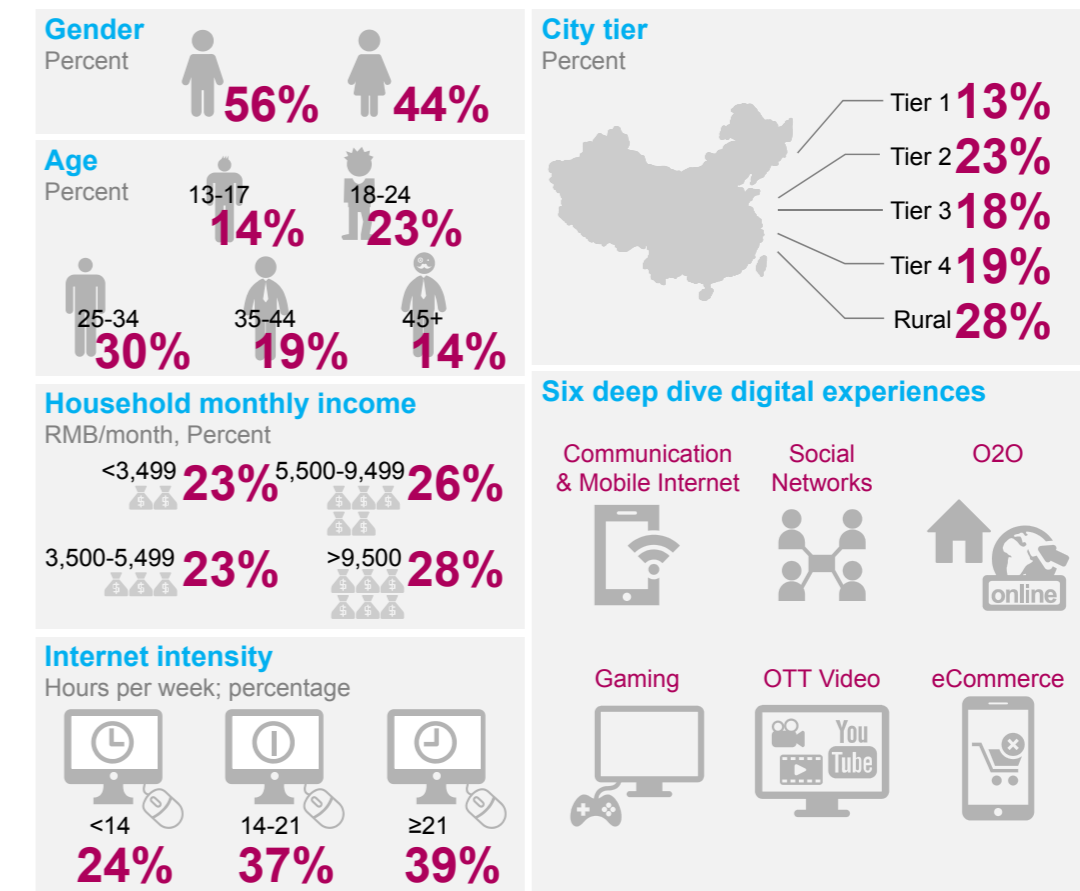# China's iConsumer 2015: A growing appetite for choice and change

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Chinese e-commerce is developing even faster than previously believed, with Chinese iConsumers embracing online commerce and major retailers rushing to offer ever more sophisticated online services. McKinsey's iConsumer China 2015 survey tapped into the behaviors and desires of China's 630 million Internet users, across different city tiers and throughout rural areas (Exhibit 1). The research shows robust growth in social commerce, a trend toward transforming physical retailers into mere 'showrooms', and mounting consumer enthusiasm for more online-to-offline (O2O) services. Combined with a dramatic increase in online food purchasing and unexpected levels of online engagement among the rural population, these findings show Chinese digital consumers, already among the most advanced in the world, are embracing and demanding more innovative online shopping experiences at a rapidly accelerating pace.

Exhibit 1

iConsumer China 2015 survey tapped into the behaviors and desires of China's 630 million Internet users across different city tiers and rural areas
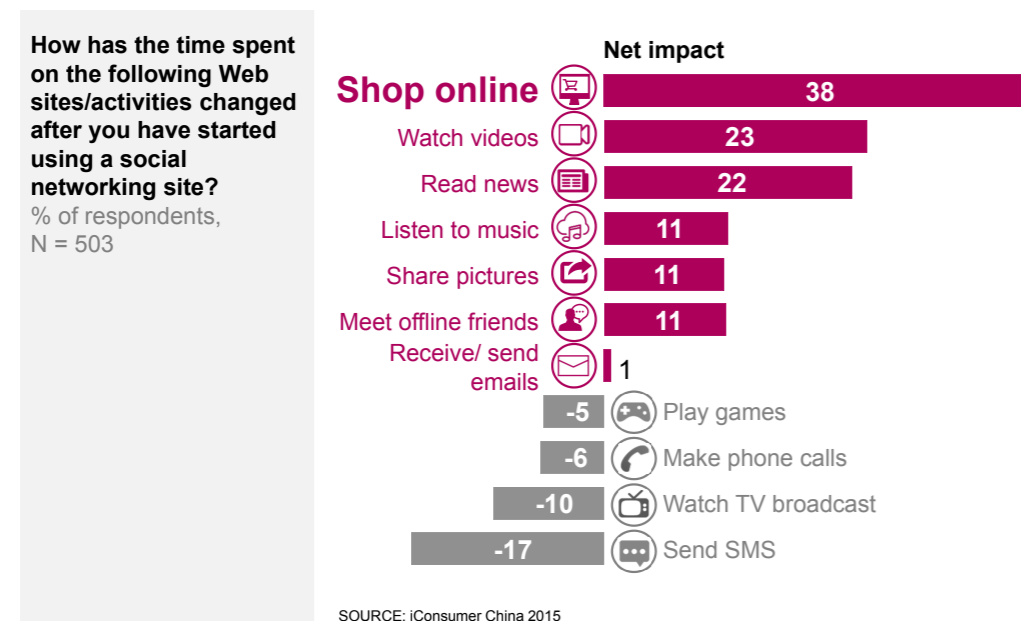
N=6,183

Gender
Percent
56% 44%

Age
Percent
13-17 18-24
14% 23%
25-34 35-44 45+
30% 19% 14%

City tier
Percent
Tier 1 **13%**
Tier 2 **23%**
Tier 3 **18%**
Tier 4 **19%**
Rural **28%**

Household monthly income
RMB/month, Percent
<3,499 **23%** 5,500-9,499 **26%**
3,500-5,499 **23%** >9,500 **28%**

Six deep dive digital experiences

Communication & Mobile Internet

Social Networks

O2O

Gaming

OTT Video

eCommerce

Internet intensity
Hours per week; percentage
<14 14-21 ≥21
24% **37%** **39%**

SOURCE: iConsumer China 2015; Insights China

Getting social, going shopping

China is one of the world's most social nations, together with Brazil and the United States. Services like QQ and WeChat are not only helping China's 500 million social network users communicate and access entertainment, they are also shaping behavior in significant ways. Our survey shows active social users send fewer SMS (17% less after using social networks), watch less TV (10% less), and make fewer phone calls (6% less). Perhaps more surprising is the finding that social networkers are more likely to shop online (38% more, Exhibit 2). Social engagement and shopping behavior are so intertwined that Chinese shoppers rank their friends' recommendations—both online and offline—as the most important factor in their online buying choices. We are seeing a lot of new innovations in this area, especially on mobile social platforms. For example, in 2014, thousands of merchants carried China's popular direct-sales model to mobile platforms by starting semi-private WeChat groups of 50-100 people each, bringing in friends and friends of friends to sell everything from organic vegetables to the latest fashions. In 2015 we expect to see companies selling referral- and recommendation-driven products (such as cosmetics, healthcare, and insurance) capitalizing on this trend and creating digital versions of the direct selling networks that already engage hundreds of thousands of participants in China. In China's hyper-entrepreneurial culture where everyone can be a merchant and everyone is a customer, social will continue to have a big impact on online commerce. More than ever in 2015, we believe that mastering social marketing and becoming the first pilot advertisers on platforms like WeChat will separate the winning retailers from the rest.

Exhibit 2

Going social, going shopping – shopping online sees the highest positive impact from "going social"

How has the time spent on the following Web sites/activities changed after you have started using a social networking site?
% of respondents,
N = 503

Net impact

Activity	Net impact
Shop online	38
Watch videos	23
Read news	22
Listen to music	11
Share pictures	11
Meet offline friends	11
Receive/ send emails	1
Play games	-5
Make phone calls	-6
Watch TV broadcast	-10
Send SMS	-17

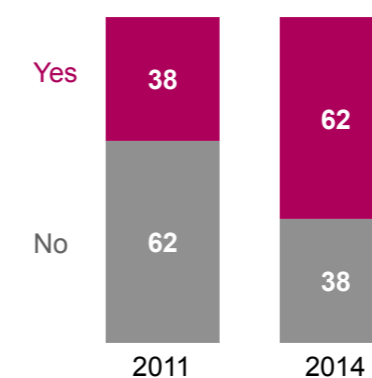SOURCE: iConsumer China 2015

Showrooming: a showstopper for traditional retail?

Online commerce is rapidly transforming the way Chinese consumers research and purchase products. Our survey in 2011 showed that on average a Chinese consumer will make 10-12 visits to online and offline touchpoints—including search engines, product sites, and physical stores—before buying an expensive item such as consumer electronics. Actual sales do not always occur at physical salespoints; indeed, 16% of electronics are sold online now, versus 1% five years ago. Our 2014 survey finds that this showrooming effect, where shoppers browse in stores but buy elsewhere (including online), has become particularly intense for the 30% of consumers who carry out mobile research while inside a store. For categories like consumer electronics, only 16% of these consumers, with Internet in hand, make a purchase on the spot at the store (Exhibit 3). This behavior signals a huge opportunity for retailers to create as much of a closed-loop omnichannel experience as possible to prevent sales leakage. One such attempt is the experimental collaboration between TMall and InTime, a Chinese department store, which allows shoppers to browse in-store and order online with their handsets on the spot. Other businesses, from retailers to car dealers, are placing QR codes next to their products to offer coupons and product details. They are also allowing buyers to select products that are not physically in the store, creating 'endless aisles' without the need to stock everything on shelves. Most importantly, retailers are using this kind of digital engagement to get to know prospective buyers so they can retarget them later and improve sales conversion. Given the increasingly drastic effects of showrooming, we expect some retailers to go so far as to reduce the number of physical stores in 2015, focusing instead on differentiation through quality offline services and offline-to-online conversions.

Exhibit 3

"Showrooming" – Only 16% of in-store mobile researchers end up buying from the physical store they visited

Did you do any of your online research on your mobile phone?
% of CE online shoppers
N=237

	2011	2014
Yes	38	62
No	62	38

'Showrooming effect' is significant for those who researched heavily
% of CE online shoppers

30% of online mobile research done while shopping in stores

Within the 30%

16% bought products from retailer's physical store

29% bought products from retailer's online store

45% bought same products from other online stores (after store visit)
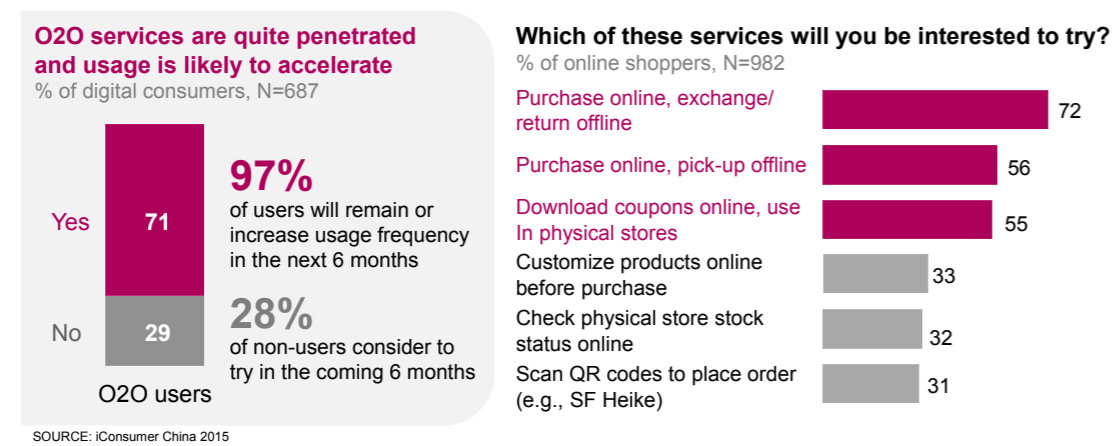
online

SOURCE: iConsumer China 2015

O2O: even bigger than you think

O2O has been heralded as a game-changing trend in Chinese e-commerce, but our research finds that Chinese consumers are embracing O2O at an even faster rate than previously believed. According to our survey, 71% of consumers are already using O2O services. Of those, 97% say they will use the same or more in the coming six months. Close to one-third of those who have not yet used O2O services claim they would like to try them within the next six months. What Chinese consumers expect from O2O also become clearer in 2014: for physical goods, 72% of consumers hope that O2O will offer a way to return goods purchased online to a physical store, and 56% want to order online and pickup offline (Exhibit 4). This consumer demand for physical locations sets up an interesting challenge for online pureplays in China—will they need more physical presence to meet consumer demands? Some online retailers in the UK, US, and Taiwan are already creating pickup and return points at convenience stores. This trend could also swing the advantage back to traditional retailers, who can more easily leverage their existing assets into an omnichannel experience for consumers.

What are Chinese consumers looking for in O2O in 2015? Restaurants and travel companies are already doing brisk O2O business. The consumers we surveyed are most eager to see offerings in three more O2O service categories: entertainment (61%), healthcare (47%), and housing/car services (42%). But O2O does not need to stop at services. The surprise success of online car sales during Singles' Day (China's version of Black Friday) demonstrates that Chinese consumers are comfortable with making large purchases through O2O: 150,000 cars were ordered on that day across major websites. Autohome, one of China's largest automotive portals, logged over 37,000 orders with a value of RMB 6.5 billion. Car buyers could either make a deposit or pay in full for their cars online, settling their balance and picking up the vehicle at a dealer later. To capture the ever-experimental and fast-learning Chinese consumers, companies will need to expand their O2O offerings and find innovative ways to engage and serve their customers in a multichannel fashion.

Exhibit 4

O2O is even bigger than you think – Chinese consumers are embracing O2O at a rapid pace

O2O services are quite penetrated and usage is likely to accelerate
% of digital consumers, N=687

Yes 71
No 29
O2O users

97% of users will remain or increase usage frequency in the next 6 months

28% of non-users consider to try in the coming 6 months

Which of these services will you be interested to try?
% of online shoppers, N=982

Service	%
Purchase online, exchange/return offline	72
Purchase online, pick-up offline	56
Download coupons online, use In physical stores	55
Customize products online before purchase	33
Check physical store stock status online	32
Scan QR codes to place order (e.g., SF Heike)	31

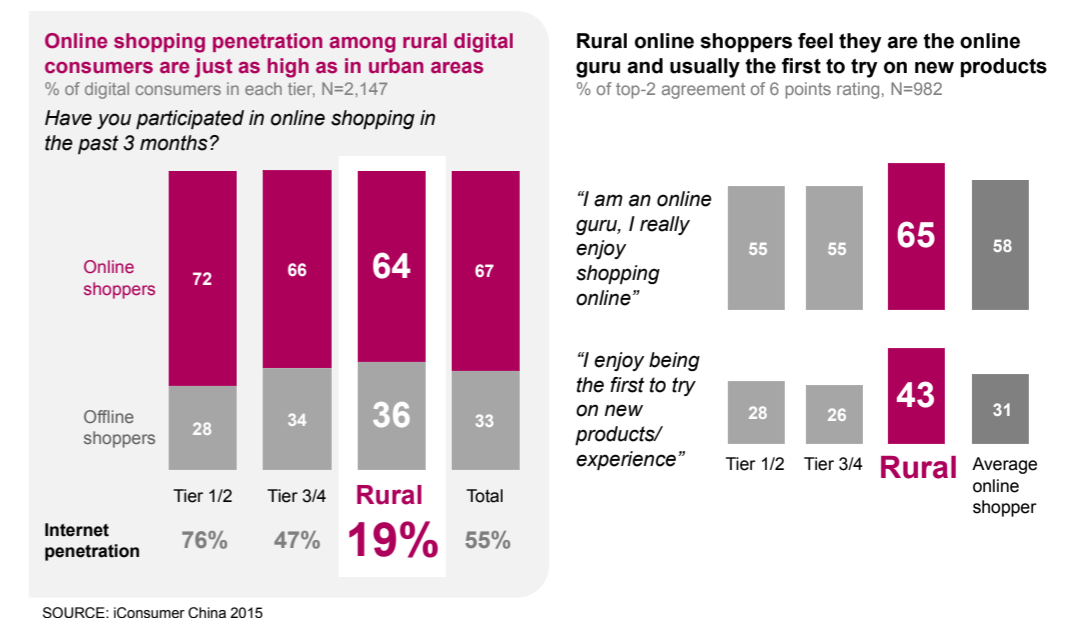SOURCE: iConsumer China 2015

Rural gurus

It is conventional to think of a sharp divide between urban and rural China, but our research showed that despite lower Internet penetration, over 60% of rural digital consumers are e-commerce users, just as active online as their urban counterparts (Exhibit 5). Some of China's leading retailers are moving fast to exploit this trend, creating county-level operations not just to facilitate the transport of goods to rural areas, but also to speed the journey of farm produce to the cities. Not only that, 25% more rural shoppers than tier-1 and tier-2 city dwellers report feeling more 'empowered' and see themselves as 'online gurus' who are eager to be the first to try out new products. Given the famously difficult distribution to lower-tier Chinese cities, marketing to China's rural online gurus could be promising for a wide array of different products, especially for MNCs with less developed local channel relationships. Given that 85% of rural dwellers say they are more likely to use mobile to go online (more so than urban inhabitants), there could be huge upside for brands that can perfect the full loop of the mobile shopping experience—from discovery to delivery—tailored to the conditions and constraint of rural markets.

Exhibit 5

Rural gurus – Despite lower online penetration in rural, online shopping is as popular as other cities, with the added benefit of higher enjoyment

Online shopping penetration among rural digital consumers are just as high as in urban areas
% of digital consumers in each tier, N=2,147

Have you participated in online shopping in the past 3 months?

	Tier 1/2	Tier 3/4	Rural	Total
Online shoppers	72	66	64	67
Offline shoppers	28	34	36	33
Internet penetration	76%	47%	19%	55%

Rural online shoppers feel they are the online guru and usually the first to try on new products
% of top-2 agreement of 6 points rating, N=982

	Tier 1/2	Tier 3/4	Rural	Average online shopper
"I am an online guru, I really enjoy shopping online"	55	55	65	58
"I enjoy being the first to try on new products/ experience"	28	26	43	31

SOURCE: iConsumer China 2015

A hungry digital nation

While Chinese are still more likely to buy apparel online than any other category (66% have done so in the last 3 months), their most frequent online purchases are packaged and fresh food (34 times a year vs. 22 times for apparel, Exhibit 6). 40% of Chinese consumers buy food online, in contrast to just 10% of their US counterparts. Improved delivery time has driven their bi-

weekly food purchases, with 40% of retailers offering same- or next-day delivery, up from only 29% in 2011. While the food currently offered online is mostly of the dry packaged variety, fresh food options are expanding rapidly. Companies like Yihaodian and Yummy77 are already delivering fresh, styrofoam-packaged meat, fruits, and vegetables to Chinese doorsteps in 24 hours, and e-commerce giants like JD are busy building cold chains in large Chinese cities. The way to the Chinese digital consumer's heart appears to be through their stomach, and addressing this important basic-need category will be critical to drive stickiness and frequency to e-commerce sites.

Exhibit 6

A hungry digital nation – most frequent online purchases are packaged and fresh food

What products have you purchased online in the past 3 months?

% of online shoppers
N=3,509

	Purchased in past 3 months	Average number of purchases per year	Average annual spending RMB
Packaged food	**40**	**34**	**1,500**
Games	9	32	360
E-tickets	21	25	1,125
Fresh food	**14**	**24**	**1,080**
Mom & baby products	10	23	2,250
Apparel	66	22	2,700
Household care products	27	19	840
Books & A/V	26	18	630
Skin care & cosmetics	37	18	1,500
Travel products	21	7	3,750
Consumer electronics	29	4	1,875
Small appliances	29	4	525
Insurance	7	2	675
Luxury	3	1	1,250
Large appliances	13	1	1,875

Buying food online is becoming more feasible due to quicker delivery time (~40% are using same/next day delivery), and consumer usage of online food shopping is very high in China (>40% in last 3 months) compared to <10% in the US

SOURCE: iConsumer China 2015

Our iConsumer China 2015 research reveals faster-than-expected growth in Chinese e-commerce markets, with Chinese consumers showing extraordinary flexibility and willingness to embrace innovation. Given the rapid rate of experimentation among China's businesses, and the rapid acceptance of new business models by its people, we believe China will lead the way in defining the next generation of social and mobile commerce experiences. And it may be soon that we see one of China's Internet giants bringing that learning to the global market, as China makes its rapid transition from follower to leader in the world of e-commerce.

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