

China's Digital Retail Shift Has Accelerated in the Past Few Months

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The effects of the coronavirus pandemic are turbocharging digital transformation in China's retail sector—and the country is already leading the world in terms of retail ecommerce sales and penetration.

Man-Chung Cheung, eMarketer research analyst at Insider Intelligence, recently spoke with Mark Tanner, managing director at Shanghai-based marketing and research agency China Skinny, about how retailers have been adapting amid the pandemic and how consumer behavior is changing as a result.

What is the current state of retail in China?

Retailers have mostly reopened, but they're not operating in the same ways they were pre-pandemic.

Over the past few months, many companies have been nimble by leveraging digital channels to drive sales, as well as using miniprograms [lite apps that are accessible via WeChat] and dabbling in social commerce. As a result, companies that have reacted quickly are much better prepared, especially for this new normal in China. They have more diversity in their sales and marketing channels, which gives them new ways to reach customers.

A good example is Bestseller, an independent, privately owned Danish fashion brand. It had been focused on brick-and-mortar and did well in lower-tier cities. Obviously, it wasn't getting traffic to its stores, so the company launched a miniprogram to sell its products. Then, its staff members were told to get out there and push the miniprogram with their networks, friends and families. And while it didn't compensate for a loss in sales, the brand was selling more through its miniprogram than through its physical retail locations during the lowest periods when people were sheltering in place. Now as restrictions begin to lift, Bestseller also has this new retail channel that it never had before.

There will be some retailers that won't get through this. They haven't adapted. And as a result, we'll get the Alibabas and Tencents of the world swooping in and possibly getting some new retail acquisition. They've already been doing it by buying up a lot of physical retailers—but now is a really good time to strike, because they have been impacted less than anyone during the pandemic.

Do you see consumers continuing to choose ecommerce, even after more stores begin to reopen?

Yes, if you look at ecommerce as a whole, growth was flattening out from a user perspective. Millennials were already shopping online, and it was difficult to get older consumers to shop that way.

But with the lockdown, we're seeing people in China who have never bought products online before using ecommerce. If you look at the share of online shoppers, those over age 30 accounted for 49% prior to the outbreak, and by the end of February that figure grew to 60%. Similarly, lower-tier cities accounted for 57% of online shoppers, and that figure went up to 69%. Some of them will go back to their traditional shops, but you'll get some who will say, "Ecommerce isn't bad, we'll keep using it." I think most of them will keep using it for some things.

And we're not just seeing a more diverse set of consumers shopping online; the way they're shopping is also changing. In the past, everyone would go to Alibaba, JD.com or Taobao. Now you have consumers shopping via social networks, and we'll continue to see a real spike in social commerce.

Speaking of social, more brands are leveraging the live streaming aspects of social platforms. Is it just a current fad, or does it have legs?

It was a bit of a fad back in 2016, and then in the past 12 to 18 months it boomed again. Within the first month of the lockdown, there was a 719% increase in brands using live streaming, and a 35% increase in the audience. It's not just about sales, it's more of an engagement tool.

Contactless delivery has also accelerated over the past few weeks. Do you think that will continue?

There are a lot of people banking on contactless delivery, such as using self-driving vehicles and drones. The Shanghai government recently launched its 2021-2022 strategy in which contactless delivery is an important component.

I'm in two minds about that. Obviously, in the short term, people are going to be concerned about touching and coming in contact with delivery people, as they have been over the past couple of months. But it's not only about that. Contactless delivery is much more efficient for deliveries—it'll help bring down the costs, which were increasing to a point of being less sustainable.

What type of long-term shift in consumption habits will come out of COVID-19?

Greater emphasis on health and well-being is a big one. I also think it'll be a long time before people start going out in the way they did prior. People will be doing more at home, including entertaining, improving their living spaces and consuming media.