

How Chinese Retailers Are Reinventing the Customer Journey

Five lessons for Western companies

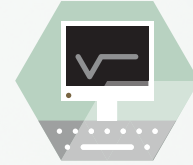
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China is both a large and a fast-growing retail market—worth about \$5 trillion in 2020—and highly digitized.

Given that the pandemic has made digital every retailer's strategic priority, it's not hard to see why the *Economist* opened 2021 with a cover story headlined "Why Retailers Everywhere Should Look to China."

In China online sales have grown about 25% in each of the past seven years and reached about \$1.9 trillion in 2020, when they amounted to some 25% to 50% of total retail (compared with 10% to 20% in the United States). More than 90% of those sales are on mobile devices, compared with less than 50% in the United States. So it should be no surprise that Chinese companies and individuals have led the way in developing video retail, social commerce, community retail, retail-as-a-service, and many other new digital channels, including the super app, which provides an all-in-one experience for consumers by accessing various services and offerings.

Who are these leaders?

There's Douyin—known in the West as TikTok—which started as an entertainment app for sharing short videos and soon discovered that many users were commenting on popular videos by creating their own versions. Douyin encouraged participation by welcoming content creators, who often featured their favorite products and clothing styles, making the app a marketing tool. China's livestreaming market has

reached \$16.3 billion and is now integral to how people shop—which is why Walmart invested in Douyin.

Pinduoduo, the largest agriculture-focused platform in China, was founded in 2015 and is currently worth \$175 billion. Sometimes described as "Groupon on steroids," it has gamified the shopping process, enabling groups to haggle with merchants, often via WeChat.

Then there's Li Jiaqi, a 28-year-old influencer who pioneered digital cosmetics retailing and is known as the Lipstick King. He boasts more than 7 million followers on Weibo and close to 40 million on Douyin. He once sold 15,000 lipsticks in just five minutes and tried on 380 lipsticks in a seven-hour livestreaming show. Li Jiaqi is the only male key opinion leader (KOL) for cosmetics and the best salesperson for beauty products in China. A former beauty adviser at L'Oréal, he has phenomenal influence: His recommendations can make or break a product launch. He demonstrates and recommends the products of multiple companies and is paid according to the sales he generates.

These innovators owe much of their success to the massive ecosystems of Alibaba, JD.com, Tencent, and, increasingly, Pinduoduo, ByteDance, and Meituan, which serve as key touchpoints for consumers. They attract Chinese retailers and international brands by leveraging ever more data in innovations such as Alibaba's Tmall Smart Selection (a product recommendation algorithm) and Meituan's highly sophisticated logistics routing algorithm. As Tencent's founder, Pony Ma, put it in an internal presentation in early 2020, "The era of smart retailing ignited by 'super connectivity' just kicked off." (That said, China's government is taking a harder line with its biggest online enterprises. In late 2020 it blocked the IPO of Ant Group, a fintech company spun out of Alibaba, at the last minute. Alibaba was also fined some \$2.8 billion in April 2021 under the PRC's antitrust law.)

Retailers in Europe and the United States don't have access to such integrated ecosystems, but they can still usefully borrow from China's innovators. To identify how, we studied 25 Chinese digital retail companies, including the giants Alibaba, JD.com, Meituan, and Tencent; the emerging platforms ByteDance, Pinduoduo, and Ele.me; and successful brands such as Peacebird, Forest Cabin, Babytree, Soufeiya, and Xtep. In addition, our research benefited greatly from discussions with dozens of executives from



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Western companies, including Amazon, Apple, Daimler, Luxottica, Nestlé, Nike, PayPal, Philips, Siemens, Starbucks, and Walmart, along with Japan's Sogo & Seibu (department stores) and Russia's X5 Retail Group (a leading food retailer).

In this article we draw on that research to explain five lessons that Western companies can learn from China as they develop their own digital market offerings.

1 CREATE SINGLE ENTRY POINTS

A single point online where customers can access all their potential purchases is the holy grail for retailers. China's digital giants have come close to achieving it by creating commerce ecosystems, general platforms offering portals for independent brands, and proactive automated product recommendations.

Ecosystems. For most digital retail consumers in China the first port of call is Taobao (Alibaba's mobile C2C portal) or Alipay, both of which give access to Alibaba's full ecosystem. Alipay, which is on almost every smartphone in China, integrates the platforms and service offerings of companies in Alibaba's huge retail network, enabling consumers to pay for any product or service they may find there, from Nike shoes to wealth management. Tencent's WeChat Pay provides similar benefits. Although users may not go online intending to make a transaction, WeChat Pay's deep integration with external platforms and specific brands means that they often end up doing just that. WeChat has pioneered a concept that allows any brand to develop dedicated but simple subapplications within the WeChat ecosystem. These typically fulfill functions such as e-commerce, coupons, and

task management and are searchable on WeChat's home page. After the initial success of this innovation, most other super apps adopted it.

General platforms. In China's B2C e-commerce market, the world's largest, most independent retailers access customers through platforms provided by Tmall, which accounted for 64% of China's total B2C e-commerce market in 2020, and by JD.com (26%). But players such as VIP.com, Xiaohongshu (RED), and Ymatou are increasingly winning share with specialized platforms: Ymatou focuses on cross-border commerce in high-quality branded products, and RED, often dubbed a lifestyle sharing platform, targets Generation Z and combines social media and e-commerce. China's increasingly sophisticated digital consumers go to these sites for information and to access a community of like-minded customers.

Proactive product recommendations. Digital has shifted power relationships in retail. Recommendation algorithms, livestreaming by KOLs, and "native" (embedded online) e-commerce stores in TikTok have changed the traditional dynamic whereby a purchase begins with the customer's search for a product. For instance, Tmall Smart Selection uses an AI-powered algorithm backed by deep learning and natural language processing to recommend products to shoppers; it then communicates consumer interest to retailers so that they can increase inventory to keep up with demand. That kind of functionality reflects the growing power of retailers relative to manufacturers.

Chinese retailers go further than Amazon does in aggressively leveraging partners and third-party providers (including for logistics, which Amazon mostly manages

IDEA IN BRIEF

THE CHALLENGE

Retailers in Europe and the United States are far behind China in digital retail.

WHY IT EXISTS

China's large and fast-growing market not only is highly digitized but also takes advantage of the massive ecosystems of Alibaba, Tencent, and others.

THE SOLUTION

To catch up, Western retailers can take five lessons from the Chinese experience: Create single entry points, embed digital evaluation in the customer journey, don't think of sales as isolated events, rethink the logistical fundamentals, and always stay close to the customer.



itself), rather than building in-house capabilities. The result is that Chinese retailers are already profitably offering at scale most of Amazon's newer, not yet scaled-up offerings, such as health care, insurance, online groceries, smart home devices, and fashion.

Options for the West. The main challenge for established Western retailers is to get closer to where the consumer is online rather than direct digital traffic to where products can be purchased. To be sure, this is simpler in China because of its less-stringent data privacy rules. But Western companies could do more with the data available to them—for example, by using blockchain to guarantee privacy.

Companies in Europe, given their experience with the EU's tight General Data Protection Regulation, are well-placed to build an early advantage. The Otto Group, in Germany, is a case in point. A catalog retailer for decades, it initially struggled with the arrival in 2008 of Amazon and Zalando, a German online shoe and fashion company. But Otto made early moves into digital solutions, in particular leveraging ventures such as Risk Ident (fraud prevention)

and Picalike (visual search) to build a platform with thousands of partners. Its online revenue for the fiscal year ending in February 2021 reached \$17.8 billion.

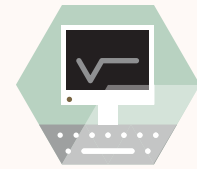
Another example is Lydia, an emerging financial-services super app from France, which offers peer-to-peer payment, flexible subaccounts, virtual cards for Apple Pay and Google Pay, and many other functions typically associated with Chinese super apps. To be sure, Europe and the United States have always had well-developed credit card services. But the real potential of super apps is not that they can replace credit cards or cash; it is that they provide a single entry point for consumers, incorporating financial services (lending, investment, insurance); e-commerce; goods delivery and tracking; ticketing for movies, live shows, airplanes, and trains; health care services (hospital reservations, medical consultations, pharmacies); taxi hailing; bike sharing; and a wide range of government functions, including taxation.

The same potential exists in Europe and the United States. Beyond privacy, we see few economic, political, or social barriers to one-stop solutions in the West. The cost to



ABOUT THE ART

Inspired by the booming popularity of online sales, Huang Qingjun asked people from across China to assemble everything they've ever bought online.



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establish comprehensive platforms is relatively low, so new entrants will seize the opportunity if incumbents don't.

2 EMBED DIGITAL EVALUATION IN THE CUSTOMER JOURNEY

A key challenge for retailers is ensuring that consumers can efficiently and effectively evaluate their products in a transparent and unbiased way. With its strong emphasis on influencers and social media, Chinese retail evaluation is highly sophisticated and provides content much richer than what is available in the West.

Customer reviews. Simple scoring or comments on TripAdvisor and Amazon are no longer the standard for Chinese consumers, who provide thousands of detailed comments about products, brands, and shops on JD.com, Tmall, and Taobao, often with photos or videos attached.

Influencers. In the United States people follow key influencers such as Taylor Swift and Kylie Jenner primarily on Instagram, whereas China's opinion leaders have a presence on Weibo, WeChat, TikTok, and other platforms. A common criticism directed at Chinese influencers is that many of them are sponsored—but their neutrality isn't highly valued in Chinese culture. The relationship of an influencer and a consumer is that of a celebrity and a fan, and consumers often consult several influencers before making a decision.

Video livestreaming. Chinese consumers also frequently consult livestreamers, who consist of three main types: CEOs such as Dong Mingzhu of the appliance manufacturer Gree Electric and Li Bin of the electric car company NIO; movie actors and musical artists such as Li Xiaolu and Liu Tao; and professional sellers such as Li Jiaqi, who sold products worth \$145 million on Singles' Day in 2019, and Viya, known as the number one "sister" of Taobao Live.

Independent platforms. In reaching a purchasing decision, Chinese consumers rely far more on independent knowledge platforms such as Zhihu and Zhishi Xingqiu (which are similar to Wikipedia and Quora) than do Western consumers, who might consult *Consumer Reports* for high-value products.

Options for the West. As Chinese consumers have become more-sophisticated users of tech products, they've started consulting multiple data sources. Western companies

need to establish a presence on all the channels where consumers evaluate products—particularly video-based social media. That way they can overcome mistrust of promotional messaging and positive reviews on company sites. Currently the most popular livestreaming in the West runs on gaming platforms such as Twitch, whose tie-in with Amazon makes it a platform for influencer sales. Meanwhile, NTWRK, a mobile-first video shopping platform, features limited-edition products of brands such as Adidas, Guess, and Vans. On its platform the video game company Rooster Teeth and other popular influencers drive sales through product collaborations. Other Western retailers might consider this approach.

3 DON'T THINK OF SALES AS ISOLATED EVENTS

Providing a seamless experience when and where the consumer chooses can radically increase the chances of purchase. In the digital realm China has achieved this in three ways.

Deeply integrated online and off-line sales channels. At Alibaba's Hema Fresh supermarket, for example, consumers can make purchases while sitting at home, on the way to the market, or in the store. They might have fresh food delivered or decide to pick it up while shopping for other products. After JD.com invested in the supermarket chain Yonghui, in 2015, it connected Yonghui's off-line supermarkets to the JD Daojia ("JD to Home") application, which was launched that year in collaboration with Dada, a local on-demand delivery company. (The two merged the following year.) This level of integration brings big advantages. For instance, when the billion-dollar fashion retailer Peacebird closed down its brick-and-mortar stores during the pandemic, it could quickly pivot to online selling, because its sales system no longer differentiated between online and off-line.

Continuous purchasing opportunities. In China a purchase can be made at almost any point in an individual's entire online experience. A consumer might buy directly from an official WeChat account while chatting with friends or in one of WeChat's "mini program malls" or Alipay's mini program for a brand that has advertised in a friend's circle or been recommended in an alumni group. Entertainment and



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A same-city order with a retail chain takes less than half a day to arrive in a large urban center like Shanghai.

shopping are fully integrated as well. A Chinese consumer watching a TikTok video can click on clothes she likes and end up in a native store. Or she might follow a friend's recommendation on WeChat to buy a product at a discount via Pinduoduo.

AI-enabled interfaces. AI-powered chatbots such as Dianxiaomi, which can understand more than 90% of customers' queries, are widely used in China; they did most of the talking during its "Singles' Day" on November 11, 2020, when Alibaba's online transactions exceeded \$74 billion. After-sales service, in terms of delivery, returns, and warranty, was conducted primarily online. According to recent statistics, 94% of online service at Alibaba is AI-enabled, and it earns customer satisfaction ratings 3% higher than service delivered by staffers.

Options for the West. Legacy businesses that are embracing digital approaches need to cut across the silos of online and off-line selling that have been traditional in the West. Even General Motors, the granddaddy of off-line manufacturing, now has more than 100 social media channels. Walmart, the archetypal bricks-and-mortar retailer, announced in February 2020 that it would combine its store and online buying teams in one omnichannel merchandising group. As Zeina Belouizdad, Google's omnichannel product lead for Europe, the Middle East, and Africa, said in late 2018, "We are living in an omnichannel world. Nothing is linear anymore." Consumers don't distinguish between off-line and online, and it is only for legacy reasons that the distinction still exists. Executives outside China should therefore consider aligning and centralizing their sales systems as part of digital transformation efforts.

The United States and large parts of Europe have digital platforms and promising new ventures that could facilitate such integration. Global retailers could potentially enhance their existing digital solutions by partnering with those businesses. For example, in the Netherlands, one of the largest European e-commerce markets, Jumbo supermarkets and the seafood retailer Schmidt Zeevis are taking advantage of the online supermarket Picnic. Consumers can choose where to buy their products and when, with smooth home delivery or in-store pickup options.

Although France's super app Lydia and other new ventures are promising, companies need to do much more to

broaden purchase options. In China, QR code payment and facial recognition scans are now common on Alipay, WeChat Pay, and many other payment apps. In Europe, however, most retailers use contactless card payment or require payments to go directly through a bank app.

4 RETHINK THE LOGISTICAL FUNDAMENTALS

China combines old-fashioned methods and high-tech software to deliver faster and at lower cost than almost any Western retailer can. A same-city order with a retail chain takes less than half a day to arrive in a large urban center like Shanghai, while local supermarkets can usually deliver orders in under 60 minutes. This speed is due primarily to large-scale, born-digital logistics integrators like Cainiao. A smart network, Cainiao leverages independently owned hardware and infrastructure such as warehouses and delivery vans and optimizes them across the country. These operations have several key features.

Gig workers. Last mile or local delivery to a customer's door, which is usually expensive, is a major challenge. In China this link in the supply chain is supplied by migrant workers (from the provinces) on bicycles or electric scooters. They are typically employed on a piecework basis by third-party logistics companies such as Meituan, which serves small grocers and restaurants, or by large online-off-line chains such as Hema Fresh. These workers constitute a large and cheap labor pool that few other countries can match.

Sophisticated routing technology. They may be riding bikes, but the workers are guided by routing software that speedily provides a large quantity of information. Once an order is placed, a middleware system subtracts it from the inventory, puts the information into the company's CRM system, chooses the nearest outlet for fast delivery, and alerts the nearest delivery worker. The delivery worker's app will even specify which stairs to take inside a building to get to the right floor, as instructions are passed on by the customer. As a result, delivery in China is extremely fast. Such efficiency enables workers to earn a good living, while employers can track each employee's contribution.

Free to the customer. The scale effects and highly efficient logistical operations keep delivery costs so low that most merchants can afford to cover them completely.



(Fresh-food delivery is an exception: It costs six times as much as regular delivery in China.) If a purchase exceeds a certain amount (typically \$15), or if a customer has brand membership through a loyalty program or for a token enrollment price, he or she can enjoy free delivery with speed.

Options for the West. Again, Western companies do not have access to an equivalent workforce, and navigating urban layouts can be challenging (imagine bike deliveries in Los Angeles). What's more, stricter labor regulation may make it harder to rely on gig workers. (That can be overcome, as evidenced by California's passage in November 2020 of Proposition 22, which preserved the nonemployee status of ride-share drivers.)

Companies will have to compensate by leaning more into tech. Many could digitize the back-end supply chain by deploying cloud-based warehouse management systems that are integrated across stores, enabling faster and more-flexible delivery services. Big data analytics will also contribute—subject to privacy constraints. In time, technology may even make it possible to take labor out of the equation, as autonomous vehicles and drones become feasible for

physical delivery. For example, Ericsson, Einride, and Telia have partnered to launch 5G-powered driverless and environmentally friendly trucks. Nuro, a self-driving delivery start-up, is teaming up with Domino's, Walmart, and CVS. And in the field of logistics competitors are working together to build huge data pools that will enable faster, better predictive analytics—as seen in the partnership of the rival vehicle telematics companies Geotab and Webfleet Solutions.

5 ALWAYS STAY CLOSE TO THE CUSTOMER

In China customer loyalty in digital retailing is generated in large part by extraordinarily high levels of after-sales engagement by companies and loyalty programs that are integrated into both e-commerce channels and social media. Companies also work with influencers and cultivate fan communities of their own.

Radical engagement. Chinese retailers truly treat the customer as royalty. Most online shops allow free returns with no explanation within seven days of a purchase (excluding fresh produce). Customers may choose a convenient



pickup time for their returned products. Retailers offer instantaneous personal assistance via chatbots. Free hotline support is readily available, often 24/7. For products that require on-site services (such as installation), customers may choose days and precise time slots. These services are often supplied by local shops that carry the brand. For example, the wooden-door producer Tata Pravesh treats its traditional distributors as after-sale service providers for customers purchasing from the online store. The distributors get the same financial return they would if the products had been sold in their off-line shops.

Integration across entry points. Customers have as many touchpoints with loyalty programs as they do with brands. Coupons and digital red envelopes (traditionally exchanged by relatives and friends during celebrations) are daily offerings on large platforms such as Taobao, Tmall, JD.com, and Meituan (for restaurant food order and delivery). Online shops offer deep discounts every day during certain hours to attract return customers and discounts for customers who make successful recommendations to

friends on social media. Loyalty programs are integrated across all digital channels.

Influencer relationships. As noted, the Chinese rely heavily on key opinion leaders' recommendations; in many cases KOLs command more loyalty than the brands they recommend. Chinese retailers piggyback on that relationship by cooperating with these KOLs, who often become associated with a particular brand. Some KOLs cut across product categories, representing brands for each. For example, Viya sells everything from makeup and shoes to rice and even houses. She sold goods worth \$4.5 billion in 2020 with a team of just 500 people.

Fan marketing. The home electronics company Xiaomi has created a huge base of loyal users who help promote the brand. Its fans will buy anything Xiaomi sells. Now the company has its own online ecosystem, having partnered with more than 300 producers to sell their products to its fans under the Xiaomi brand. On April 1, 2021, Xiaomi announced that it would invest \$10 billion over the next 10 years to produce smart electric cars. The company has sharpened its




industrial and project design capabilities to give products under its brand name a similar look and feel at an affordable price. This type of fan economy is steadily growing in China.

Options for the West. Western companies should leverage digital platforms to offer loyalty rewards more often, more explicitly, and in more places. They can also use their various channel partners to improve delivery and service. And continuous tech-enabled tracking of service delivery processes and customer engagement will motivate sales agents and other employees to attend to customers' needs.

In other aspects of customer engagement, Western retailers are not so far behind. The U.S. exercise equipment company Peloton's creation of an online community of users has been a major driver of its success and a source of innovative ideas. And at least one fast-fashion retailer, Shein, based in the United States but founded in China in 2008, uses influencers as its main channel to customers. It is hugely successful with this approach, generating multibillion-dollar revenues and challenging even Zara, the longtime leader in the sector.

WESTERN RETAILERS LAG their Chinese counterparts in leveraging customer data to make better business decisions, increase operational efficiency, and reduce costs. They need to integrate that data with off-line businesses so that customers are visible, identifiable, and traceable both online and off-line. Retailers need to establish contact with customers online through multiple touchpoints, including social media ecosystems, to increase their stickiness, loyalty, and activity. Digital retailing is an organizational transformation in the making. A famous Chinese saying has it that "a journey of a thousand miles begins with a single step." The new customer journey begins with many steps. ©

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