

# South China Morning Post 南華早報

---

Chinese digital economy is remaking the world of commerce

PUBLISHED : Monday, 08 December, 2014, 6:00pm

UPDATED : Monday, 08 December, 2014, 6:00pm

Comment > Insight & Opinion

**Edward Tse and Matthias Hendrichs**

*Edward Tse and Matthias Hendrichs say the changing shape of the fast-growing Chinese digital economy is rewriting business rules and regulations not just in China but worldwide*

Singles Day (or Double 11 Day) was created in the 1990s in China to celebrate being single. A few years ago, Alibaba turned it into an online shopping event with heavily discounted goods. This year, total purchases on Alibaba's connected platforms, such as Taobao and Tmall, came to 57.1 billion yuan (HK\$72 billion), a 58 per cent increase from 2013 and estimated to be about three times as high as US online sales over the Thanksgiving weekend.

These online sales are further proof of China's fast-developing digital economy. There are now some 640 million Chinese netizens, including 530 million mobile internet users. A whole new class of internet companies has emerged. Four of the world's 10 largest internet companies have their headquarters in China. These are not copycats of Western business models. Instead, they have created their own business models in the Chinese context and are innovative in their own ways.

There are several noteworthy trends of China's digital economy.

First, many leading digital companies have enjoyed exponential growth. Xiaomi, the Chinese smartphone company, has risen from nowhere less than four years ago to top the charts. It is now the world's third-largest smartphone company in terms of output. The company is reportedly valued at US\$40 billion, a leap from last year's US\$10 billion.

Global users of Tencent's WeChat, the popular messaging platform, now number 468 million, a huge rise from the base of 50 million at the end of its first year in 2011. China's taxi app market, with market leaders Alibaba's Kuaidi and Tencent's Didi Dache, has 154 million users after less than two years.

Second, penetration of e-commerce is increasing not only in top-tier cities, but even more so in lower-tier cities and rural areas where e-commerce often leapfrogs the traditional ways of doing business. In 2012, rural users on Alibaba's Taobao platform accounted for only 7.1 per cent of total shopping spending; by the first quarter of this year, that has increased to 9.1 per cent, with estimated total online purchases from rural users reaching 180 billion yuan this year.

Moreover, rural users are also engaging as sellers. In a village of 490 families in Jieyang, Guangdong, for example, almost everyone has opened an online business. Online sales, especially during Singles Day, are very attractive and have become a better and more entrepreneurial option to these families than becoming migrant workers.

Third, mobile purchases are outperforming more conventional forms of e-commerce, such as transactions via computers. Some 43 per cent of Alibaba's Singles Day sales this year came from customers using mobile devices. Overall, the total transaction value of mobile shopping was 230.96 billion yuan in the third quarter of this year, which constitutes a third of all online shopping.

An important enabler for mobile commerce is mobile payment solutions. Unlike in the West, credit cards are not the preferred method of payment in China. Alipay, a subsidiary of Alibaba and the world's largest online payment platform with 190 million mobile users, has made its way into everyday life. Besides being the de facto standard currency for online shopping, its services include money transfers, levy-free bill payments (for utilities, phone and credit cards), the purchase of bus and train tickets (even outside China) and checking bank balances.

China's second-largest payment platform is Tenpay (owned by Tencent). In its current form, it offers similar services to Alipay, but its origins are in social media; it grew out of its sister app WeChat.

In the beginning, Chinese digital businesses arose from the need to build a home-grown alternative to often-blocked Western apps and platforms, alongside the desire to cater to a truly Chinese audience with different needs and behaviour. Although the domestic market is still the priority, global expansion is taking place quickly. Sales on Singles Day this year came from 217 countries and regions, compared with 130 last year.

Xiaomi is quickly expanding internationally; India is its second-largest market. WeChat is growing quickly outside China, competing with its rival WhatsApp. The number of WeChat's active international users had already surpassed the 100 million mark by the end of 2013.

These trends have serious implications. Demand patterns and purchasing behaviour in China are fundamentally changing. Traditional retail sales are growing at a low single-digit rate, at best, while online sales across almost all product categories are performing much better.

Investments in recent years in bricks-and-mortar stores, malls and retail infrastructure are becoming a burden for brand owners, retailers and real estate developers. The productivity of these assets is dropping as more and more consumers seek the convenience, better pricing and more tailored services offered online.

A significant change in companies' business models is taking place as a result. Industry veterans are being challenged by start-ups or internet companies. Access to consumers is no longer shielded by high entry barriers. More often than not, online market share is not dominated by traditional companies but rather by new players with innovative business models.

In response, traditional retailers have come up with a new concept called O2O (online to offline). They use their stores as showrooms for potential customers but transactions are handled online and delivery is from the store's warehouse to consumers. Of course, this model can also work the other way around, when online platforms drive business to bricks-and-mortar stores and restaurants. Across many industries, digital is causing a fundamental redefinition of boundaries and value chains.

New ecosystems are being formed, with companies having to consider both competition and

collaboration at the same time. Against this backdrop, innovation is happening all over China.

Many companies are asking themselves: How should we adjust our strategy, business models and organisational structure? What kind of culture and mindset do we need to build? The answers are not trivial. And the changes required for success can be daunting.

Such disruptions will eliminate players who are too slow or unable to adapt. In many cases, they will also challenge current regulations and government policies. The digital economy is thriving and changing not only the business landscape in China but increasingly in the rest of the world.

**Edward Tse is founder & CEO, and Matthias Hendrichs is managing director, of Gao Feng Advisory Company, a global strategy and management consulting firm with roots in Greater China**

---

**Source URL:** <http://www.scmp.com/comment/insight-opinion/article/1657403/chinese-digital-economy-remaking-world-commerce>