



# CHINA BLENDS ONLINE AND OFFLINE RETAIL WORLDS

ALLIANCES BETWEEN DIGITAL  
AND TRADITIONAL STORES AIM  
TO EXPAND ONLINE COMMERCE  
TO NEW AREAS



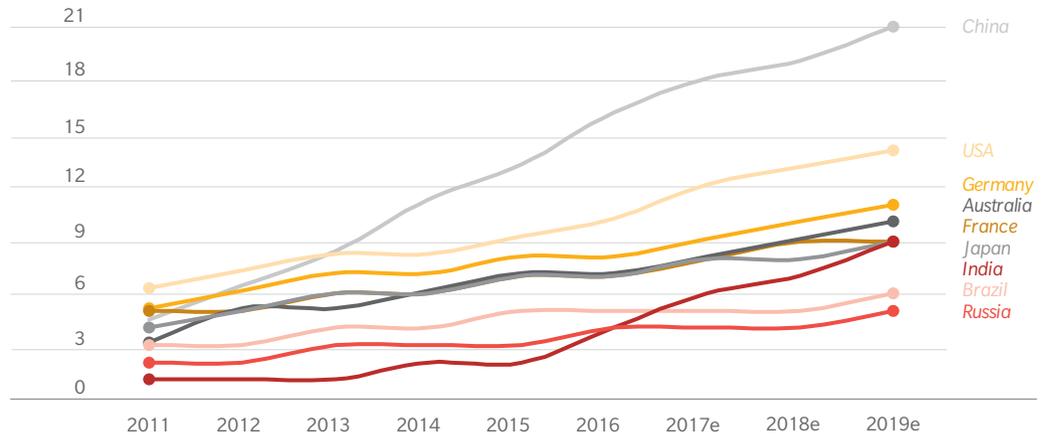
E-commerce has grown faster in China than in any other large market in the world. The growing middle class is boosting retail demand, but traditional stores are underdeveloped. To fill the gap, online retailers have made big investments in delivery infrastructure and e-payments, which are being taken up by a digitally advanced population. As a result, Chinese online retail sales shot up from 800 billion renminbi in 2011 to 5.2 trillion in 2016.

Now, Chinese retailers are trying out ways to break down some of the remaining barriers to digital shopping. Chinese consumers have been reluctant to buy certain items – in particular, fresh food – before they have seen them with their own eyes. So e-commerce players are setting up stores as showrooms and entertainment centers. Shoppers can check out the wares while researching them online, and then order via smartphone for quick home delivery. In sparsely populated rural areas, e-tailers have struggled to turn a profit on home delivery, but they are now opening efficient networks of convenience stores to solve the “last mile” problem.

### Exhibit 1: Comparison of the share of e-commerce retail of total retail

Development of China's e-commerce retail has significantly outpaced other markets

PERCENTAGE OF E-COMMERCE RETAIL SALES OF TOTAL RETAIL SALES, 2011–2019E



Source: National Bureau of Statistics of China, iResearch, Euromonitor, Oliver Wyman modelling, Oliver Wyman analysis

A range of new models is emerging as a result, and China even has a term for this new trend: O2O, Online to Offline. Physical retailers need the tools of e-commerce, and are obtaining them by partnering with an e-commerce player. E-commerce players – of which two, Alibaba and JD, dominate – are realizing the limits of a purely online model in some segments, and are establishing a physical presence close to consumers. This will also let them fight their way into traditional retail.

## SHOWING OFF THE PRODUCTS

One prominent example of the new model was the pop-up showrooms set up for China's most recent Singles' Day – an annual shopping festival that has become the world's biggest single shopping day with nearly \$50 billion in sales. Young, single Chinese looking to buy themselves presents on November 11 in 2017 could visit one of 60 pop-up showrooms in malls round the country. There, they could browse furnishings in a model house divided into kitchen, study, bedroom, bathroom, and living room. Or they could try on 10 different outfits in two minutes through virtual fitting using augmented reality. They could look up information on the products on their smartphones via QR codes – and then click to buy them for home delivery.

Alibaba plans to expand the model, and has invested over \$9 billion in brick-and-mortar stores since 2015, most recently taking a 36-percent stake in China's top hypermarket operator, Sun Art Retail Group. Counting all its retailer investments, Alibaba is now the largest offline

retailer in China as well as the largest online. Rival JD.com is also bridging online and offline by opening over 5,000 online-to-offline home appliance stores through franchising. Consumers can check sample machines and place an order on JD.com by scanning a dedicated QR code in store. JD will then arrange home delivery and provide after-sales service.

## CRACKING FRESH

Showrooming might also help crack one of the hardest areas for online retail: fresh food. Customers like to see, feel, and smell it before buying, which is not possible online. Another challenge is delivery speed. An average Chinese household makes five shopping trips a week to buy fresh products to cook and eat that day. But online shopping sites for electronics and apparel normally deliver food too late.

Alibaba's Hema supermarkets get around these problems. They have the appearance of regular supermarkets with plenty of fresh food on display. But they operate quite differently. Aimed at young, digitally savvy consumers, they let customers read product information via barcodes and order online for home delivery inside 30 minutes. Alibaba is said to be planning a major rollout of these Hema stores, which could change the way inhabitants of larger cities buy fresh food.

JD.com has launched its own variation on the online-to-offline theme. Local grocers can sign up to a network it runs – JD New Dada – so that consumers can order fresh products from them via an app. One of these partners is supermarket chain Yonghui, which is known for high-quality fresh products and is now getting several hundred additional orders a day via the app. Other partnerships include one between JD and Walmart to deliver all products available in Walmart stores through JD New Dada, and to install JD kiosks for order and delivery in Walmart stores.

The e-commerce giants are also moving in on the convenience store sector. JD.com has announced ambitious plans to open 1 million by 2021, primarily in smaller cities using a franchise model. It will supply the stores through the JD.com wholesale platform, which already serves hundreds of thousands of independent shops. The arrangement will increase JD.com's scale, making its logistics network more efficient and helping it to negotiate favorable terms with suppliers. Alibaba, too, has launched its own convenience stores and wholesale platform.

These developments are all reactions to local circumstances: China's lack of great incumbent supermarkets, big online population, and densely populated cities. But many of the challenges are familiar everywhere: Online retailers worldwide are struggling to increase their share of the food market and provide as much fun as a store can. If Chinese retailers manage to construct a compelling model combining the best of online and offline experiences, retailers in the rest of the world might be interested to see how they do it.