

New Retail in China: Promise, Progress and Pitfalls

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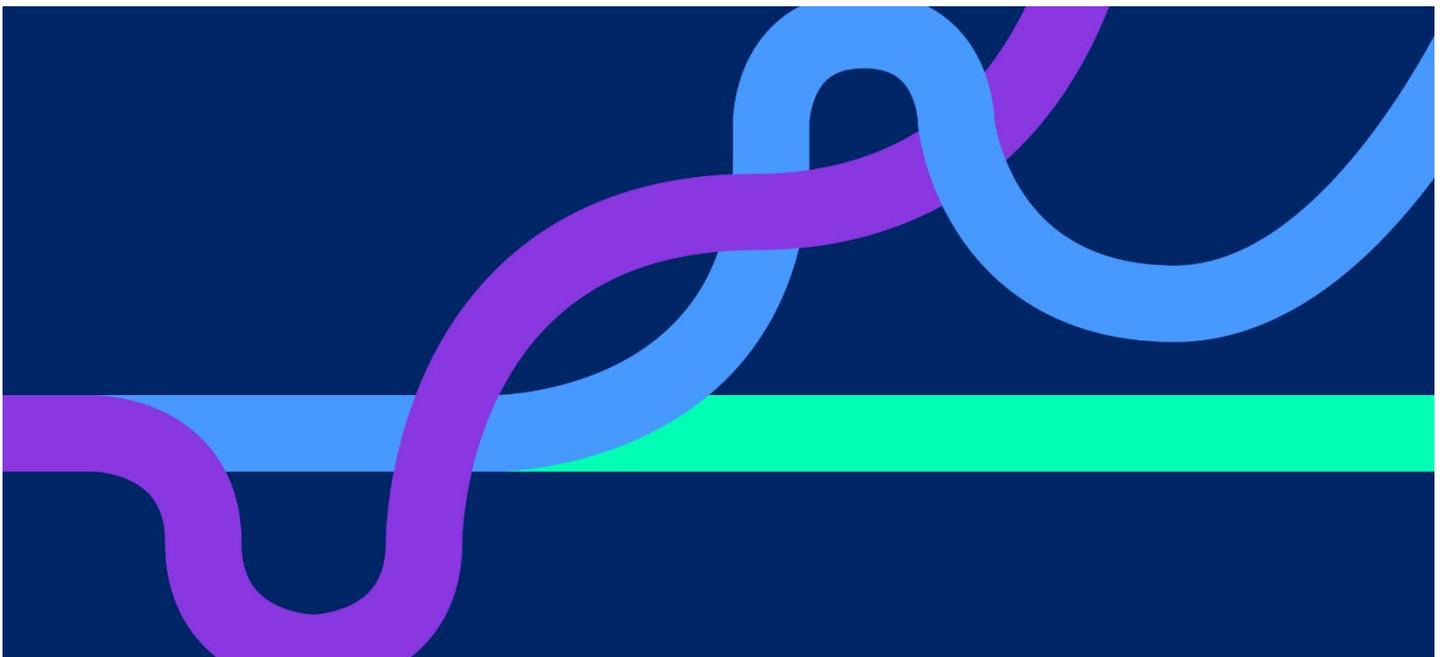
New Retail — or business models that converge digital and offline experiences — has blossomed in China. The advances of Chinese companies compared to Amazon Go, a supermarket that basically offers “click and collect” convenience, are impressive.

The country's progress is driven by factors unique to China, ranging from its ability to harness data to the psychological and emotional drivers of the Chinese people.

Promise: The integration of online, offline, logistics and data across a single value chain

China's "New Retail" movement kicked off in 2016 when e-commerce king and Alibaba CEO Jack Ma made the following declaration: "Pure e-commerce will be reduced to a traditional business and replaced by the concept of New Retail—the integration of online, offline, logistics and data across a single value chain." This phenomenon, he predicted, would result in greater experience-focused customer engagement—on both community and individual levels—by leveraging data technology.

New Retail is not only about having an immersive experience with a brand. For example, L'Oreal's "magic mirror" that allows women to virtually try on different types of makeup by simply looking at the screen, eventually choosing the lipstick or blush that suits them. While unique, this experience is designed to deepen consumer relationships and expand the lifetime customer value. Brands that effectively deploy new retail strategies thanks to their unique understanding of consumer desires, personalized offers and services, regardless of location, on- or offline will capture incremental and exponential revenues.



The China Context

One word describes the development of New Retail in China: fast.

Hybrid “online plus offline” (O+O) players ranging from Hema supermarkets to Red (Xiao Hong Shu) didn’t exist five years ago.

Growth has been fueled by several factors:

ECONOMIC:

The economy has galloped apace for over 40 years, resulting in a scaled middle class. By 2022, the country, already the world’s largest (if GDP is measured by purchase parity power, or PPP), with more than 60% of Chinese making up the middle class. These consumers are insatiable, accounting for almost 40% of global luxury sales.

GENERATIONAL:

The digitally-native, Post-90s generation leapfrogged from desktops to mobile phones, devices most often used for shopping. According to CNBC, in 2017 97.5% of the Post-90s connected to the Internet with their phones. This compares to only 35.8% with a laptop. The new generation is also driving the growth of the country’s digital economy. iResearch, a consulting firm that supplies online business services in China, reports that ten percent of Post- 90s purchase online every day.

This generation is also driving the online/offline convergence. As digital natives, they have long-formed a habit of making transactions online, while keeping offline shopping an exploratory experience. What is different this time is that the bar is set much higher for offline shops, as they are now facing a generation who grew up in a digital environment that is always “on” and with constant stimulus.

GOVERNMENTAL:

Due to the central government’s long-standing practice of “managed competition,” China’s digital ecosystems are highly centralized and integrated.

Alibaba, for example, provides consumer-to-consumer (C2C), business-to-consumer (B2C), and business-to-business (B2B) sales services via web portals, as well as virtual payments (Alipay), electronic services, shopping search engines and cloud computing services. The corporate behemoth is capable of knowing where you are, what you want and when you want it.

PSYCHOLOGICAL:

Most fundamentally, New Retail is charged with emotion. Consumers use new technology, inherently personalized and experiential, as a means of identity affirmation. Due to digital connectivity, the rise of social platforms as well as increased income, the world view of Chinese shoppers has expanded. People want to show the world they are in touch with the latest trends and new lifestyle choices.

Practically all e-commerce sites double as social media platforms. “Experience display” generates something even more coveted: “social currency,” the timeless means of advancement in competitive, Confucian China.

Progress: From Convenience to Inspiration

Shopping experience is enhanced by the integration of online and offline technology. However, payoffs vary. Some are utilitarian while others also have deep emotional resonance.

In the future, we expect many of these brands to perform well on Prophet's Brand Relevance Index™ (BRI) which measures the role brands play in Chinese consumers' lives. Our belief is simple: in order both sustain a price premium and fuel future growth, brands must deepen relationships with consumers over time and a range of dimensions:

Pervasive Innovation

Does a brand push the status quo with novel solutions to life?

Customer Obsession

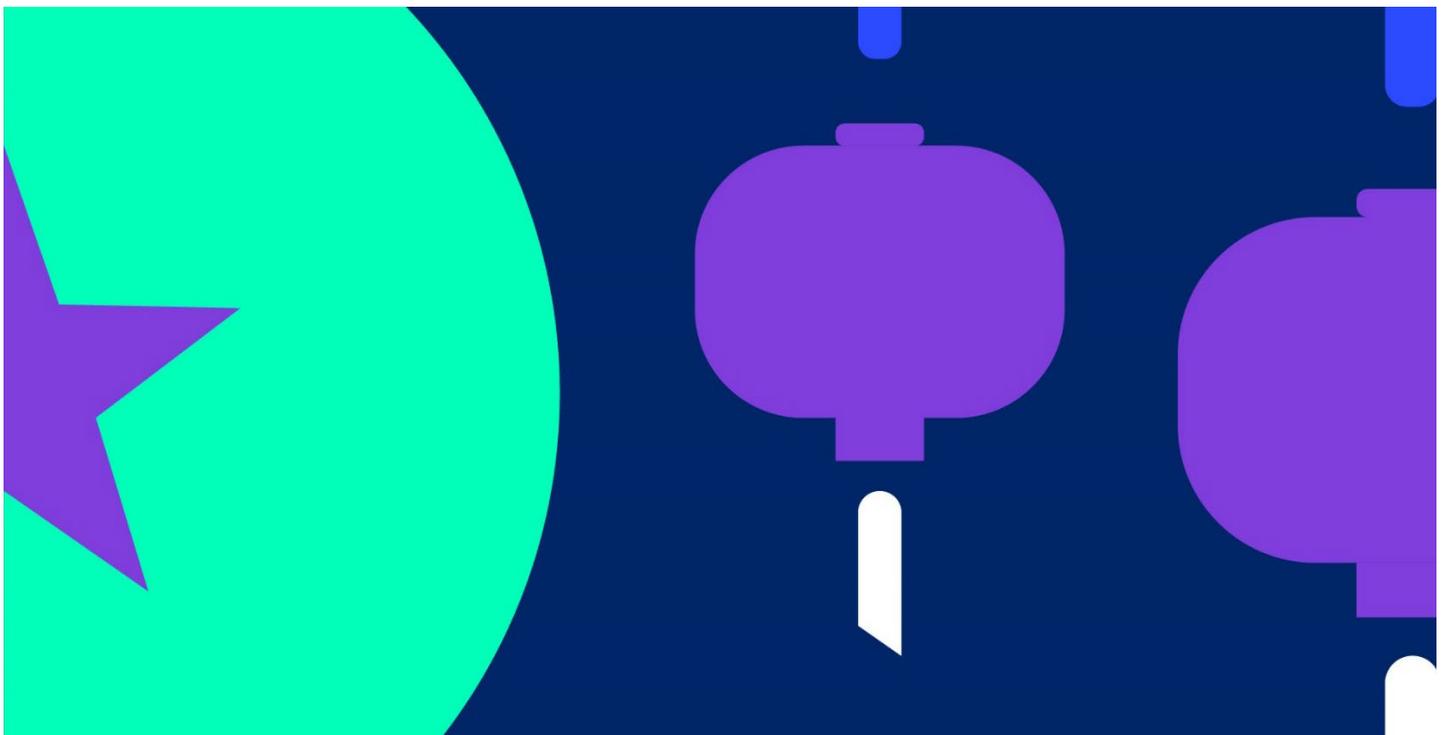
How in touch is a brand with how consumers live and work?

Ruthless Pragmatism

Does a brand make experiences reliable and widely available?

Distinctive Inspiration

Is a brand motivated by a clear purpose?



Ruthlessly Pragmatic Through Functional Utility

Yum!'s KFC / This franchise's app has generated more than 100 million users. The benefit is simple: efficiency. The ability to order outside the restaurant minimizes waiting time. But it also provides users the choice of dining experience — in-store or grab-and-go. KFC is also accumulating consumer data which is being leveraged to offer personalized vouchers and tailored menu suggestions based on past orders.

Luckin Coffee / A coffee delivery service, imprinted with New Retail DNA, it is also a direct threat to Starbucks. The brand has opened two thousand brick-and-mortar stores, mostly in upscale commercial districts. A cup of coffee is approximately fifty percent cheaper. Smart phone ordering and delivery operate seamlessly. The result: expanded consumption occasions and locations in a country that still prefers tea to coffee.

Bianli Feng / Loosely translated “bee hive efficiency”—elevates convenience into “community membership.” The company operates three hundred unmanned and cash-free convenience stores powered by data that helps identify local preferences. Every transaction is scanned, enabling inventory to be tailored across different neighborhoods. Stores in wealthier areas offer more international goods. Some shops sell prepared chicken sandwiches while others sell beef or pork. Consumers also enjoy discounts when they pay with the Bianli Feng app.

**Notable for its bold blue cup,
Luckin Coffee appeals to
China's increasingly confident
urban consumers.**

A dash of social currency is generated by “buying smart” rather than carrying an increasingly ubiquitous logo.

Customer Obsessed Through Learning and Lifestyle Liberation

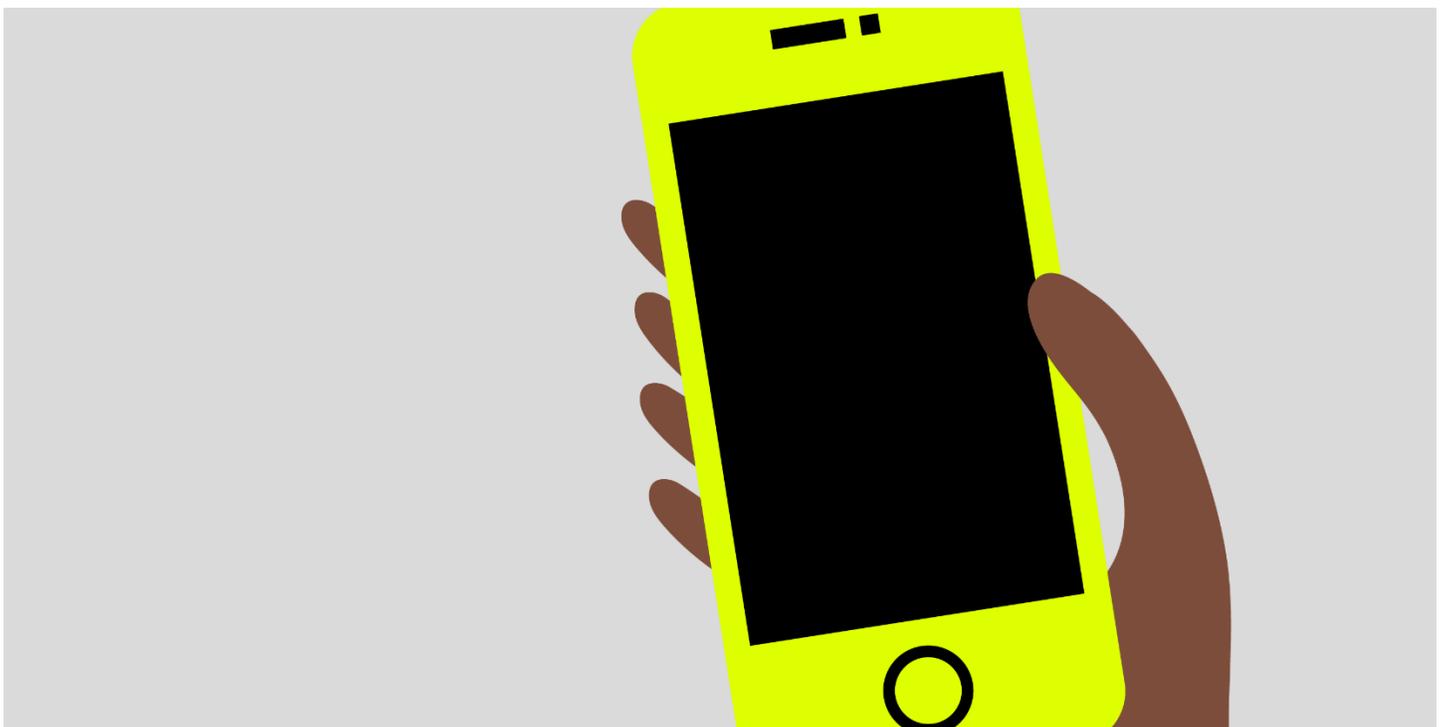
The best New Retail transcends practicality and provides experiences that enrich life.

Hema supermarkets / Owned by Alibaba, Hema elevates grocery shopping to multidimensional product reassurance and lifestyle liberation. China is a low-trust society, specifically when it comes to food. QR code displays reveal the origin of every product—where it was made and where

it's from—as a guarantee of quality. In addition, the Hema purchase process frees consumers from the tyranny of the check-out line while introduces new levels of “seamless product trial.” Shoppers can “graze and pay” with Alipay as they go.

**Finally, the supermarket opens new worlds to discover.
Hema turns shoppers to connoisseurs of the exotic.**

Buyers are instantly provided information about a novel new dessert or recipe ideas for unusual seafood dishes. Given the ubiquity of social media platforms like WeChat and Weibo, cooking and dining are translated into “social currency” as people share their photogenic food online.



Red (Xiao Hong Shu) / A hybrid social network and e-commerce platform that broadens the world view of Post-90s females, the site offers high-quality international beauty and fashion brands. It is known for the endorsement of online opinion leaders (KOLs).

One celebrity handbag review generated more than four million views. Red allows consumers to feel ahead-of-the-curve by knowing the latest global fashion developments.

Furthermore, the platform's merchandise is curated to maximize tribal affiliation through the following:

- Celebrity-endorsed "crazes" for selected items
- Authentic reviews rooted in shared stories
- AI-generated, personalized content based on purchase history

Red boasts 50 million active users and has just opened a brick-and-mortar store in Shanghai.

Yi Tiao / This online platform streams high-quality videos produced by craftsman who sell their own products. For example: one popular "maker" carves abstract wooden figurines with holes in the chest. He calls his line "People with a Broken Heart."

Yi Tiao has opened three offline stores designed to immerse shoppers into different lifestyles and product categories. Launched two years ago, it has already attracted one million members for whom "niche" is cool.

Distinctively Inspired Through Personal Progression and Achievement

The pinnacle of New Retail is reached when the combination of data, on- and offline integration and immersive experiences result in personalized offers that inspire individuals to realize life goals.

Nike's House of Innovation / This first debuted in Shanghai and suggests a hint of more to come. Members are introduced to breakthrough shoe technology as well as inspirational stories of athletes who embody the "just do it" spirit.

Membership services include:

- Personalized training
- Early access to limited-edition series and partnerships with other brands
- Participation in digital design workshops to customize shoes

The House of Innovation is a beautiful example of a retail experience that brings Nike's brand's purpose to life.

Pitfalls: A Long Road to Rome

However, Nike has not yet translated genuine personalization into a sustainable business model. Nor have other "traditional" brands — that is, those not born as digital ecosystems. Why?

The current commercial landscape does not encourage mold-breaking innovation.

First, transactional efficiency trumps loyalty rooted in emotional equity.

In many cases, realizing the benefit of "offline digitization" seems easy. There are ready-made solutions for QR codes, facial recognition and more. The investment is justified. Yet developing an emotionally-driven customer experience is much harder, and brands are much more hesitant to make these investments without foreseeable ROI.

Second, businesses lack experience-design know-how.

For every Apple store, there might be 100 look-alikes. Many "experience stores" start the learning process from the store they want to replicate, not the consumer they like to attract.

Third, the majority of local companies have been slow to structure themselves for New Retail.

New Retail requires a new set of capabilities that traditional retailers currently lack. Beyond data and experience, there needs to be an overarching focus on the consumer, and the ability to build services across their online, offline and emotional needs.

Final Thoughts

China's New Retail concept is perhaps the most advanced in the world.

Relative to Western markets, consumers and businesses both benefit from functional efficiency. Consumers enjoy expanded horizons and liberated lifestyles. However, immersive personalization, the El Dorado of New Retail, remains elusive due to structural and cultural barriers that will be slow to fall.

Learn more about [some of the brands](#) that are thriving in China's New Retail environment.

**WANT TO LEARN MORE ABOUT
NEW RETAIL IN CHINA? GET IN TOUCH!**

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