



cutting through complexity

China's Connected Consumers

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About the survey:

In October 2013, KPMG, Glamour Sales and Mogujie commissioned WIMI, a China-based consumer insights consultancy to conduct a survey of Chinese consumers on their online spending patterns for luxury and other items. WIMI received 10,200 qualified responses to the survey from respondents who had purchased premium or luxury items in the past 12 months. Respondents were based in over 90 cities and were between 18 and 50 years of age.



Introduction

China continues to see explosive growth in e-commerce for both business-to-consumer (B2C) and consumer-to-consumer (C2C) channels. There has also been rapid take-up and use of smart phones and other hand held devices.

Of particular interest are the home-grown platforms underpinning the rise of online transactions, as well as the increasingly important roles of social media and mobile devices. These trends are fundamentally reshaping the way consumers in China purchase goods and services, and how businesses operate online.

There tends to be less emphasis and attachment in China to physical stores, partly due to the fact that they haven't been established for long and particularly in some of the lower tier cities, a lack of access to some brands has driven more consumers online. As a result, this has meant huge opportunities for online retailers.

In our recent survey of 10,200 luxury consumers across China, the findings include a greater confidence in online channels across all age groups, including higher transaction amounts when paying online. The survey also found a shift from cash on delivery to a greater use of online payment mechanisms.

Chinese consumers are rapidly interacting online, visiting web forums and discussing and researching brands on the internet, either via their PCs/Tablets or on the go, via their mobiles. Digital media therefore is playing an increasingly significant role as it enables brands to interact with both existing and potential consumers.

Social media is popular, with many consumers turning to celebrities, influential bloggers and also their individual online communities for direction and pointers on what to buy. Consumers actively engage with online campaigns, post online product reviews and provide direct feedback. Brands therefore need to be able to fully integrate social media as part of their overall strategy in China.

Pricing arbitrage for luxury brands remains a key driver for online purchases, as the digital consumer tends to be price sensitive. However, our survey demonstrates that convenience and product accessibility are also gaining momentum.

A shift from purchasing on PCs and tablets to smartphones is another trend highlighted by our survey participants. There is also increased demand for better overall customer experience and service when purchasing online, this includes personalised customer care and after-sales service.

The future development of e-commerce in China is linked to technology developments and the take-up by consumers, including the way they research and purchase products online.

In this publication we assess the speed of change in China's e-commerce market, the drivers for this and opportunities for global and local retailers.



Egidio Zarrella
Clients and innovation partner
KPMG China



Nick Debnam
Chairman, Asia Pacific Region
Consumer Markets
KPMG China



Executive Summary- Key Findings

- In our recent survey of 10,200 consumers across China, which looks at online spending patterns for luxury brands, key findings include a greater confidence in online channels across all age groups, including higher transaction amounts when paying online. The survey also found a shift from cash on delivery to a greater use of online payment mechanisms.
- Survey respondents indicated price advantages as a key catalyst for buying online, as the digital consumer tends to be more price sensitive. However convenience was also cited as a key motivator, together with the desire for a wider range of products, variety and to be able to purchase unique or individual items. The latter view was especially prevalent amongst the younger respondents.
- 51 percent of respondents indicated they purchased goods online as this provides them with more assurance re the country of origin. A further 32 percent said they shop online to avail of a wider range of products and brands. This was particularly highlighted as a driver by respondents based outside the main cities where the brands may not have traditionally targeted.
- 28 percent of respondents said they do so in order to buy products that are unique and one-of-a-kind, although for younger respondents (under 25 years), 41 percent said they are motivated to buy online for items that stand out.
- The survey also notes that online purchasing nowadays is not limited to low price items, The average amount spent by respondents on their last item was RMB1,515, and 17 percent said they had last purchased an item online of at least RMB2,000.
- While desktop PCs still dominate access to online retail websites for premium and luxury items, the availability of affordable smartphones have seen them quickly rise in popularity. The survey finds that 69 percent of respondents use a desktop while 53 percent said they use smartphones.
- 70 percent of respondents said they use their desktop everyday in order to purchase items or search for information on luxury products. Meanwhile 60 percent said they use their smartphones every day. It is therefore essential for online luxury brands to develop interfaces that work well for both the desktops and smartphones.
- The survey also finds a significant gender difference on spend. Men were more likely to spend on high-end luxury items for status driven reasons, however a larger number of women were buying luxury items online and their total spend is also higher. On average, men spend more online for apparel and shoes compared to female shoppers. Home decor and luggage items also capture quite high spend amounts.



Market Landscape:

In China's 12th Five-Year Plan (2011-2015), the government's Ministry of Industry and Information Technology unveiled a number of policies to drive e-commerce in China, in line with its overall transition from an investment-heavy growth model to more emphasis on domestic consumption.

The Chinese government has been extremely supportive of the e-commerce sector and its development and has incorporated it within broader economic policies. It has also helped to drive greater broadband and 3G coverage across the country.

It views the development of the mobile network as an important infrastructure play and has also played a key role in driving the growth of payment transactions.

E-commerce helps to boost domestic consumer demand, across many cities and tiers, a key government focus as it seeks to shift from an emphasis on export-led growth. Additional services to benefit include IT, logistics and online payment providers.

China's online population is not only incredibly large, it is also highly diverse, in terms of consumer behaviour. Businesses should not assume that the China consumer market is homogenous.





Did You Know:

By 2015, e-commerce transactions in China are projected to reach USD540 billion, or 7.5 percent of total retail transactions, and by 2020, China's e-commerce market is forecasted to be larger than those of the US, UK, Japan, Germany and France combined.¹

The Chinese government is 'targeting 1.2 billion 3G/4G mobile users (85 percent penetration) by 2020, up from 233 million at the end of 2012 and 325 million in June 2013.'²

Offline to online

Some retailers have established online strategies in China from the outset without investing in physical infrastructure. An online presence provides retailers with the option of offering lower prices for their products, a larger variety and faster delivery timelines.

However, one of the challenges for online retailers is a shift from a culture of price discounting, as online consumers in China tend to expect a reduction in price when purchasing online. Retailers can either sell their products via popular third-party B2C retailers or on the existing marketplace platforms.

Thibault Villet CEO & Co-Founder, Glamour Sales, says: "The online market in China is split into platforms and direct websites and the brands want to ensure they cooperate with the right partners."

Some opt for using large third-party marketplace platforms in China as an initial step, to avail of access to an existing customer base and data. For offline retailers, some opt for market place platforms because of the challenges and costs associated with developing a bricks-and-mortar operation in lower tier Chinese cities. Marketplace platforms have invested in payment mechanisms and logistics to help drive greater traffic to their online operations.

1 Source: Amanda. 'China E-Commerce Market to Reach 30 Trillion Yuan in 2020'. China Internet Watch. March 13, 2013 <http://www.chinainternetwatch.com/2007/china-e-commerce-market-2020/>

2 Source: CLSA report - 'E-Normous' 2013

Did You Know:

11/11

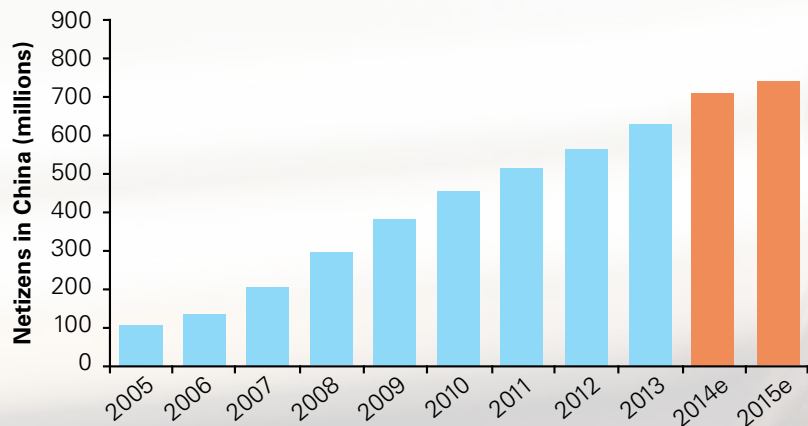
China's **'Singles Day'** occurs on November 11 each year. The month and day are represented by 'ones' (11/11)

In 2013, **'11/11' online sales rose by 80 percent to over USD5.7 billion** - more than tripling the amount of Cyber Monday³ revenues in the US.³

As our survey shows, consumers in China are increasingly sourcing one-of-a-kind products online, ones that are not always available in the physical stores. They also like to research brands and compare offline and online prices. Retailers can capitalise on this by expanding their products inventory and Stock Keeping Units (SKUs) online, and availing of the social media and marketplace platforms in China.

Thibault Villet CEO & Co-Founder, Glamour Sales, says: "Due to taxes and various duties there is a price arbitrage. The gap between offline (official prices) and online (parallel imports) can reach 30 to 100 percent depending on the brands."

China's actual and estimated online population, 2005-2015



Source: CNNIC website (<http://www.cnnic.net.cn>); Ministry of Industry and Information Technology; KPMG analysis

Luxury brands and take-up of ecommerce strategies

High-end luxury brands meanwhile, are not capitalizing to the same extent on the explosion in e-commerce in China.

Nick Debnam, Chairman, Asia Pacific Region, Consumer Markets, KPMG China, says: "Luxury brands are hesitant to embrace online strategies because so much of the brand is about the experience of going into a traditional bricks and mortar shop, to learn about the brand and its heritage. Consumers don't get the full consumer experience while shopping online. Therefore it is counter-intuitive for them to invest in an online strategy."

Thibault Villet CEO & Co-Founder, Glamour Sales, says: "Only 5 of the top 60 brands operate their own online sites. They have been late with their online strategy because they have focused on expanding their bricks and mortar network in China. Secondly, they did not anticipate how quickly Chinese consumers would shift to online purchasing. The luxury brands have also tended to want to retain control over their brand sites. There are also concerns regarding counterfeit luxury items being sold online. This is now



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the experience of going into a traditional bricks and mortar shop, to learn about the brand and its heritage." - **Nick Debnam, Chairman, Asia Pacific Region, Consumer Markets, KPMG China**

³ J.T. Quigley. 'Singles Day in China Decimates Online Shopping Records'. The Diplomat. November 12, 2013 <http://thediplomat.com/2013/11/singles-day-in-china-decimates-online-shopping-records/>



being addressed. Alibaba for example, has started to tackle fake products posted on its website, paving the way for more collaboration with luxury brand owners."

For these reasons, relatively few high-end luxury brands have migrated online.

We also see an increase in purchasing luxury items from overseas brand and third party websites, using a VPN connection. In response, some luxury retailers are offering Chinese language options on their domestic websites. A recent KPMG survey⁴ on the travelling middle-class Chinese consumers also found that the number of travelling overseas increased to 71 percent in 2012, compared to 53 percent in 2008, a significant change.

Jessie Qian, Partner-in-Charge, Consumer Markets, KPMG China, says: "Luxury brands use e-commerce more for international marketing purposes, including targeting the travelling Chinese consumers. After-sales and maintenance of customer service and authentication of the product are ongoing challenges. The issue of guarantees and warranties are also an issue for luxury online shopping."



"We also see the existence of a parallel online/offline ecommerce market for luxury brands in China. Many small traders continue to buy luxury items overseas and sell them online in China. So there is already a huge existing ecommerce market for luxury brands in China, however it may not be legitimate. There is strong consumption and appetite to buy luxury items online in China, however it is not structured." - **Thibault Villet, CEO & Co-Founder, Glamour Sales**

Data analytics

China is leading the charge in terms of the use and sophistication of data analytics, both in terms of capturing the information and analysis. The major internet companies are using their social platforms to collect customer information and have also created transaction platforms to understand consumer spending patterns. They are combining the two information sources to provide customers with relevant insights.

Egidio Zarrella, Clients & Innovation Partner, KPMG China, says: "Companies are realizing the value of information and that, if used correctly, analysis of this information can be a real differentiator. They have typically assessed historical patterns, but we increasingly see predictive analysis being used in order to determine consumer spending patterns."

Thibault Villet, CEO & Co-Founder, Glamour Sales, agrees: "We will see a new personalized relationship in China because analytics is a good fit – the "Know Me" channel. The key point is to be able to have a single customer view across all channels. I think China will lead the way in this."

B2C versus C2C

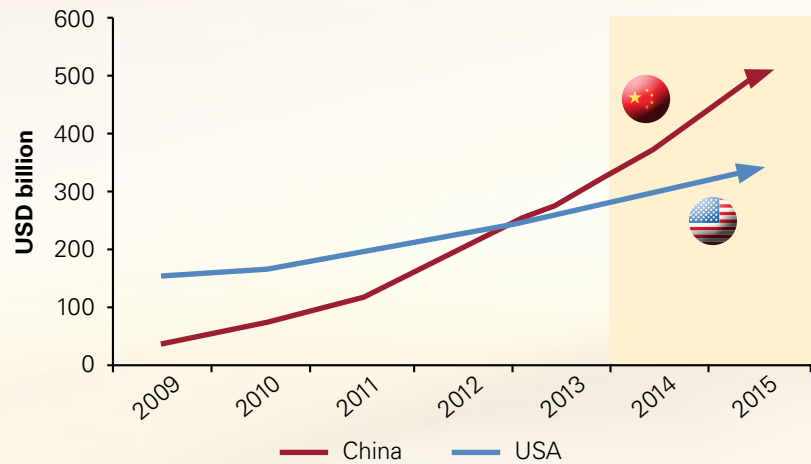
The majority of China's e-commerce market is dominated by marketplace platforms, as well as vertical focused online retailers. Online platforms are relatively cheap to establish and they drive a large amount of customer traffic. The cost to establish a physical store tends to be more expensive, while online platforms also provide sellers with access to crucial customer data.

Thibault Villet, CEO & Co-Founder, Glamour Sales, says: "The market today is now predominantly B2C and I foresee it will continue to grow. As more brands and retailers enter this market and offer more choices for consumers, this will also help to further drive this development."

4 KPMG China report, Global Reach of China Luxury, January 2013



Value of e-commerce transactions in the US and China, 2009-2015



Source: KPMG analysis of US and Chinese e-commerce data from Statista, Bain & Company

Qi Chen, CEO & Co-Founder at Mogujie.com, says: "Small sellers face a lot of competition from the proliferation of online retailers on the marketplace platforms, and it is harder for them to generate traffic to their site. These boutiques are eager to generate more traffic and find other channels. Mogujie exists because of the unique boutiques on our market place platform and our young female users. Our mission is to make shopping choices easy and accessible for young female users."

China's home grown ecommerce players not only occupy a sizeable share of the market, but also handle a larger number of transactions than some of their well-known global competitors.

Mary Chong, Partner, Head of E-commerce and Payments, KPMG China, says: "The ecommerce market in China is large enough for other players and niche competitors to thrive. There are four main drivers for e-commerce growth in China: e-commerce and social media platforms, digital payments and mobile devices."

Mogujie for example, has expanded its offerings to include women's fashion apparel, to purchase a B2C platform and a media platform. It has also built an e-community platform where customers and Key Opinion Leaders (KOLs) can share their experience of buying products. Overlaying this will be the purchase platform.

Qi Chen, CEO & Co-Founder at Mogujie.com, says: "Our business model is changing so we are not only a community platform but also a purchase platform. Logistics will be the seller's responsibility and we will focus on the platform. In terms of our customers, over half are based in the first tier cities, ages range from 18-28, over 95 percent are women."



"The key thing for businesses is to access consumer data because this will help them to

get to know their customer profiles and help them to target over a longer sustained period, rather than a one-off sale." - Egidio Zarrella, Clients & Innovation Partner, KPMG China



Drivers for online purchasing:

Survey respondents indicated price advantages as a key catalyst for buying online, as the digital consumer tends to be more price sensitive. However convenience was also cited as a key motivator, together with the desire for a wider range of products, variety and to be able to purchase unique or individual items. The latter view was especially prevalent amongst the younger respondents.

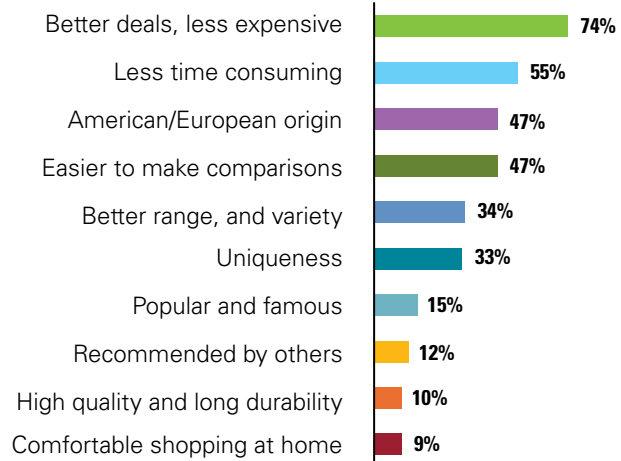
Additionally, 47 percent of respondents indicated they purchased goods online as this provides them with more assurance regarding the country of origin. A further 34 percent said they shop online to avail of a wider range of products and brands. This was particularly highlighted as a driver by respondents based outside the main cities where the brands may not have traditionally targeted.

Thibault Villet, CEO & Co-Founder, Glamour Sales, explains: "Online purchasing in China is still mostly promotional and discount driven. This symbolises we are at the infancy stage - the level of discounting. Imagine the potential of full price E Commerce. Currently there is huge consumption and appetite to buy online in China, however it is not yet structured."

Nick Debnam, Chairman, Asia Pacific Region, Consumer Markets, KPMG China, says: "Online is becoming important for brand positioning and consumers are spending more and more online. I think this is a journey and it is becoming more important to the brands."

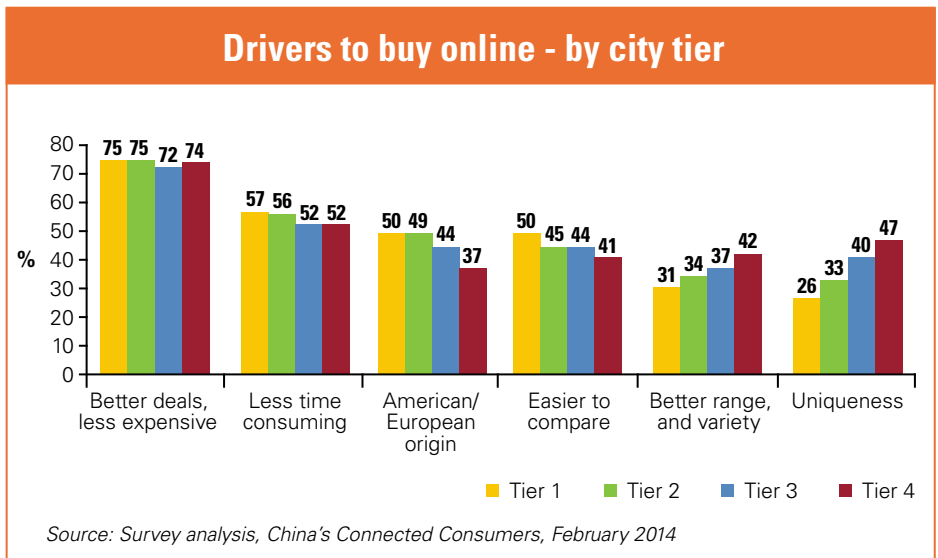
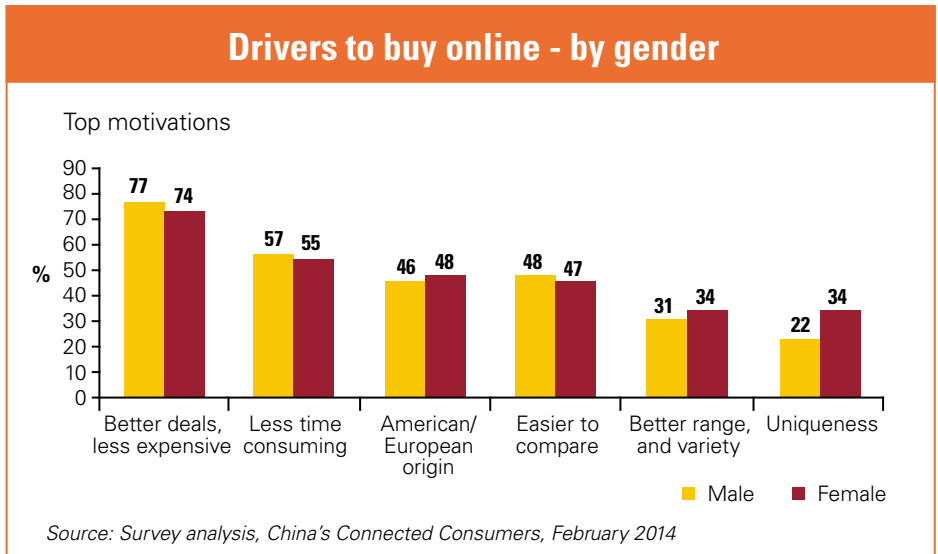


Drivers for purchasing online



Source: Survey analysis, China's Connected Consumers, February 2014

Meanwhile 28 percent of respondents said they do so in order to buy products that are unique and one-of-a-kind, although 41 percent of younger respondents (under 25 years), said they are motivated to buy online for items that stand out.



“Small sellers face a lot of competition from the proliferation of online retailers on the marketplace platforms, and it is harder for them to generate traffic to their site. These boutiques are eager to generate more traffic and find other channels. Mogujie exists because of the unique boutiques on our market place platform and our young female users. Our mission is to make shopping choices easy and accessible for young female users.” - Qi Chen, CEO & Co-Founder, at Mogujie.com



Concerns when purchasing online



Source: Survey analysis, China's Connected Consumers, February 2014

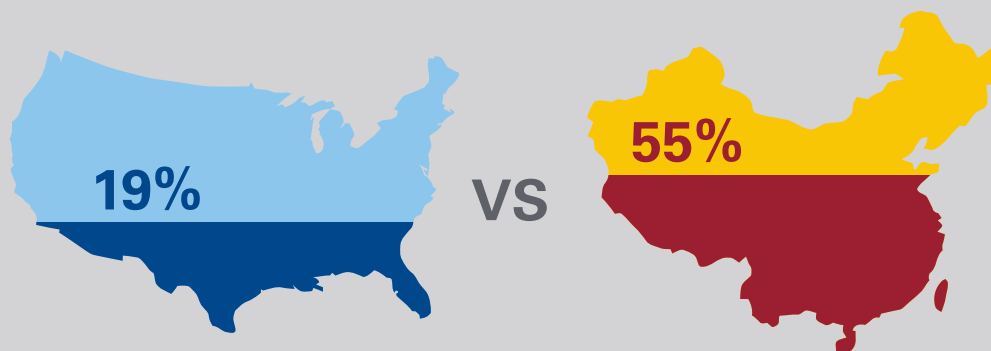
"Some brands are now shipping the products from a store closest to the consumer. This empowers the local store to deliver to their customers and build a relationship." - **Thibault Villet**, CEO & Co-Founder, Glamour Sales

There tend to be concerns about the authenticity of products bought online (78 percent of respondents) and to tackle this, the B2C channels are increasingly putting stronger vetting procedures and checks in place. Additionally, 48 percent of respondents indicated they were concerned that products they received were dissimilar to the ones displayed online.

Additional drawbacks of online shopping include unsatisfactory after sales service (41 percent), and complicated return procedures (37 percent). Some respondents (55 percent) expressed concerns about sizing and others highlighted infrastructure and logistical issues.

Did You Know:

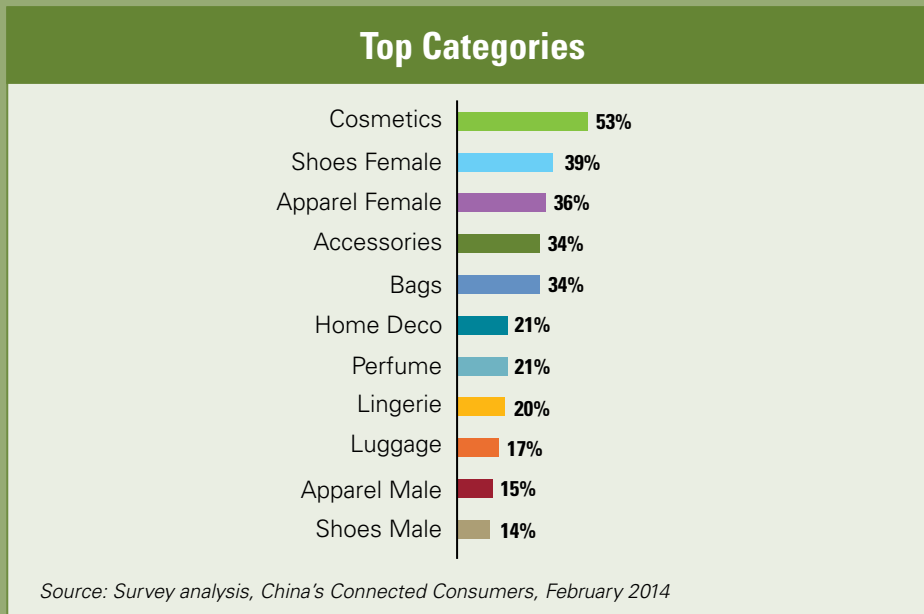
55 percent of China's internet users have made a mobile payment, **versus** only **19 percent** of internet users in the US.⁵

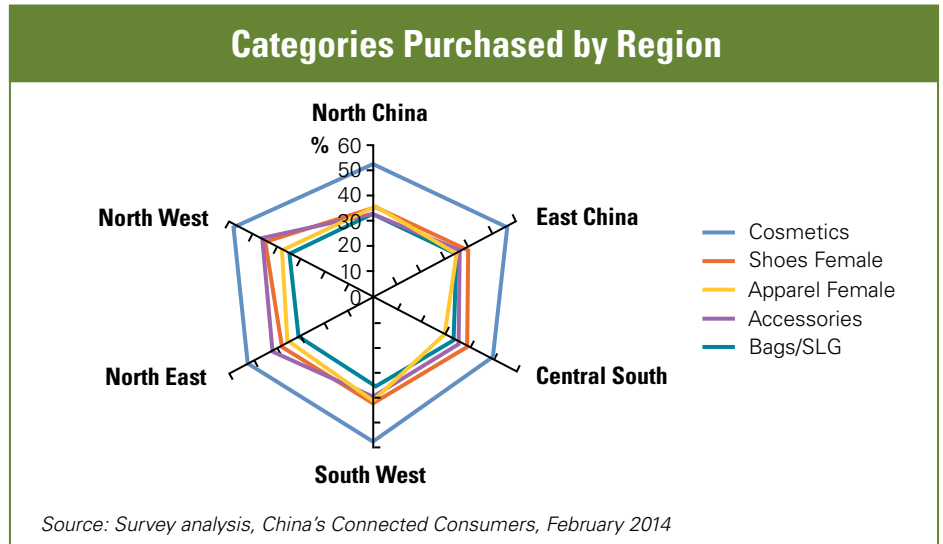


⁵ China, South Korea Lead World in Mobile Commerce Adoption'. eMarketer, March 20, 2013
<http://www.emarketer.com/Article/China-South-Korea-Lead-World-Mobile-Commerce-Adoption/1009742>

Categories bought online:

The survey findings indicate that cosmetics is the most popular product bought online, followed by women's shoes, apparel, bags and accessories.

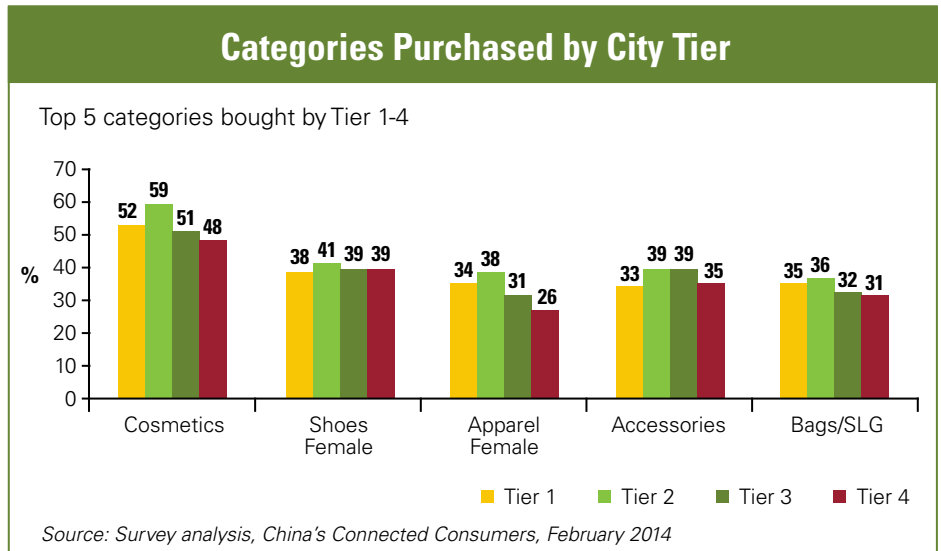




One noticeable difference was that online spend on women's apparel saw a significant decline in tier four locations.



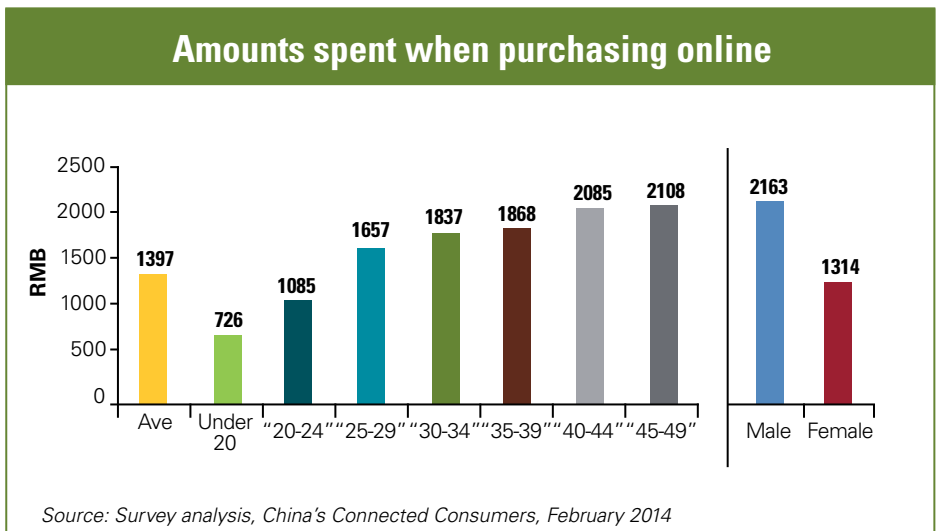
"The ecommerce market in China is large enough for other players and niche competitors to thrive. There are four main drivers for e-commerce growth in China: e-commerce and social media platforms, digital payments and mobile devices." - **Mary Chong, Partner, Head of E-commerce and Payments, KPMG China**



The age of the respondents shows greater variable differences when purchasing luxury items online. The survey indicates that 'Thirty' is a watershed age in terms of a rise in propensity to spend on luxury items, irrespective of the product category. This is a key target age group for online marketers.

The survey also interestingly notes that online purchasing nowadays is not limited to low price items, The average amount spent by respondents on their last item was RMB1,515, and 17 percent said they had last purchased an item online of at least RMB2,000.

Reflecting their earning power, online shoppers in tier one cities tended to spend higher amounts when shopping online; on average RMB1,640 versus RMB1,350 in the lower tier cities.



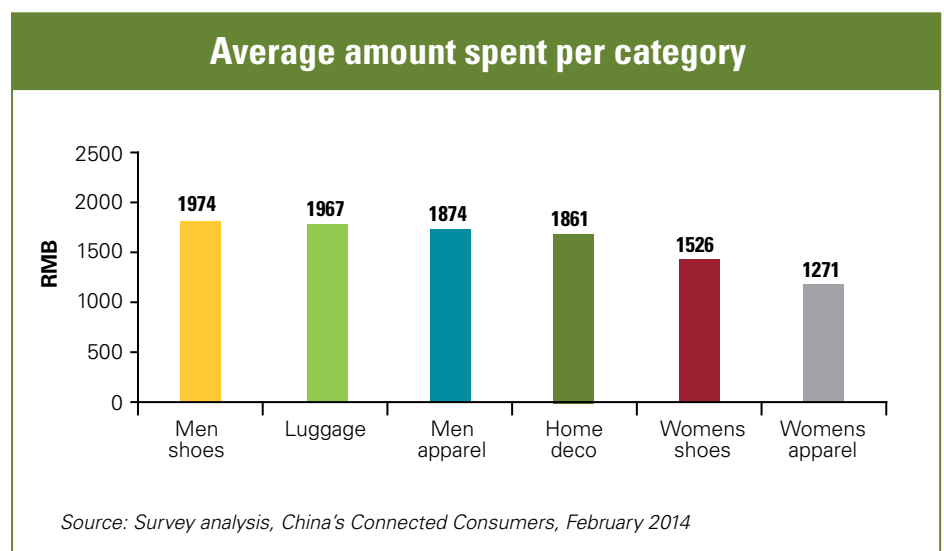
“Two fastest growing categories for us are women’s ready-to-wear and jewelry. We offer products at prices up to RMB100,000 online, while a majority spend between RMB1-10,000.” - Thibault Villet, CEO & Co-Founder, Glamour Sales

There is a noticeable step up in spend levels once shoppers reach the age of 25, as most will have started careers and have reasonable disposable income levels.

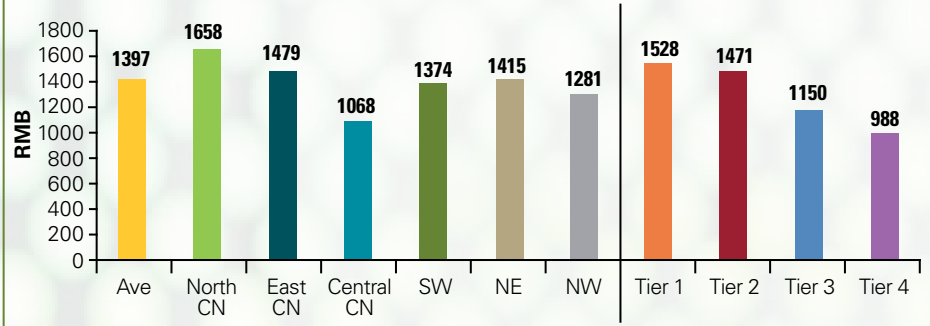
The survey also finds a significant gender difference on spend. Men were more likely to spend on high-end luxury items for status reasons, however a larger number of women were buying luxury items online and their total spend is also higher. On average, men spend more online for apparel and shoes compared to female shoppers. Home decor and luggage items also capture quite high spend amounts.



Online consumers in central and north-west China tend to spend less on each occasion when buying luxury items online, compared to their counterparts in east and north China. This is driven by variations in income levels. Similarly, online consumers in tier 1 and 2 cities spend noticeably more when they purchase luxury items, compared to those in lower tier cities.



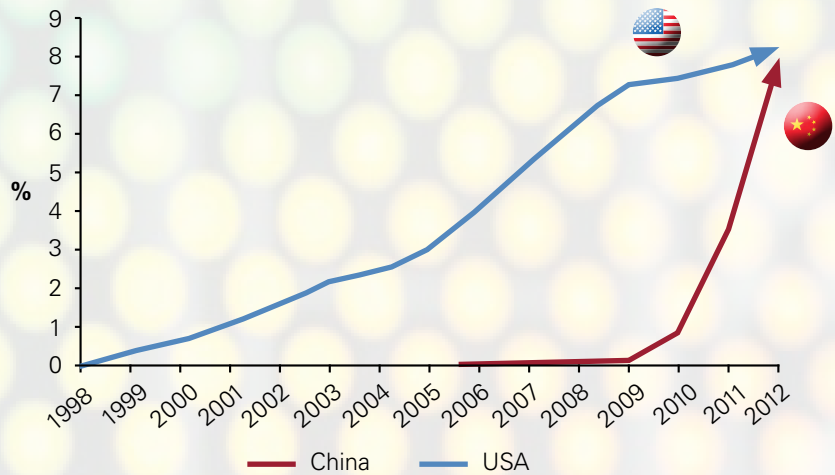
Regional and city differences in online spending



Source: Survey analysis, China's Connected Consumers, February 2014

Thibault Villet, CEO & Co-Founder, Glamour Sales, says: "Consumers in China are deeply engaged in all product categories. We especially see a very strong online footprint for shoe sales."

Footwear B2C online sales (By value as a % of total)



Source: CLSA, Euromonitor

"Online is becoming important for brand positioning and consumers are spending more and more online. I think this is a journey and it is becoming more important to the brands." - **Nick Debnam**, Chairman, Asia Pacific Region, Consumer Markets, KPMG China



Take-up of internet and smartphones for E-commerce:

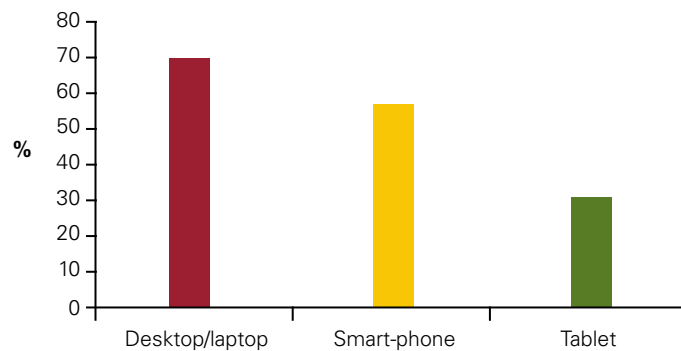
While desktop PCs still dominate access to online retail websites for premium and luxury items in China, the availability of affordable smartphones have seen them quickly rise in popularity. Our survey finds that 70 percent of respondents said they use their desktop everyday in order to purchase items or search for information on luxury products. Meanwhile 60 percent said they use their smartphones every day.

Egidio Zarrella, Clients & Innovation Partner, KPMG China, says: "Mobile take-up is strong in China because the country has skipped out the adoption of the landline. As China's economy has rapidly expanded over the past few years, consumers have migrated straight to mobile platforms. This provides huge opportunities for businesses in this space."





Consumers in China use multi channels



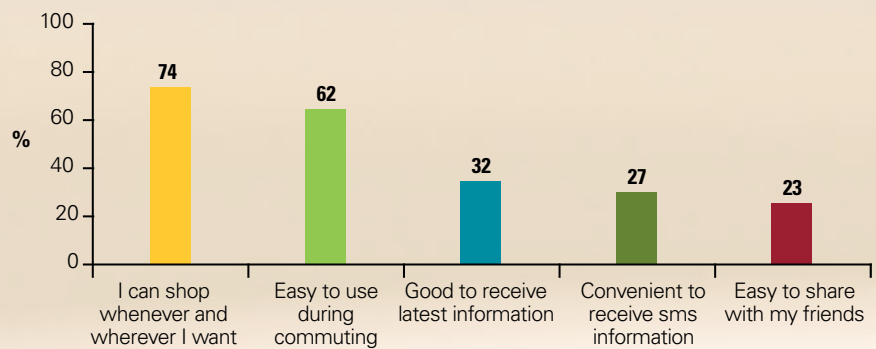
Source: Survey analysis, *China's Connected Consumers*, February 2014

Thibault Villet, CEO & Co-Founder, Glamour Sales, says: "A key trend is the rise of mobile shopping; for us it is currently 22 percent of our sales (excluding tablets). About 50 percent of our business is on non-PC platforms. We have been developing responsive designs for applications that can adapt to the various platform formats. We think mobile sales are set to rise exponentially."

Mobile purchasing aligns with the Chinese consumer's desire for speed and the convenience for 'any time' shopping. The trend towards smarter and more functional phones and tablets, coupled with the rising use of social media platforms to inform and connect consumers, is likely to fuel the continued rise in the number and proportion of so-called m-commerce transactions in the Chinese e-commerce market.

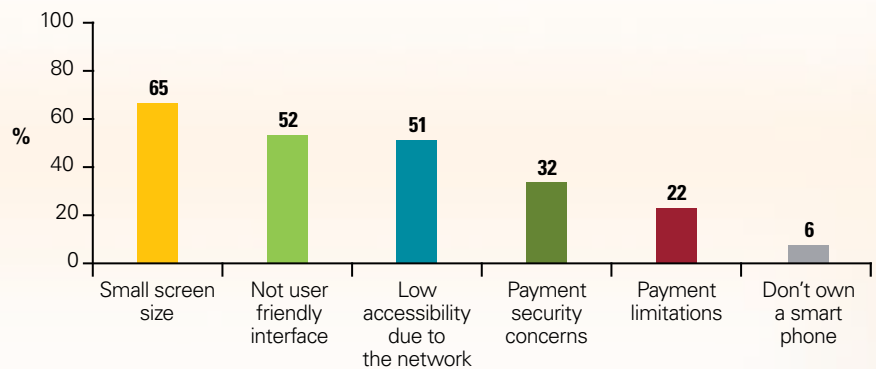
Thibault Villet, CEO & Co-Founder, Glamour Sales, adds: "We expect 50 percent of our business being driven from smartphones by end of 2014, as mobile commerce is on the rise. Companies need to therefore focus on strategy, localisation and constant adaptation in a market that is changing very fast. They need to find their communities and work with them. To win over mobile consumers you need to think differently. We first produce content, then design experiences for the mobile and then share these on the PC platform."

Motivations for purchasing on smartphones



Source: Survey analysis, China's Connected Consumers, February 2014

Disadvantages of using mobile devices for ecommerce



Source: Survey analysis, China's Connected Consumers, February 2014

"Mobile take-up is strong in China because the country has skipped out the adoption of the landline. As China's economy has rapidly expanded over the past few years, consumers have migrated straight to mobile platforms. This provides huge opportunities for businesses in this space." - **Egidio Zarrella, Clients & Innovation Partner, KPMG China.**

Egidio Zarrella, Clients & Innovation Partner, KPMG China, says: "Chinese consumers don't have the legacy of traditional media channels and have leapfrogged straight to mobile platforms. This has created the perfect storm in China via social media, payments and take-up of other devices."

Comparative use of mobiles - by gender



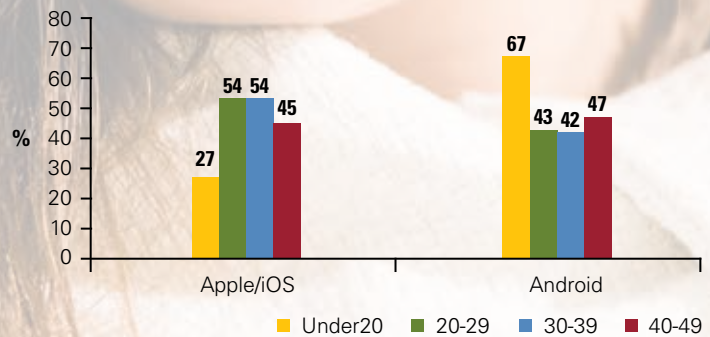
Source: Survey analysis, China's Connected Consumers, February 2014

Female online consumers are more likely to use their smartphones for online purchasing, reflecting their greater reliance on user reviews on social media platforms such as Wechat and Weibo.

In terms of the operating systems used, the take-up of Android is higher than Apple amongst younger online consumers.

Android is seeing more take-up amongst the younger generation in China compared to the iOS operating system⁶

Take-up of mobile operating systems

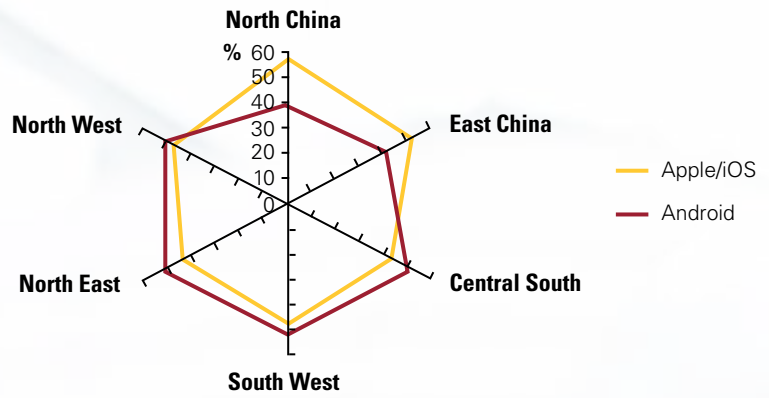


Source: Survey analysis, China's Connected Consumers, February 2014

Android is also more prevalent in the lower tiers and in areas outside of the north and east of China.

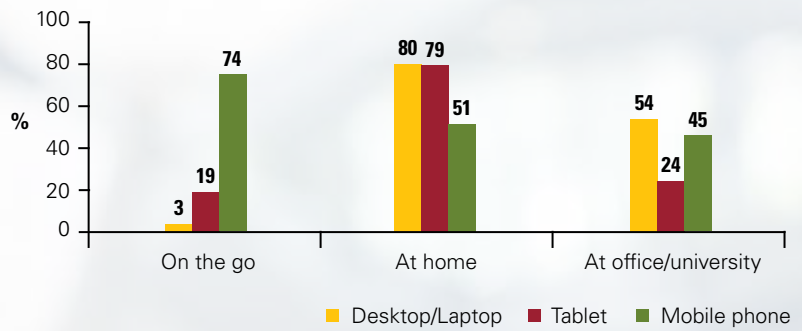
6 Source: KPMG analysis

Regional differences for use of operating systems



Source: Survey analysis, China's Connected Consumers, February 2014

Where are devices used for online purchases



Source: Survey analysis, China's Connected Consumers, February 2014

Egidio Zarrella, Clients & Innovation Partner, KPMG China, says: "China is an exciting market and newcomers need to understand the growing sophistication of the consumer and the technologies. The Chinese consumer is now dictating innovation. Newcomers need to align themselves to the big players in China. Organisations in China therefore need to have a mobile strategy and look at their segmentation. China is steaming ahead because consumers have 3-4 devices more than the average global consumer."



Social Media in China:

China's social media platforms have proved to be a powerful mechanism for brands to promote their products, either through the online communities on social community forums, or through active marketing initiatives. In terms of the survey findings, user reviews on social media channels was the top choice followed by friends and word of mouth.

With almost instantaneous feedback and easy-to-use interfaces, social media platforms have become extremely popular in China and we see innovation in this space.

Chinese companies initially built platforms based on features and functions of successful overseas platforms, then further innovated with their own style and design to create social media platforms with large communities of users.

Consumers in China use these platforms for immediate purchasing advice from friends, to post product reviews and to seek product knowledge/advice from online bloggers. The result is a unique and fast-changing social media phenomenon that is impacting both individuals and businesses in China.

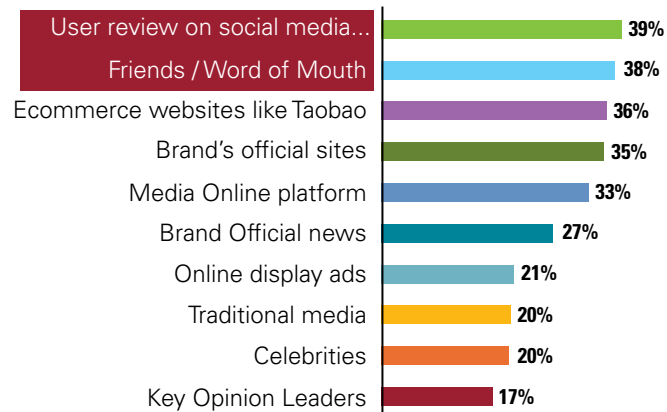
There is more growth ahead, too, as China's already large user base continues to expand, and as mobile technology becomes cheaper in China. Retailers are developing a more sophisticated social media presence, and some platforms are now adding payment functionality, in order to provide users with options to make purchases directly via their social media channels.

In addition, social media can influence consumers' purchasing decisions and some brands are capitalizing on this by strengthening their marketing activities via these channels.

Some also use online bloggers, including celebrities and/or industry experts and online community leaders, who will typically blog about a product and their personal experience of it.



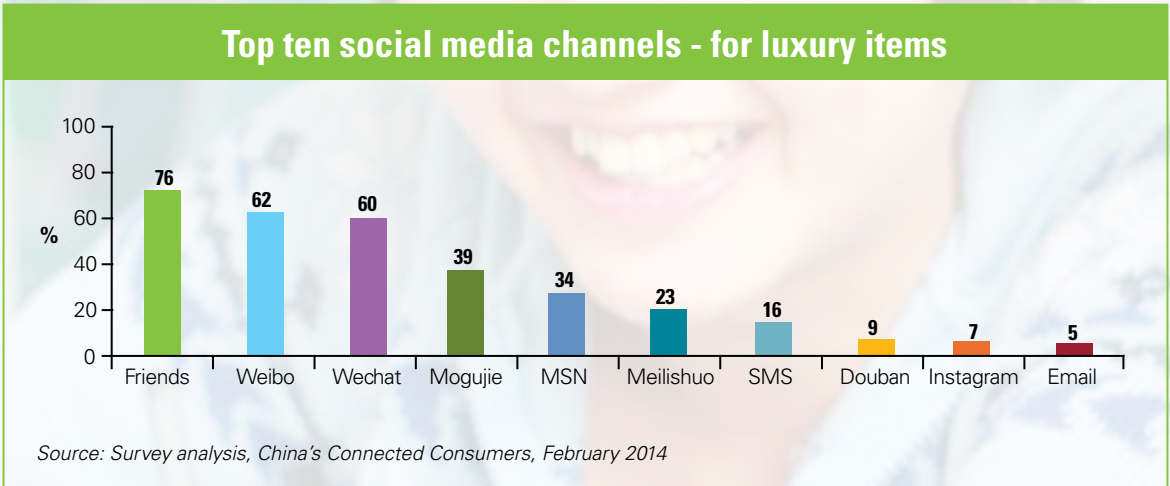
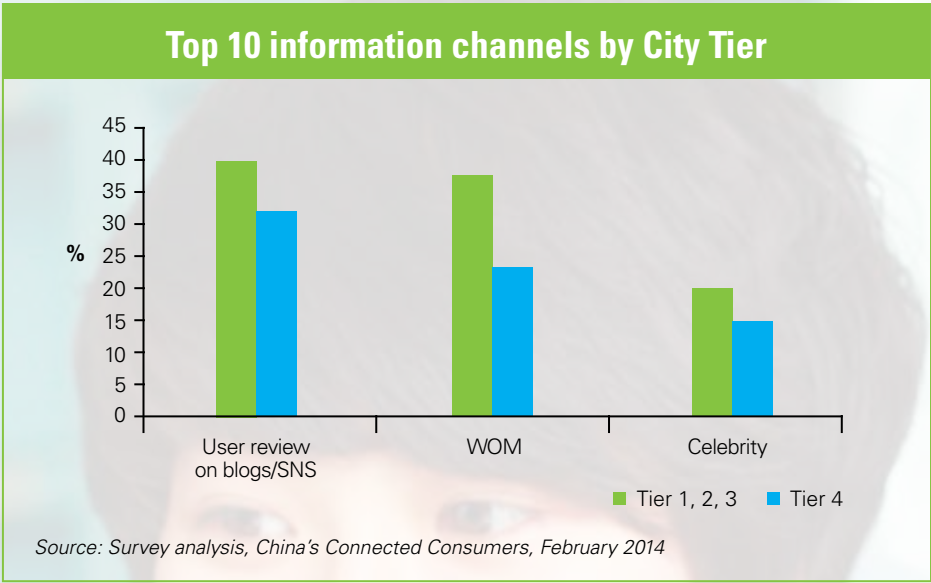
Top information channels



Source: Survey analysis, *China's Connected Consumers*, February 2014

The survey finds that across the city tiers the use of these information channels is consistent. The main exception is a noticeable drop in reliance on word-of-mouth in the tier 4 cities.

Additionally, the various information channels do influence the amount spent online. Consumers tend to spend more on products that received reviews from trusted and familiar sources. Online consumers under 35 are also more likely to rely on peer opinions, either in user reviews, or via Word of Mouth (WOM), compared to older shoppers.

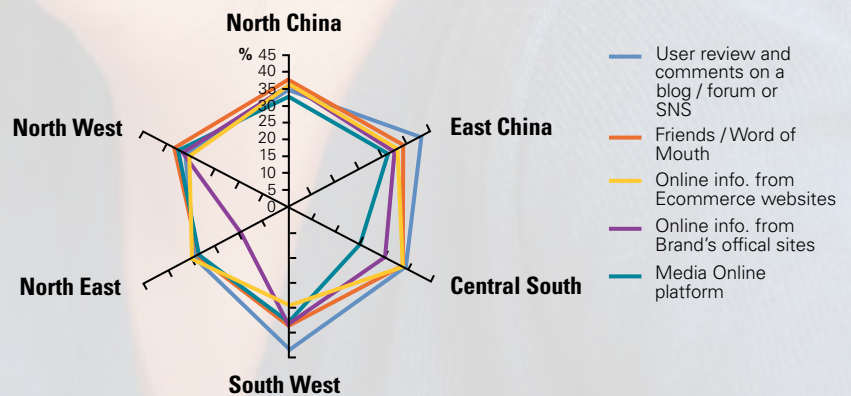


Traditional WOM remains a popular method with which to share information on brands, followed by Weibo and Wechat. Weibo is the most popular option for following celebrities online.



Use of information channels – Regional influences

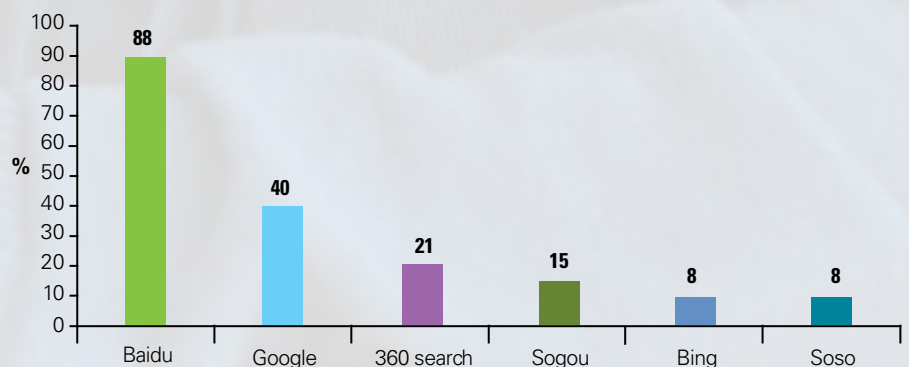
Top 5 information channels by Region



Source: Survey analysis, China's Connected Consumers, February 2014

Thibault Villet, CEO & Co-Founder, Glamour Sales, says: "Currently, around 25 percent of our ecommerce traffic is being driven through social media channels and over half of this 25 percent is being driven by Key Opinion Leaders (KOLs). We actively collaborate with KOLs. Our view is that they are very powerful and are able to drive sales, particularly from fashionista consumers."

Popular search engines in China



Source: Survey analysis, China's Connected Consumers, February 2014

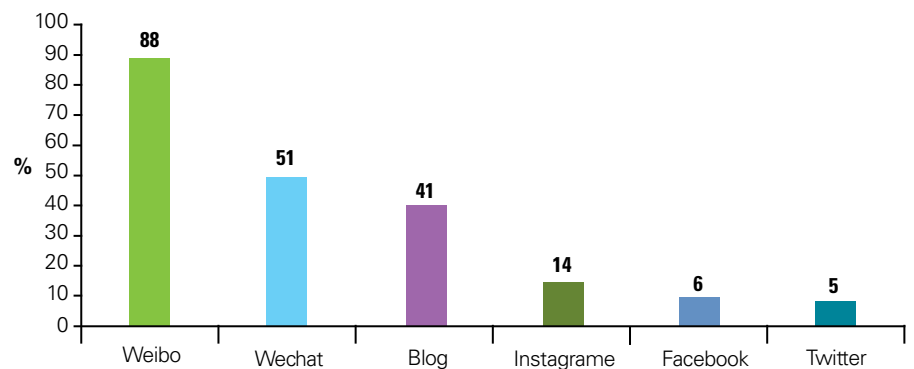
Product information sought by online consumers



Source: Survey analysis, China's Connected Consumers, February 2014

Online consumers opt for pricing and information on special offers, as well as information about specific product features. Brand related information is relatively less important. Online consumers do seek information on latest trends and how to mix and match items. We see this particularly in the lower tier cities.

Specific channels to follow opinion leaders



Source: Survey analysis, China's Connected Consumers, February 2014

“Nowadays female consumers are more eager to find out where they can purchase the products flagged up by the KOLs. They don’t want to enjoy the show, they want to join it”
 - Qi Chen, CEO & Co-Founder at Mogujie.com

There are various categories of KOLS, including movie stars, actors, fashionistas and writers. Thibault Villet, CEO & Co-Founder, Glamour Sales, says: “They are good at driving awareness but not good at driving sales. They help to trigger interest in the products. Another group is the grass roots bloggers that typically originate from an online community. They have expanded their reach and are pushing to their communities. They tend to have different profiles.”

“We use 600 bloggers and have a team of three looking after them. We also rate our bloggers - every time they post something we can track how much traffic they generate, using analytics,” he adds.

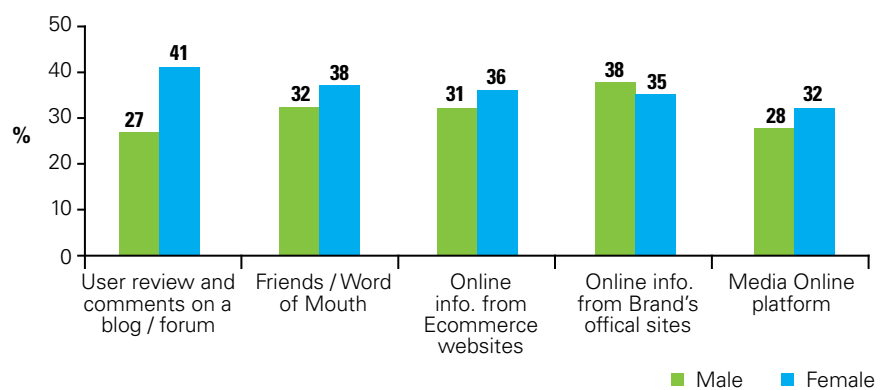
Qi Chen, CEO & Co-Founder at Mogujie.com, agrees: “Nowadays female consumers are more eager to find out where they can purchase the products flagged up by the KOLs. They are not satisfied with only enjoying the show, they also want to join it.”



Based on the type of product offered, companies should therefore not only seek out tier one cities and locations, but also start to consider the emerging rural population accessing the internet.

Egidio Zarrella, Clients & Innovation Partner, KPMG China, adds: "Firms must vet the KOLs or bloggers they use because there have been instances of KOLS with fake followers. It is also important to ensure they understand the product. Social media companies in China face strict guidelines to monitor the impact of user postings. Knowing the regulatory environment is critical."

Top five information channels – by gender



Source: Survey analysis, China's Connected Consumers, February 2014

A Profile of Celebrity Bloggers in China



Name: Ali Zhihui Li

Location: Huangzhou

Profession: Student

Followers: 42,000



I have been modelling for magazines for about four years. I was employed as a KOL for Mogujie around six months ago, and I like this community. I upload my collections to Mogujie on a daily basis and now have 42,000 fans. I also browse photos uploaded by other community users to learn how to arrange clothes and how to pose. When I am shopping online, my first priority is the quality of the item. I purchase around 90 percent of products online, this includes clothes, shoes and make-up.

Name: Quan Jiangnan

Location: Beijing

Profession: Fashion Director and Founder of BOYNAM, a digital personal lifestyle magazine

Followers: 579,012



I am the fashion director of Men's Health China as well as founder of a personal style digital magazine BOYNAM. As one of the most documented Fashion Week attendees, I currently have over 500,000 followers and my Wechat posts receive over 1000 comments daily. Fashion and style tips are the most popular topics for my followers. I post many style images on Sina Weibo, Wechat and Instagram, and I've also started to make videos and founded a digital style magazine. Online shopping has become more popular in China and my view is that Chinese fashion will increasingly have a bigger impact on the global market.



Name: Xueping Lin

Location: Fujian

Profession: Online shop owner

Followers: 52,000

I started uploading my photos on Mogujie in May 2013, and I now have 52,000 fans. As a KOL for Mogujie, it is essential for me to choose the right outfit to wear every day because online female shoppers actively contact me and comment on the clothes I wear. My photos sometimes help them to make decisions about purchasing products online. KOL recommendations help consumers to quickly find what they want and assure them on quality and safety aspects.

Name: Feng He (NINI)
Location: Shanghai
Profession: Lifestyle blogger
Followers: 596,214



I started blogging in 2007 when I was an English teacher, initially to communicate with my students after school. The students were keen for me to share fashion and beauty tips, this is how it started. I don't focus on a particular category, as I blog about a wide ranging topics that I am interested in: beauty, fashion, food, travelling, gardening, pets. Many of my followers were high school or university students when they first started following my blog. Now they have graduated, started their own careers and some have families of their own. I am inspired by Instagram, the only mainstream social network that we can access in Mainland China. Travel is my passion, the things that matter the most when I am travelling: good food and good shopping.

Name: ZhuXiangyu (Himiko)
Location: Shanghai
Profession: Fashionista
Followers: 137,630



My fans are mostly interested in fashion, beauty, style and cooking tips and I also share my overseas shopping experiences. The latest expectations are that more ecommerce websites will start direct shipping of products to China and fashion apparel sites will present their products in more detail. Online consumers in China are from a wide range of ages, professions and economic standing and therefore the selection for ecommerce websites will vary widely, as do shopping habits in different regions. I hope the industry will become more communicative with their online consumers. China is a big market for luxury products and it would be good to see the brands not only educate the customers about the history and story behind their brand, but also provide more personalized products and services.

Online Payment Trends:

There has been a rapid shift in consumer attitudes and preferences for online payments. There are currently around 270 million online retail users in China, according to the China Internet Network Information Centre, out of a population of 1.3 billion. This spells huge opportunities for payment service providers.

The Chinese government has granted over 200 licenses to domestic non-bank third party payment service providers in order to expand the payments ecosystem and promote the development of the online payments industry. This will help to bring greater choice and competition to the domestic payments market.

As a result we see a number of payment companies exploring opportunities to monetize this market through the integration of online shopping channels and loyalty programmes. The market is still dominated by four key players (AliPay, TenPay, Union Pay and 99bill) who collectively hold 85.5 percent of the domestic payments market.⁷

Banks meanwhile have been slow to online payments and the opportunities. However, this is changing and a number of them have already established online payment promotions with partners.

⁷ iResearch
<http://news.iresearch.cn/zt/207283.shtml#a2>



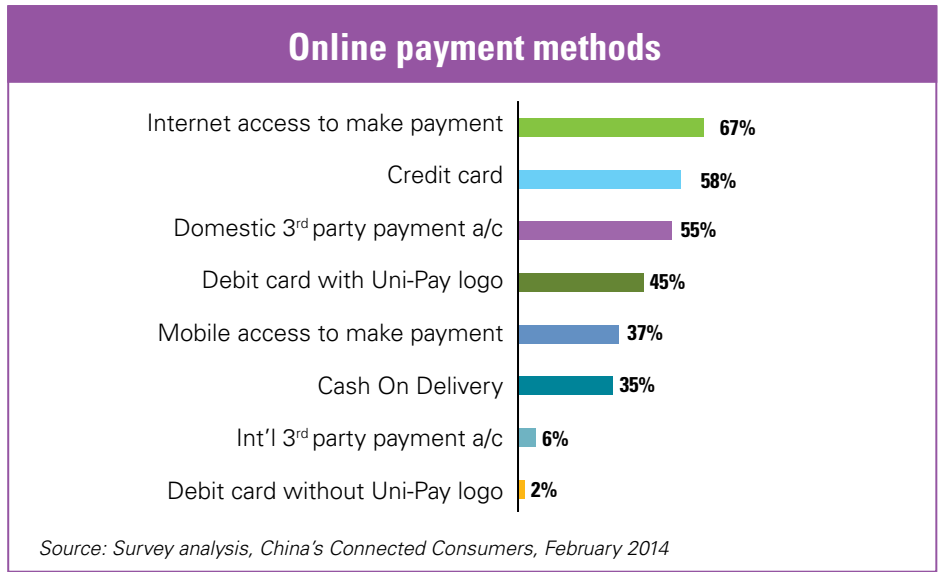
Banks are increasingly looking to expand into the online payments space, including direct linking with consumers and interacting with them online. This is the space that the likes of Alibaba have typically dominated to date and is a good example of the power of disruptive technologies.

Egidio Zarrella, Clients & Innovation Partner, KPMG China, says: "Banks want to now move up the value chain to get closer to the consumer because they see incremental benefits from doing so, as the number of consumers they target increases. They are seeing online retailers entering into this space. They are now innovating in the online payments space to try to get the stickiness of the consumer via broader offerings."

"Banks want to now move up the value chain to get closer to the consumer because they see incremental benefits from doing so, as the number of consumers they target increases. They are seeing online retailers entering into this space. They are now innovating in the online payments space to try to get the stickiness of the consumer via broader offerings" - Egidio Zarrella, Clients & Innovation Partner, KPMG China.

Non-bank payment providers are not regulated in the same way as the banks, which therefore allows them to be more nimble when rolling out products. As the banks get further away from their consumers, they don't have access to valuable customer data and also they see diminishing returns as each transaction value get smaller as they get further away. As they become further removed from the customers, they know less of what they want or need.

Qi Chen, CEO & Co-Founder at Mogujie.com, says: "Most of the banks historically ignored the online payments business as they thought it was only a small piece of the pie. This is changing as they increasingly realise the substantial opportunities from ecommerce in China."

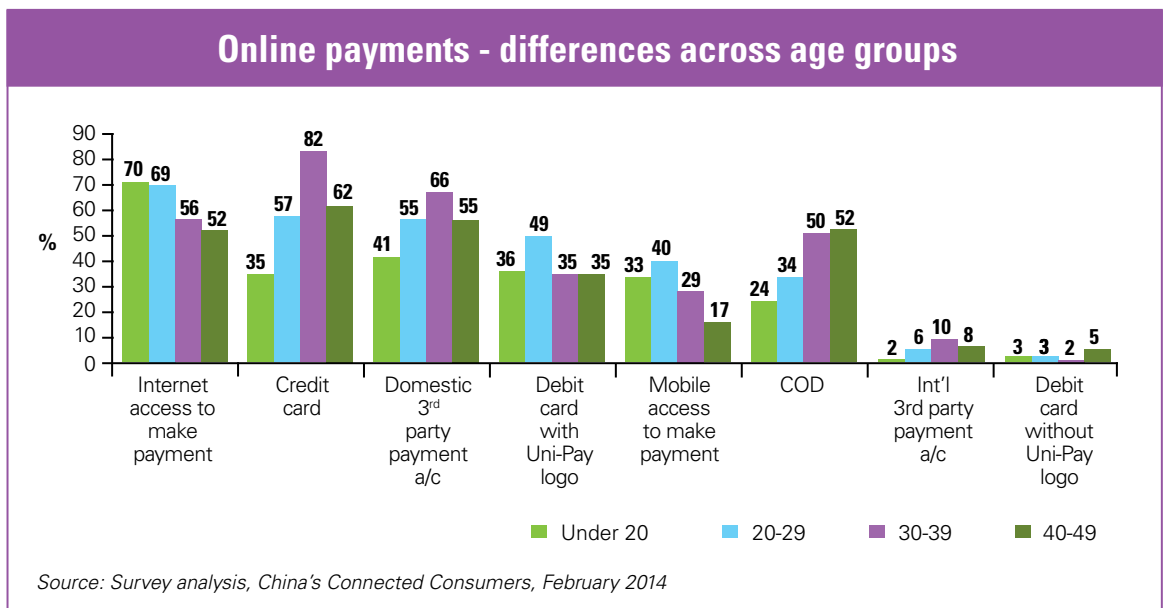


Internet payment systems have risen in popularity in China, particularly with younger age groups of consumers.

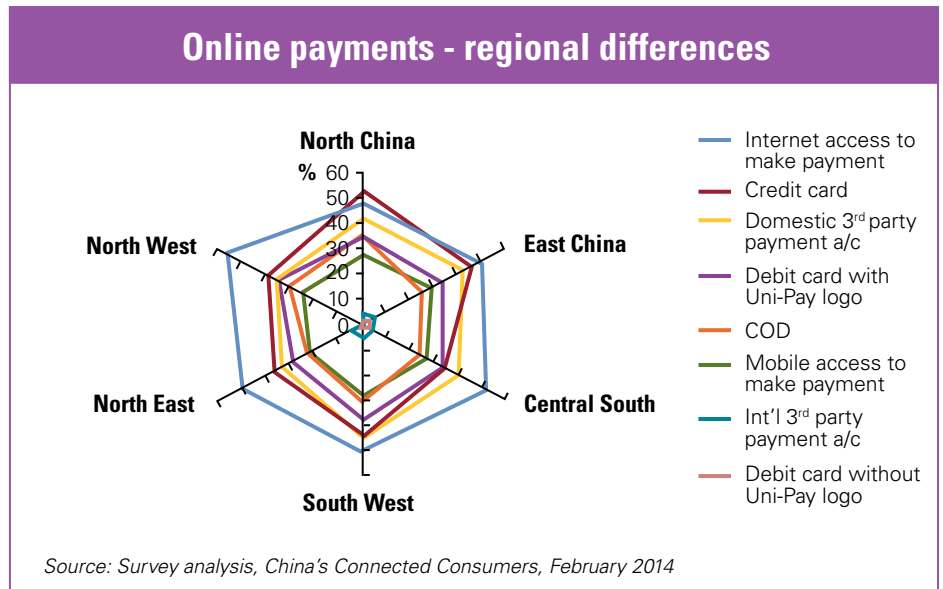
In terms of survey findings, 70 percent of respondents said they use their desktop everyday in order to purchase items or search for information on luxury products. Meanwhile 60 percent said they use their smartphones every day. It is therefore essential for online luxury brands to develop interfaces that work well for both the desktops and smartphones.

Respondents also indicated that they have purchased from 1.7 retailing sites on average in the past 12 months.

Thibault Villet, CEO & Co-Founder, Glamour Sales, says: "Five years ago 70 percent of payments was cash on delivery, this has now swung to 70 percent of online payments versus cash on delivery. Year 2014 will mark the emergence of a new powerful online payment gateway: Wechat payment."



The use of online payments is more dominant in the Northeast and Northwest China. Interestingly cash-on-delivery seems to be more popular in tier one cities.



The market is fragmented with only a handful of sites dominating this space, with some dominating the business-to-consumer retail market while others are key players in China's consumer-to-consumer retail sales.



ABOUT GLAMOUR SALES

Glamour Sales is a leading online flash sales retailer of luxury fashion, lifestyle and beauty for women, men and children across Asia.

We operate two separate e-commerce platforms in Japan (www.glamour-sales.com since 2009) and in China (www.glamour-sales.com.cn since 2010).

We work directly with its 700 + brand partners, without any parallel sourcing, and this guarantees product authenticity, quality and best prices. We have over four million members registered across Asia and we also deliver products to customers (men and women aged 25 to 45) in 1,100 cities across China. Our customer base is equally split across first, second and also lower tier cities.

Glamour Sales China is headquartered in Shanghai, with 160 employees.

At 9am every morning, the company launches five to ten new brand events with up to 80 percent off, and these flash sales only last for 3 to 7 days with limited quantities. The deals are reserved for registered members, and the company has recruited over 2.5 million fashionista members in China.

Investors include the Neiman Marcus Group, Axa and Mitsui.

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ABOUT MOGUJIE

Mogujie is a social community for women, as well as an online marketplace platform which was established in February, 2011. Its users are mostly 18-28 year old female consumers. It now has over 80 million members, with 5 million consumers looking for up-to-date shopping information, fashion products and suggestions on the site on a daily basis.

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ABOUT KPMG

KPMG is a global network of professional firms providing Audit, Tax and Advisory services. We operate in 155 countries and have 155,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

In 1992, KPMG became the first international accounting network to be granted a joint venture license in Mainland China. KPMG China was also the first among the 'Big Four' in Mainland China to convert from a joint venture to a special general partnership, as of August 1, 2012. Additionally the Hong Kong office can trace its origins back over 60 years. This early commitment to the China market, together with an unwavering focus on quality, has been the foundation for accumulated industry experience, and is reflected in the Chinese member firm's appointment by some of China's most prestigious companies.

Today, KPMG China has around 9,000 professionals working in 16 offices; Beijing, Chengdu, Chongqing, Foshan, Fuzhou, Guangzhou, Hangzhou, Nanjing, Qingdao, Shanghai, Shenyang, Shenzhen, Tianjin, Xiamen, Hong Kong SAR and Macau SAR. With a single management structure across all these offices, KPMG China can deploy experienced professionals efficiently and rapidly, wherever our client is located.



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KPMG Global China Practice

KPMG's Global China Practice

KPMG's Global China Practice is a community of professionals whose core objective is to provide high quality, consistent services to China inbound and outbound investors around the world. With teams of China experts, cross-border investment advisors and Mandarin speakers in KPMG's network of member firms, the Global China Practice brings China insights and China investment experience to Chinese clients investing overseas, and multinational clients interested in investing or expanding in the China marketplace.

With senior professionals based in China working together with local member firms in roughly 60 key locations around the world, KPMG's Global China Practice has the technical, regulatory and industry experience – and the commitment – to help clients achieve their internationalisation and globalisation strategy.

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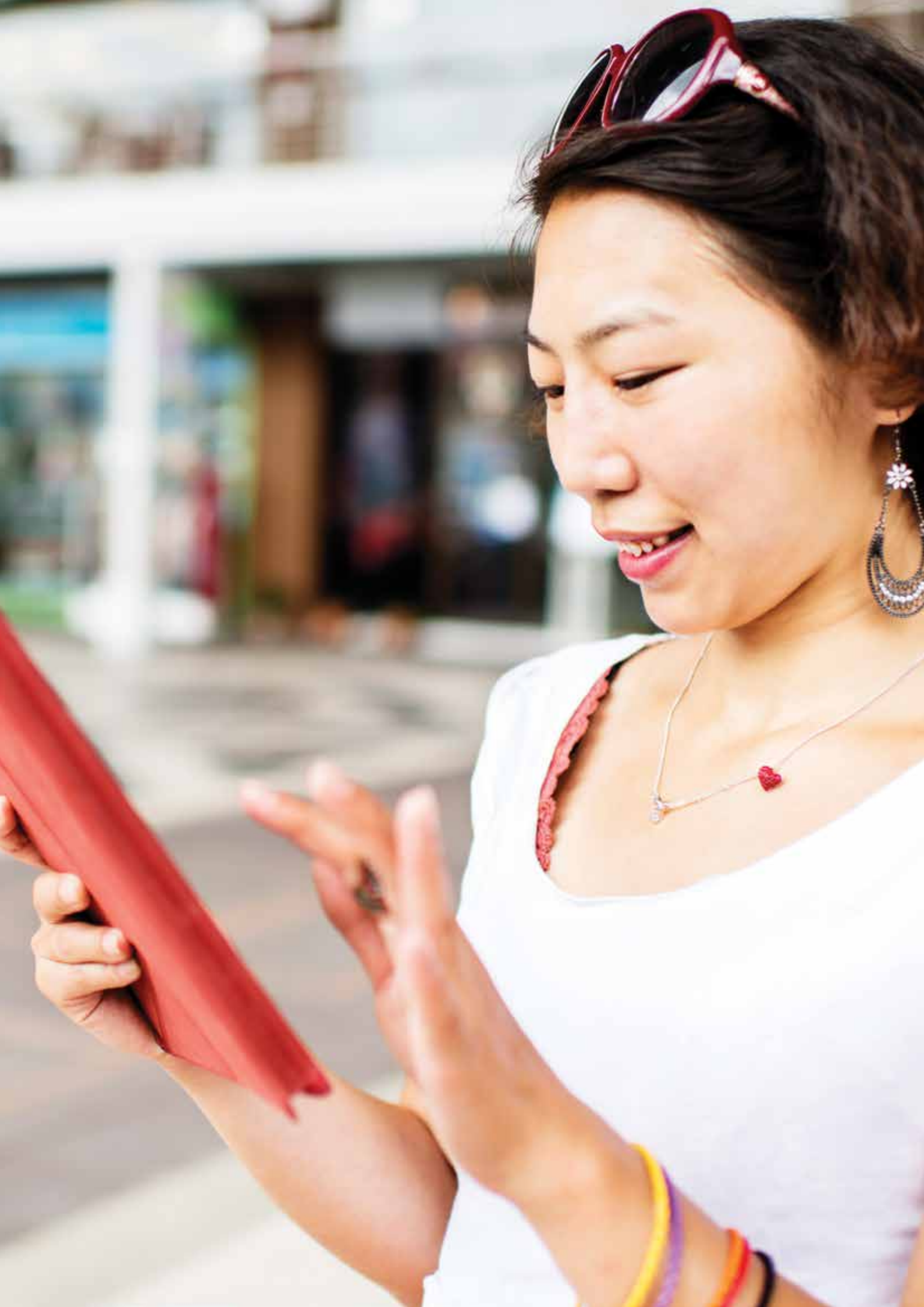
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