



# Retail Trends in China



WHAT'S IN STORE FOR THE  
YEAR OF THE MONKEY?



# The Rebalancing Continues



With the continued rebalancing of the Chinese economy, 2016 could be characterised as another year of change for China.

The Year of the Monkey, 2016, is also set to be another year of Chinese transformation, as China continues down the path of becoming more of a consumption rather than a manufacturing economy.

The Chinese retail sector is at the intersection of much of this transformation and, with the rapid growth of e-commerce, Chinese retail is changing and adapting fast.

To help you focus on what is important, we have synthesized the multitude of change into 8 key retail trends in China for the Year of the Monkey that we think you and your teams should be thinking about and creating strategies to address.

No one has more experience in the field, at the sharp end of retail, than the Smollan and Always partnership, with activities in retail field marketing and activation in well over 600 cities from one side of China to the other.

To learn more about the Chinese New Year and how the holiday unlocks year-round brand and retailer opportunities, download this informative and visual BrandZ™ study: [www.wpp.com/chinanewyear](http://www.wpp.com/chinanewyear).

We hope that this will help develop your insight into China, and help you better understand the fast-changing business of retail in China.

Wishing you a very happy and successful Year of the Monkey



## Foreign flavors

**There has been an influx of international products and brands into China in the past year, and this will continue in the Year of the Monkey. Tmall Global, the international division of the huge eCommerce platform Taobao Tmall, has been instrumental in fuelling growth in sales of foreign brands, linking sellers with a ready market of Chinese consumers whose appetite for international goods is strong.**

Tmall Global's promise - "100% foreign original authentic, 100% foreign merchants, 100% domestic return" - speaks directly to consumer sensitivity around food and product safety and the demand for reassurance on authenticity, as well as a desire for international fashion and the latest consumer durables.

Thanks to digital platforms and fairly straightforward customs regulations, many more international brands are finding the time is now right to dip a toe in the lucrative Chinese market. Cross-border sales - some official, some not - have long been a way for Chinese consumers to experience new brands,

and we see digital sales platforms growing in appeal for international brands taking the plunge in this market.

Electronics and apparel have for some time been strong cross-border sellers online in China, and we now see growing sales of international brands in FMCG products, particularly those relating to baby care, health and nutrition, given ongoing domestic concern about safety in these categories. Those consumers who have had the means to travel internationally to buy foreign brands will continue to do so, but, by providing these goods through trusted online channels, brands have an opportunity to connect with many millions more people.

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## Back to reality

**In the battle between online and offline retailing, online has been making extraordinary gains in recent years, largely at the expense of physical retail. Yet sales volumes offline still vastly exceed those in ecommerce. Increasingly, retailers are discovering the value of linking the strengths of online and offline, and using them in combination.**

The Chinese government believes in a healthy retail market which includes both strong online and offline components, so we are expecting policy announcements which will stabilize the physical retail market. We have seen significant investment by online shopping platforms in their offline capabilities, and this is driving growth in online-to-offline (or O2O) retailing.

Alibaba's \$4.6 billion link-up with bricks-and-mortar electronics chain Suning Commerce Group is just one of several high-profile investments in the fast-developing O2O market in China, and more are likely to be on the way. Alibaba rival JD.com had been seen to have the

edge when it came to customer service, and the O2O deal puts Alibaba back in the game. The idea of O2O is to give consumers the best of both worlds - the experience of shopping in person at a store, and the convenience and competitive pricing of online. It makes business sense for offline retailers to move in this direction, too, as cash generated online can be invested in bricks and mortar, and online browsing can drive footfall in physical stores. In the overlap between ecommerce and physical shopping, large volumes of stock can be shifted with a click - and a high-value, personal and physical experience can be delivered in the real world.

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## A change of pace

**As China and the businesses that operate within it adjust to a slower pace of economic growth, the Year of the Monkey will be a crucial one; those with strong products and strong brands stand to do well. Others are likely to fall by the wayside.**

Legendary investor Warren Buffett says that when the tide goes out, you can see who's been swimming naked. In China right now, there will be more than a few c-suites where managers are wishing they had a towel handy.

This is a market that may be delivering sluggish growth in comparison to the rates we've grown accustomed to in China - but it is still growing. Now, however, that slower growth, coupled with volatility on the stock markets, means there is pressure on consumer confidence and spending, and that

means only the strongest brands will now benefit from China's growth.

This year, we believe, will see a shake-out; for the businesses that have invested in their brand during times of fast growth, and which have built a relationship with consumers, this could well be beneficial, as competitors that have cluttered their category struggle and disappear. For those who have not yet earned a place in consumers' hearts and minds, the coming year will be an enormous challenge.





## Spotlight on shoppers

**Shopper marketing has been an area that brands and, often, retailers in China have battled to understand. We believe that the Year of the Monkey will be the year that the value of the shopper - as a way to grow both brand preference and market share - comes into focus.**

Brands have traditionally sought to win over Chinese consumers using price as the main attraction. Online and offline, retailers and brands have for too long taken the easy option and pulled the price lever to boost sales. The problem has been that, as a result, loyalty has been hard to achieve, and this lack of loyalty is becoming evident now, with slowing growth making it difficult for brands and retailers to keep cutting prices.

We see forward-thinking brands now starting to focus on the shopper, and seeking out ways to win at the all-important point of purchase. A tremendous amount of decision-making happens in the so-called last mile, and the brands that understand shopper behavior stand to strengthen their position. In a

slowing marketplace, the brands that rely on price in order to win may succeed in the short term but will ultimately lose. This is the year in which those that have invested in brand equity will be in a stronger position.

Brands and stores that understand the factors - beyond price - that trigger a sale at the point of purchase can now stand out, and that can mean the difference between life and death. Investment in improving the execution of cross-platform campaigns in the retail space will increase, as will spending on improving the presence of brands on the shelf. The bar for quality in shopper marketing will be raised this year, and those that execute poorly will lose crucial sales.

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## Happy families

**The decision by Beijing to end the decades-old One Child Policy means that from 2016, approximately 90 million couples will be allowed to have a second child. The implications of this change in policy are huge for the broader economy and for retailing specifically.**

There will, undoubtedly, be a surge in consumption of products and services for babies, young children and their parents. Credit Suisse estimates there will be 1.2 million babies in total, born in China in 2016 alone. Given that the annual cost of raising an infant is 40,000 yuan, this will result in a 4.8 billion yuan boost to the economy. Parents are likely to reduce the amount of money they save in order to buy the things that their new arrivals need, and the market for baby formula milk is expected to grow by 6% in 2016. We have already seen new brands of formula enter the market as a result;

there is little consumer confidence in local infant formula, and the demand for international brands in this category is intense.

The longer-term effects of the shift in policy will be seen in the amount of food each household consumes, the need for bigger housing, additional spending on clothing, medical care, higher utility bills and possibly even bigger cars. All of this additional spend will give a welcome boost to China's GDP, as well as helping address the need for a growing number of young people to help care for the country's ageing population.

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# Small-screen social experience

**The rise of mobile commerce is changing not only the way people make a purchase, but also how they research, experience and share information about the brands they consider. Chinese consumers are increasingly sophisticated and technology savvy, and social media content is deepening its influence.**

Consumers are demanding a more personalized shopping experience both online and in bricks-and-mortar stores. They want great service, they expect products to be available right away, and they want fast delivery. But simply meeting these expectations is no longer enough; it is just the minimum, and there is little margin for error. To mark themselves out among savvy and connected consumers, brands and retailers must now deliver a great experience.

That experience must translate - especially given the growing spending power of the expanding millennial age group - across all platforms. It is now essential that mobile and social media are as seamless a part

of the shopping experience as they are a part of consumers' everyday lives. Content that works on a mobile - from both a function and an engagement perspective - is the first hurdle in the race to deliver a great mobile experience.

Demand for more, better mobile content will grow in the Year of the Monkey, driven by the rise in mobile commerce. This requires a fresh approach to marketing; one that delivers a sense of closeness to the consumer and one that reflects and anticipates the way people use their mobiles to shop. The intimacy with which consumers relate to their mobile phones must translate to the relationships that brands and retailers build and the experiences they deliver.

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# Portable payment

**The role of mobile phones in consumers' lives will lead to increased use of mobile payment solutions in the year ahead. To meet consumers' demand for convenience and security, growing numbers of retailers are expected to provide mobile payment options.**



Accustomed to using mobile phones in every aspect of their lives, consumers in China now want to be able not just to discover products and compare prices on their mobile, but to be able to complete a purchase and pay for it securely without having to look up from their screens. There are huge opportunities for retailers and brands to satisfy this appetite for technology and convenience.

Mobile payment solutions enable retailers to attract new consumers and encourage shoppers to complete a purchase on the spot. The mobile also creates a perfect

platform on which retailers can extend their marketing and advertising - and drive loyalty programs. Recent developments in mobile payment include Alipay's integration into European checkouts, and leading e-tailers developing their own in-house payment solutions, such as Walmart Pay. We expect to see more of these types of solutions in the Year of the Monkey.

These payment solutions have the added benefit of generating valuable data which, when added to the streams of data that retailers already collect, will enable stores to better target

consumers with products, services, marketing messages and loyalty offerings that are more likely to hit their mark.

All of these pay points are adding to the ecosystem of data and will provide a new axis with which to target consumers, this will shift even more of the control towards businesses like Alibaba and Tencents Wechat. We see this being a crucial pivot point in the mobile payment power play and perhaps the quickest move away from traditional payment as the resulting data generated from it will increase the influence of those companies that control it.



## Pooling resources

**One of the ways businesses in China will adjust to slowing economic growth is to focus on efficiency, delivering strong productivity while reducing costs. Crowd-sourcing labor is one way to achieve this, and we expect to see this help fuel agile brands and businesses in the year ahead.**

The competitive nature of the in-store environment means brands have had little choice but to use traditional sales and promoter businesses; in a tougher economic climate, the need to connect with stores and consumers is just as important, but the pressure on costs means brands are looking for new ways to achieve this.

Crowd-sourced labor - something we've seen succeed in many mature markets - is something we expect to see more of in China's retail industry

in the year ahead, particularly in lower-tier cities where there is a hunger for market information but not necessarily the budgets to gather it in the traditional way. Deploying people whose work is paid for in 'slices' of time can help give brands a presence in remote places at a very reasonable cost. This approach has, until now, been mainly used by start-ups trying to minimize their cash burn; this year, we expect crowd-sourced labor to be deployed by more mainstream brands as they work to reduce costs.



# History of the Chinese New Year

**THE CHINESE NEW YEAR, KNOWN IN CHINA AS SPRING FESTIVAL, IS THE COUNTRY'S MOST IMPORTANT HOLIDAY.**

The Chinese New Year is based on a calendar established about 4,700 years ago. Various legends explain the origin of the Chinese New Year. One describes how people dreaded the New Year because a fearsome beast named Nian annually terrorised the population and devoured children. Then one year a child appeared dressed in red. The beast, frightened by the color, fled and never returned. That's why the Chinese New Year traditionally features red lanterns and noisy firecrackers to ward off evil spirits.

The Chinese New Year is based on a calendar that calculates time using both lunar and solar events. Time passes in 12-year cycles, with each year represented by an animal of the Chinese zodiac.

Traditionally, people prepare special foods and hope for a future of good luck. They attend many family dinners, starting with a New Year's Eve feast. Travel home for the family reunion produces a mass migration. The New Year period culminates in the lantern festival, a joyful celebration around the first new moon in the lunar New Year.



To learn more about the Chinese New Year and how the holiday unlocks year-round brand and retailer opportunities download this informative and visual BrandZ™ study.

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## The Year of The Monkey Chinese Astrology

### **MONKEY YANG, (FIRE)**

Believers in Chinese astrology attribute a person's personality characteristics to the profile of their birth year animal. It's not that simple of course. According to the Chinese view of the world as being composed of opposites, the animals of the zodiac are divided equally: yin animals and yang. They are also linked with similar animals into categories called trines.

In addition, each animal is connected to one of five elements: wood, fire, earth, metal and water. The possible combination of animals and elements produces a 60-year cycle and a complicated system of astrology.

People who are born in the Year of the Monkey are believed to have the following characteristics:

They tend to be inventors, motivators, problem solvers and improvisers. They are quick-witted, inquisitive, flexible, innovative, self-assured and polite.

They can also be egotistical, arrogant and reckless.



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Methodology and Valuation by  
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Smollan is an international field marketing organisation delivering growth for clients across five continents. With extensive industry experience, an exceptional human platform and sophisticated systems, Smollan has provided consistent excellence in operational execution to retailers and manufacturers for three generations.

Smollan delivers growth by acting as an extension of our clients' brands:

- Ensuring perfect representation on shelf through outsourced sales forces, and in-store merchandising, stock management and promotional implementation;
- Engaging shoppers to create an experience that delivers on the client's brand promise; and
- Providing actionable insights into the trade through Smollan's technology offering of category management, dashboard reporting and a custom mobility platform.

Engaging with customers to understand their needs and providing insight led solutions through advisory services in markets across the countries in which we serve.

From a traditional sales agency, founded in South Africa in 1931, Smollan has grown into a full marketing services company with over 60,000 people.

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