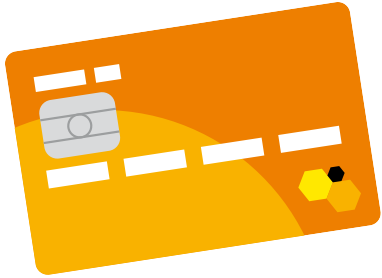


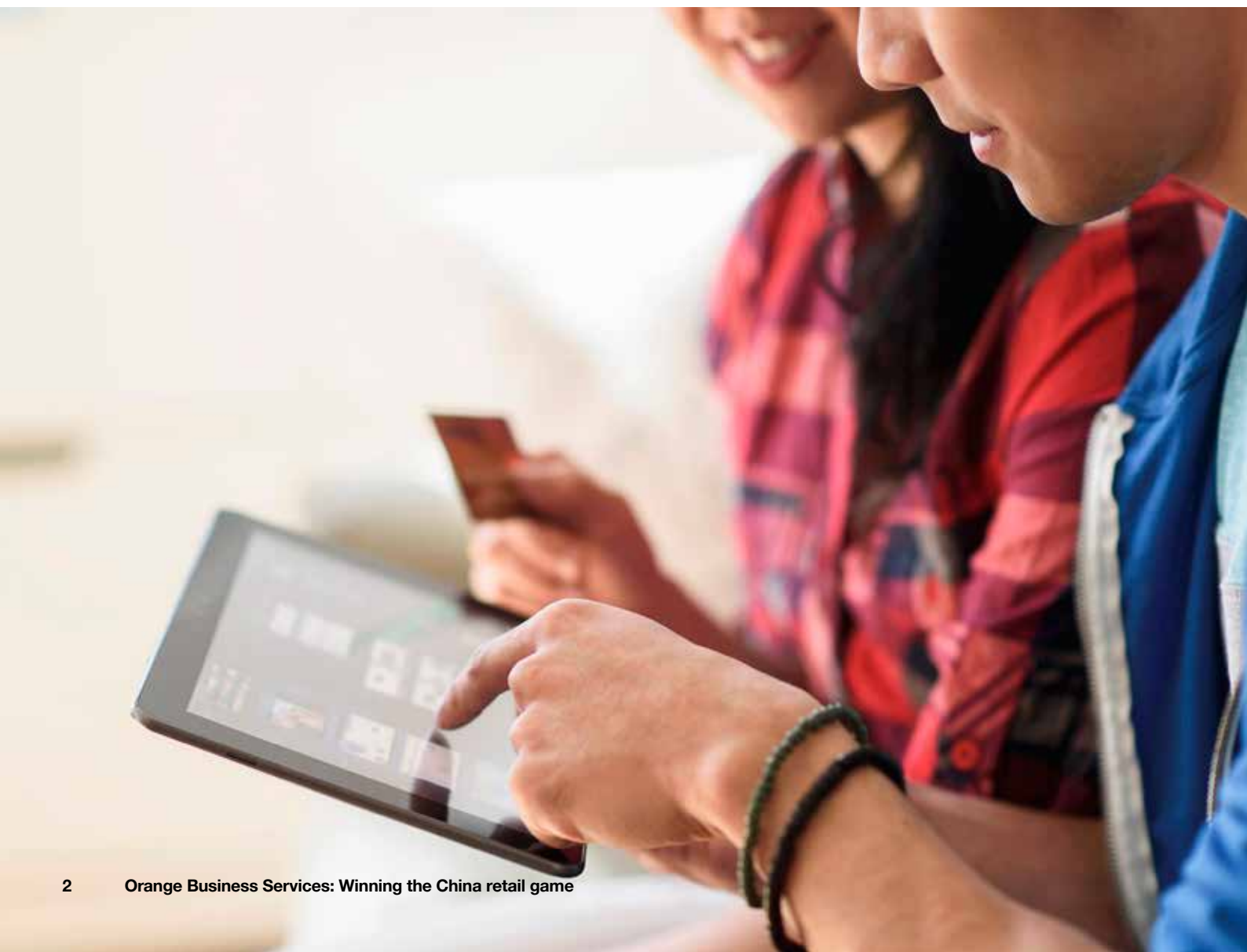
Winning the China retail game



**Business
Services**

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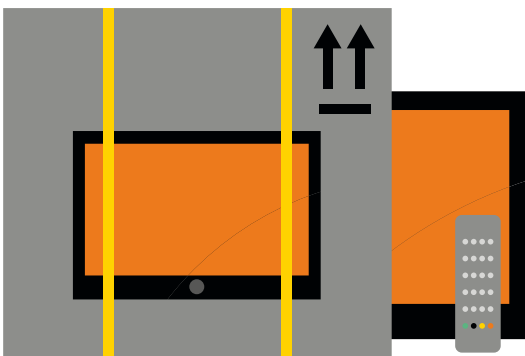


Retail in China: keeping the dragon soaring

The retail industry in China is transforming rapidly, and is proving more innovative than its western counterparts while growing faster. Digital transformation, in the form of new digital processes, changing customer habits and demographics and changes in regulations that promote consumer spending, have all seen China rise like a “Golden Dragon” and take the lead in the global retail industry.

As China has changed, so too have customer preferences. Chinese customers have enthusiastically adopted digital platforms, blurring the line between physical and digital channels, and have now embraced the power of Omnichannel shopping. They now expect a seamless, integrated “anytime, anywhere” retail experience. These moves are pressuring retailers to change processes and capabilities to meet new customer expectations, creating significant opportunities for agile, progressive retailers who recognize the importance of the overall customer experience to their success.

“Customers now expect a seamless, integrated “anytime, anywhere” retail experience.”

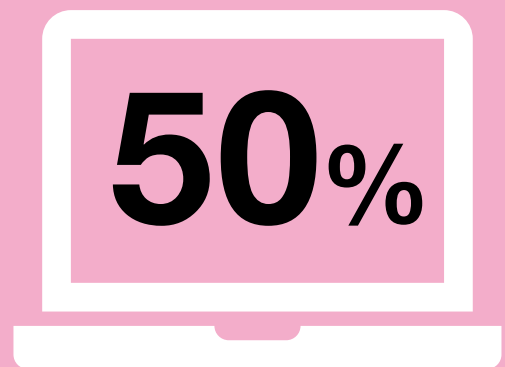


The next generation consumer

Customer experience is the new imperative, as customers demand adaptability from retailers. Failing to keep pace with rising customer expectations can only see retail businesses fall behind competitors.

In China, the rapid rise in online and mobile shopping points to an increasingly sophisticated consumer who moves seamlessly between physical and digital channels. Chinese consumers regularly visit Brick'n'Mortar stores and e-commerce sites, while also interacting with brands and one another online via social media channels. According to KPMG research, almost 50 percent of Chinese consumers purchased a product online at least two to three times per month in the past year, dwarfing the global average of 27.9 percent¹.

The convergence of digital and physical shopping channels means retailers must devise an effective Online-to-Offline (O2O) strategy to adapt to changing consumer preferences and remain competitive. Retailers who enhance both online and offline offerings are better positioned to provide an improved customer experience.



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Looking beyond China's big cities

In rural China, shoppers have been spending more².

- Spending has increased 11.9 percent year-on-year.
- Spending growth in rural China is expected to exceed that of the coastal regions – particularly areas where average annual income is US \$2,000 or more and with a 1 million+ population city nearby.
- Per capita income for farmers has reached US \$1,800, a threshold that has seen a surge in consumer spending in other parts of China.
- By the end of 2016, online shopping in rural China was worth US \$130bn, around 17.4 percent³ of total national online shopping.

There is a dichotomy between urban and rural China: the rise of the country's megacities has distracted from the fact that rural China is still home to 622 million people⁴. Workers who have migrated to cities send around US \$45 billion home to their families each year, prompting China's leaders to act. Measures taken include:

- Improving infrastructure to give farmers more freedom to manage their land
- Investing US \$22 billion to ensure 98 percent of rural areas are connected to the internet by 2020
- Poorer rural communities have been targeted by the government's anti-poverty drive – with a target to eradicate it by 2020.

As a result China's rural middle class now has more disposable income, and, crucially, now has access to more products and brands than ever before. Disposable income rose by 6.3 percent – and shoppers are now doing what the government wants them to, to save less and spend more.



11.9%

increased spending
year-on-year in
rural China.

Succeeding in Chinese retail

As in most other industries, the old rules no longer apply to retail. To make the most of this diverse, fast-moving and competitive market, retailers can secure demand from today's Chinese consumers by:

- **Transforming customer service**
- **Integrated Omni-business operations**
- **Building collaboration & partnerships**

Retailers who want to succeed in China must find ways to differentiate themselves via at least one of these capabilities.

Transforming customer service

Customer experience management (CEM) is at the heart of transforming customer service, and is about creating differentiated experiences across the touchpoints customers use to interact with a company. The customer experience takes place both in-store and out of store, again underlining the importance of a strong O2O strategy on the part of retailers – today's customer must enjoy an online, out of store experience that is seamlessly comparable to the in-store experience.

Digitization of the contact center

Contact centers are just one of those essential CEM touchpoints, as they enable good first impressions of IVR and voice recognition, reduced waiting times, 24/7 availability, language options, first call resolution and, above all, “know me” and “value me” approaches.

Rising customer expectations have prompted an increasing focus on new technologies that can improve the customer experience and drive customer satisfaction. Among these approaches is the digitization of contact centers using **Chatbots** and **Predictive Voice Analytics**. However, local language and dialect capabilities in these tools are crucial.

Chatbots

Today, “conversational commerce” is gaining greater traction with retail companies. Enhanced communication between retailer and customer improves overall satisfaction thanks to a better rapport between customer and company. Chatbots are increasingly effective in addressing basic customer pain points as accurately and efficiently as possible and help cut through information clutter to shorten the time needed for customer questions to be answered.

Leading Chinese online retailer

Leading shopping mall operator deploys Contact Center solution to enhance global customer service and reduce costs. Company is one of the world's biggest B2C online computer retailers, twice the size of Amazon, with 51M registered users and 8,000 suppliers in China. Sells over 1 million different products with more than 400,000 orders per day. Challenges included increasing volumes meaning existing call center became a bottleneck and unable to scale to 10,000 agents. Company needed multimedia channels – voice, web chat, email, and wanted to reduce Call Waiting Time (CWT) while increasing first call resolution rate and lowering operational costs. Solution was to implement Global Contact Center Solution (SIP) to support 5,000 agents in China, including Nice Voice Recognition, Audiocodes voice gateway, Nuance ASR and Text to Speech (TTS) plus IVR for customer self-service. SLAs ensured service levels, program and partner management was provided by Genesys and Verint. Retailer saw great benefits, including improved CWT, reduced abandon rate, better first call resolution rate via direct transfer to suppliers plus reduced operating costs using call distribution across multiple locations, better agent flexibility. 1,000 agents on system in first month and high availability ensures continuous customer service.

WeChat backing bots

Chatbots drive customer experience

Chinese social media giant WeChat was an early adopter of chatbots as a customer experience tool. Chatbots are integrated in the WeChat app to enable an ecosystem offering its services and solutions. Chinese consumers appear to like chatbots as they give them a good initial relationship with the company and a chance to have meaningful conversations. The digital customer experience approach is working for WeChat, as the company seen reduced churn and growing user rate.



Implications for retail

- Availability of 24/7 personalized support online
- Omnichannel support to increase customer satisfaction
- Faster delivery of information to customers
- Ability to achieve deep customer engagement and interaction
- Enhanced in-store customer experience

Predictive analytics

With more transactions taking place online or via mobile devices, retailers have more information about transactions and events leading up to them. Through this, companies can determine what consumers are likely to buy based on their history, enabling retailers to present specific offers or products to them at identified prices, increasingly probability of a sale.

Also, contact center interactions are increasingly becoming sources of data. Phone calls can be analyzed for customer behavior, communication style and emotional intelligence and used to drive greater customer satisfaction. The significant amount of data collected and analyzed can be used across the variety of retail functions. This enables companies to better identify customers' needs and interact with them across multiple touchpoints and improve the overall omnichannel model.

Implications for retail

- Using big data analytics to develop more accurate forecasts of customer demands
- Can offer more personalized products, promotions and prices to customers
- Better engagement and understanding of customers by better predicting and delivering based on their retail preferences
- Development of human-centric user design on digital platforms

Aeon enhances customer experience by studying customer behaviour

Asia's largest retailer, Aeon Co. Ltd, is pursuing a digital strategy designed to enhance the customer experience, according to Jerry Black, Aeon's Executive Officer and Deputy President of Aeon Retail in charge of digital⁵.

"Our focus is on understanding what a customer is interested in so we can improve the recommendations and the timeliness of the offers to that individual," says Black. Aeon is also exploring the use of artificial intelligence (AI) for analyzing unstructured customer data from internal and external sources. "The advantage of AI is the ability to use it to analyze unstructured data from social media and online trending topics," notes Black.

Aeon is also monitoring customer behavior on websites and mobile devices to get a better understanding of customer interactions. "Ultimately, we are trying to integrate physical store shopping with online browsing behavior so we can provide a total customer experience, our goal is not just to use this information to understand what happened but also to understand why it happened," says Black. To integrate customer online and in-store experiences, Aeon is implementing "Aeon Style" to better engage with customers and help them learn about brands both digitally and physically.



Integrated Omni-business operations

To stay at the forefront of the market, manufacturers and their supply chain partners are transforming themselves into digital-first, customer-centric and fully integrated “Omni” businesses. Integration of front and back-end systems is now essential to establishing a supply chain where product information is shared and visibility is ensured across the entire chain, including partners.

A seamless flow of information between retailer and partners is a major challenge: Products pass through multiple levels of a supply chain, meaning information can get lost or corrupted – which undermines retailers’ ability to provide goods at-scale and at-pace requested by highly expectant Chinese consumers.

Enabling this integration means removing complex, inflexible and costly legacy systems and vertical applications, and embracing robust cloud or hybrid cloud platforms that enable the seamless, efficient movement of information.

- Chinese firms’ annual investments in cloud services **will closely match the global average over the next 1-3 years.**
- Chinese retailers are **much more likely to move to cloud services to reduce capital expenses** than the global average - and more likely to adopt cloud services to better enable mobile workforces.
- Chinese retailers find **data loss and privacy risks and loss of control over IT services more challenging** than the global average – and are less likely to be challenged by governance issues.

Implications for retail

- Increased ability to move information across multiple platforms at faster rates
- Hybrid cloud helps ensure compliance with data privacy regulations inside and outside China
- Potential partnering with telco businesses to build resilient cloud systems

“The move to cloud and Infrastructure as a Service (IaaS) was a logical step for us, but we needed a global partner that could help us to realize the potential short-term benefits on cost and flexibility together with providing a long term platform to support our growing business.”

Leading global luxury retailer

IT Flexibility supporting growth for a global luxury retailer

Leading Global Luxury Retailer deployed cloud computing to increase IT flexibility to support regional growth and cut costs. Company has over 9,600 employees in 457 dedicated stores worldwide in 6 regions; Japan, China, Asia Pacific, Europe, NAM and Latin America. Challenges included the company’s existing infrastructure model being unable to respond quickly, flexibly and cost-effectively to rapid growth. The company also wanted to consolidate 4 major data centers in Singapore, Japan, China, Hong Kong into 1 in Singapore while reducing operating costs and improving efficiency of global IT team. Also had a need to future-proof operations for the future by creating a platform and switching to a service model. To address this the company deployed Orange Cloud Computing (Infrastructure as a Service) plus a comprehensive catalogue of ‘pay-as-you-go’ services and managed servers, both physical and virtual. The solution also included application operational support, data storage and backup/restore, security services, a self-provisioning customer portal and SLA service management. The benefits delivered were increased IT provisioning flexibility via easy-to use self-service portal, lower, more predictable costs by moving from CAPEX to OPEX model, enhanced security and resiliency to support Business Continuity (BC)/Disaster Recovery (DR) strategy, improved reporting and cost visibility and a reduced data center footprint.

Building collaboration & partnerships

Retail faces increasing demand for a “one-stop” retail experience, where consumers can fulfill as many needs as possible in one place. To address this, retailers need to transform operating models, using partnerships to develop joint business models. Today’s consumer expectations mean the end of the era of silos and the need for retailers to collaborate to enhance service portfolios.

Partnerships between retailers, brands, financial institutions and technology service providers are growing fast. They are a great way to differentiate your offering to today’s well informed, connected consumer in a crowded marketplace. Chinese companies that focus on innovation and leveraging strategic partnerships to stand out from their competitors are those that can be at the vanguard of the industry – using digital transformation.

Collaboration at Hershey Chocolate Company

“Hershey is very sensitive about preserving a harmonious relationship with its retailers”, says Michele Buck. “For us, the vast majority of our sales go through our retail partners. We direct consumers to those retailers. We’re tracking consumer behavior on our website and in social media, but we direct consumers to retailer websites to buy”.

Hershey has nine ‘Chocolate World’ brick and mortar stores, two of which are in China, which act primarily as marketing vehicles and an opportunity to engage with customers. “We also use them to test new store displays and technologies that help shape our thinking more broadly about the retail experience and merchandising solutions, such as an attraction that allows people to create their own chocolate bars”, says Buck.

Hershey’s close collaboration with retailers is blurring conventional boundaries. “We are interacting with retailers differently on geotargeted or location-based messaging and partnering with retailers to help them find new ways to sell products”, adds Buck.

Implications for retail

- The innovation we are seeing in China’s retail space is unparalleled and the right partnerships are a key part of that transformation. Developing your own solution was historically a successful strategy, but today that approach can be too slow and expensive.
- The need to ally and work with the right partners is key to navigating the various shifts in retail as well as the IT systems that will enable the retailer of the future, such as cloud and IoT tools. Finding the right partner to work and grow with you is essential, as is the ability to execute successfully in your local market. Furthermore, in China as different demands emerge across different Chinese cities, collaborations with local partners who know the local landscape will be the smart choice.

“Consumer companies coming to China often create strategic alliances with innovative companies that can help them penetrate the market. For companies without the in-house talent, a partnership can be a valuable strategy, because it can be difficult to change the DNA of your own company. Partnerships can help bring in new ideas and business concepts, and help a traditional manufacturer or retailer make the omnibusiness transformation.”

Jessie Qian, Head of Consumer Markets for KPMG China



Key insights and takeaways

Disruption to the retail sector via consumer shifts and technological advances is accelerating the rate of change faster than conventional business processes can react. To stay ahead of change, Chinese retailers are using digital to respond to the needs of customers across all channels and at every point on their shopping journey.

- **Greater collaboration with different stakeholders in retail to differentiate offerings and for better customer satisfaction.**
- **Digital technology is addressing a new generation of customers and their service expectations.**
- **Establishing an omnichannel business model that promotes integrated, seamless data movement.**
- **Strategic partnerships to expand into new markets and improve competitiveness.**



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