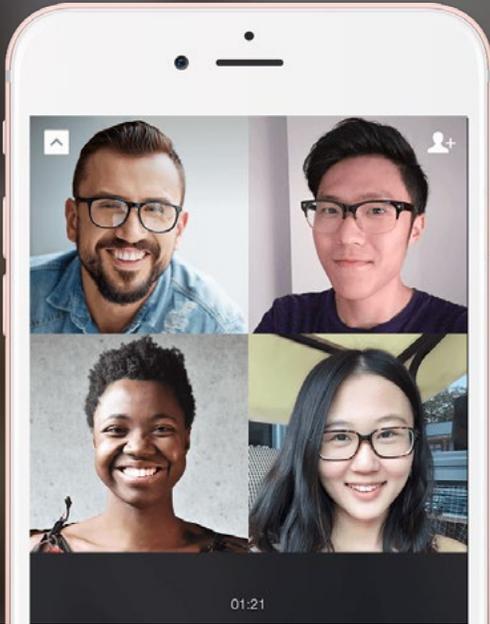




# MOBILE CHINA: WECHAT STRATEGY FOR RETAIL BRANDS

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# WHY SHOULD WE CARE ABOUT WECHAT?

Since its arrival on Chinese mobile devices in January 2011, WeChat has dominated the mobile landscape, amassing over **700 million active users** and over 40% of messaging market share in APAC<sup>1</sup> and edging out competitors like Facebook, Weibo, Viber, and Whatsapp. WeChat has **93% penetration** in Tier 1 cities in China, and it is estimated that over **55% of China's mobile traffic is conducted on a WeChat** or Tencent application<sup>2</sup>.

## WHAT'S INSIDE:

In the following document, EPAM's APAC Team:

- Examines some of the broader eCommerce and digital behavior trends observed through their work with clients across the region
- Summarizes findings from ethnographic research with participants in Chinese Tier 1 and Tier 2 cities
- Provides recommendations for businesses considering market entry or their market strategy in China

<sup>1</sup>Tencent Data, 2016.2

<sup>2</sup>KPCB and Hillhouse Capital, Internet Trends 2016

# WECHAT: TRANSACTIONAL RENAISSANCE APP

WeChat is rightly famous for the breadth of functionality it supports. Users are able to share their daily moments, instant message, shop, conduct internet banking, manage finances, pay credit card bills, split tabs, hail a cab, and so much more.

A relentless focus on user experience has allowed WeChat to provide a platform that, while sprawling in ambition, is both useful and easy to use. The platform has bridged the gap between digital and physical worlds to allow seamless payment and information sharing via QR code, which is a mainstay in APAC interaction design.

Indeed, mobile payments are big in APAC, and in China especially. Neilson reports that 99% of Chinese with mobile devices use mobile payments<sup>3</sup>, and the average WeChat Wallet user makes over 50 transactions per month<sup>4</sup>. Meanwhile, growth continues unabated, with the proportion of WeChat Wallet users doubling from 2015 to 2016<sup>5</sup>.



## WECHAT FUNCTIONALITIES



- Social life
- P2P Payments
- Taxi
- Transportation
- Credit Card Payments
- Book a Flight/Hotel
- Finance
- Networking / Marketing / Dating
- Chat / Messaging
- Shopping
- Public Services
- ...

## HOW COMPANIES USE WECHAT

### SUBSCRIPTION ACCOUNT

This account allows a business to push content to subscribers once per day, and is primarily used for news and marketing campaign efforts.

### SERVICE ACCOUNT

Businesses can only push messages to subscribers once per week, but the account comes with far more complex integration, including APIs that allow for full-scale HTML5 mCommerce experiences.

### ENTERPRISE ACCOUNT

This is a corporate account supporting internal business efforts. For example, EPAM has developed a suite of WeChat integrations for vacation tracking, HR, and employee training.



# DIGITAL OUTDISTANCES PHYSICAL RETAIL

Digital giants like Alibaba and JD.com, alongside new entrants like Tencent, have been taking market share from brick & mortars in the retail space. In September, a prominent Chinese think tank forecasted that up to 33% of all shopping malls in China will be shuttered in the next 5 years<sup>6</sup>.

They predict the 2,600 retail centers that remain today will transform in some way, either into experiential shopping centers or by adopting hybrid online-to-offline models.

Large mall operators like Joy City Property and Maoye International have posted profit warnings this year<sup>7</sup>, and department stores have been hit especially hard, with sales contracting 7 percent in 2015 according to Fung Business Intelligence Centre<sup>8</sup>.

Meanwhile, the growth in eCommerce forges upward. Data from the McKinsey Global Institute indicates online shopper growth has increased 43% in Tier 1 and 2 cities and 61% in Tier 3 and 4 cities in 2016. China's online retail market represented nearly \$630 billion of sales in 2015, which is 80% larger than that of the United States<sup>9</sup>.

<sup>6</sup>Chinese Academy of Sciences and Social Sciences Academic Press, 2016

<sup>7</sup>South China Morning Post, Retail Property, 2016

<sup>8</sup>Fung Business Intelligence Centre., Department Stores Report, 2015

<sup>9</sup>McKinsey & Co., Survey, 2016

## THE BIG PLAYERS IN CHINESE ECOMMERCE

**ALIBABA** – The world's largest retailer, Alibaba facilitates business-to-business trading for small businesses.

**TAOBAO** – Owned by Alibaba, Taobao is China's largest consumer-to-consumer shopping platform.

**TMALL** – A part of Taobao, Tmall is a business-to-consumer retail platform.

**JD.COM** – An Alibaba competitor, JD.com is an online marketplace primarily for electronics and appliances. Tencent owns a 15% stake in JD.com.

# HOW LUXURY IS TESTING THE WECHAT MCOMMERCE MODEL

Luxury retailers have been reluctant to dive into eCommerce for fear of brand dilution. Until recently, their hesitation has delayed the adoption of WeChat mCommerce functions, but things are starting to change.

Today, only about 10% of luxury brands with a WeChat presence offer commerce options. Some opt to link out to proprietary online mobile stores, while others have allowed WeChat users to reserve items for in-store pick-up.

In 2016, luxury retailers started testing the waters. Dior launched a campaign in August for “Chinese Valentine’s Day,” and offered a customizable Pink Dior Lady Bag for approximately \$4,200 USD. 200 bags were made available, selling out in 1 day. Similarly, Bulgari launched limited edition pink jewelry sets for the holiday, selling out of 4 of 6 sets in less than a week.

Other luxury brands have committed more fully to WeChat mCommerce. Cartier offers a full-scale WeChat store, allowing for purchase within the app itself.

## WECHAT CASE STUDIES<sup>10</sup>

**QUIZZES:** YSL’s kissing survey helps customers find the right lipstick and Roger Dubois’ “what kind of man are you” survey matches customers with wristwatches.

**O2O:** Tag Heuer uses QR codes in combination with an exhibition to reveal more about the brand history.

**GAMIFICATION:** Kate Spade created a flying lantern game for the mid-autumn festival where customers customized a lantern and sent it into the sky with wishes. They could even scan QR codes to share with friends and a chance to win prizes.

**VIRAL SHARING:** Coach encourages 1-to-1 sharing with its “red envelopes” app, which sends promotions to friends and family.

**LOYALTY:** Sephora’s mini-website allows loyal customers to check their points and update personal details, informing them of new benefits and offers.

**FULL MINI-WEBSITE:** Chanel has a full-scale mini website with multiple functions like history, product offers, latest news, and make-up tips.

**STORE LOCATOR:** Zara’s site uses the customer’s current location to show nearest stores. Location sharing allows brand to push promotions to customers nearby.

**MCOMMERCE:** H&M’s “Little Shop” service account allows for shopping and one-click payment

**CUSTOMER SERVICE:** Louis Vuitton admin accounts allow for chat-based, pre-programmed customer care.

**LIVE STREAMING:** Michael Kors live-streamed the opening of its flagship store in Shanghai.

<sup>10</sup>JingDaily, Dior and Bulgari Become Luxury’s Early Adopters of WeChat, 2016

# GUCCI

TIMEPIECES & JEWELRY

## EXAMINING CHINESE ECOMMERCE CONVERSION

Trends, brand recognition, social networks, and customer reviews all play an important role in eCommerce conversion. Retailers on WeChat, Weibo, and others have had success leveraging Chinese celebrities for eCommerce and mCommerce campaigns.

Brands like Christian Dior, Gucci, Louis Vuitton, and Givenchy have been particularly effective in activating brand engagement through celebrity mentions and endorsements on WeChat and Weibo. Specifically, Dior's pink lady bag was promoted by superstar celebrities Angelababy, Li Bingbing, and Liu Yifei<sup>11</sup>.



### ZHANG DAYI

Chinese blogger with 300m RMB per year Taobao store

## KEY CELEBRITY THOUGHT LEADERS



### ANGELABABY

Hong Kong actress and fashion icon with 76m Weibo followers



### FAN BINGBING

Chinese actress with 52m Weibo followers



### LIU YIFEI

Chinese actress with 48m Weibo followers

<sup>11</sup>JingDaily, Top Stars Boosting Luxury Brands on WeChat, 2016



# ETHNOGRAPHIC RESEARCH: TIER 1 & 2 CITIES

Throughout 2016, EPAM’s research team conducted ethnographic interviews with Millennials and Generation Z individuals in Shenzhen and Suzhou, observing their shopping trips, visiting them in their apartments, and conducting focus groups with clusters of their friends to identify trends related to shopping and digital behavior. To supplement findings, in-depth interviews were conducted with Chinese EPAM employees.

12 individuals were targeted for this initial round of research, with ongoing research planned for the remainder of 2016.

Day 3 2016/04/26

时间	地点	活动	备注	其他
8:30	起床	洗漱	起床洗漱	
9:30	上班	开会	开会	
10:30	吃饭	吃饭	吃饭	
11:00	公司	工作	工作	
12:00	午休	午休	午休	
13:00	上班	工作	工作	
14:00	下班	回家	回家	
15:00	休息	休息	休息	

Ethnographic participants completed diaries of their mobile device usage over 3 days.



In-depth interviews revealed additional insights.

# MOBILITY RISING

Without question, mobile is indispensable to millennials in China.

Whether shopping, working, relaxing with friends, or at home, the cell phone is never far out of reach. While shopping, one participant was observed to never let go of her phone, even when picking up items from clothing racks. Even within the home, the mobile device was preferred. In one case, a laptop was seen lying dormant in the living room, but a long extension cord snaked across the room so the participant could charge her phone and browse on mobile while lying in bed.

In group discussions, participants echoed the importance of mobile in their lives to connect with friends, pay bills, get around, and make decisions.

Participants indicated they prefer shopping online over in stores, and do in fact conduct the majority of their shopping online using apps like JD, Taobao, and Netease.

That said, participants are ambivalent about their mobile usage, acknowledging the convenience and usefulness of the technology, but not wanting to be controlled by their digital devices.

*Supporting evidence: China smartphone penetration is over 38% in 2015 or 526 million people with 94% Penetration in Tier 1 cities<sup>12</sup>*



*A banner in a Shenzhen shopping center advertises an O2O experience – shopping online and picking up in-store. A QR code links to the eCommerce site.*

## GROCERIES GONE MOBILE

Every participant indicated they purchase the majority of their groceries online. All use mobile apps for grocery shopping.

<sup>12</sup>Forrester Research, WeChat Marketing That Works, 2015

# THE FUTURE OF PAYMENTS

Chinese consumers are moving toward mobile payments, abandoning cash and card.

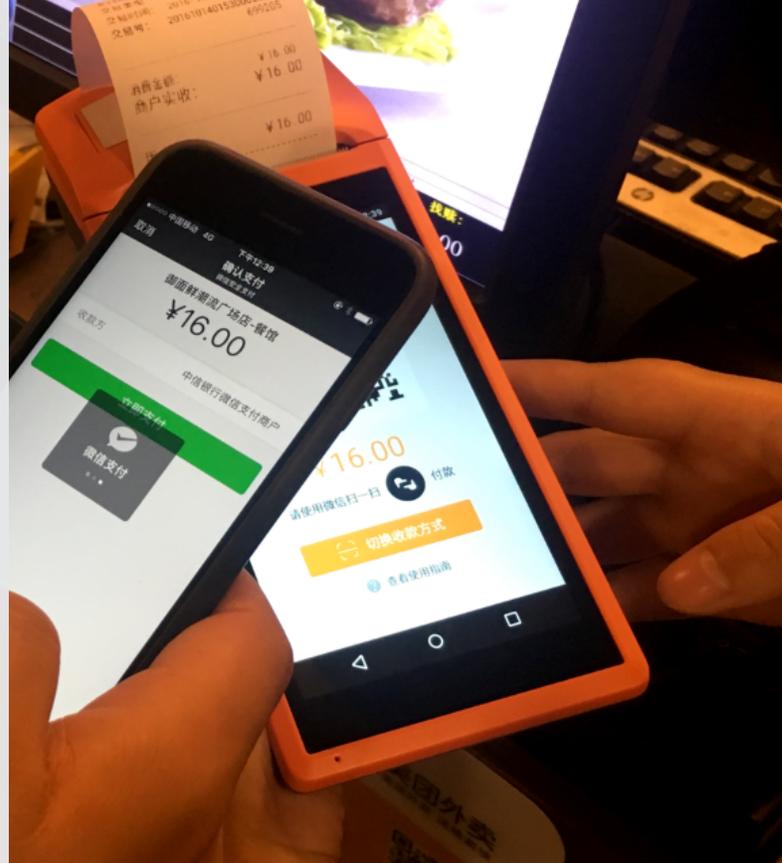
On multiple trips to restaurants around Shenzhen, groups were observed to leave their paper money at home. Cabs were paid for and bills were split across groups using Alipay or WeChat Wallet, with everything facilitated by mobile devices.

While waiting in line at a restaurant, one participant remarked: “Actually, if you come to a restaurant like this and they don’t accept Alipay or WeChat, it’s their problem, not mine. I don’t have my wallet with me, but I’m not expected to.”

Another participant related a similar story:

*“One day I wanted to buy a coffee in Starbucks. There was one guy who didn’t bring cash and credit card, and he didn’t have Apple Pay, which means he couldn’t pay in Starbucks since it doesn’t support WeChat or Alipay. Then that guy tried to exchange cash with other customers, but he found that no one had brought cash with them!”*

WeChat was dominant amongst participants in Shenzhen, while those in Suzhou were more reliant on Alipay. The cause is unclear but may be related to participants’ proximity to the two companies’ headquarters.



## MOBILE PAYMENT LANDSCAPE

### ALIPAY

Accounts for more than half of all mobile payments in China. A subsidiary of Alibaba, Alipay is used primarily for big ticket purchases.

### WECHAT WALLET

Dominates P2P payments, with 8bn in red envelope transactions in 2016. Tencent reports that WeChat Wallet users make on average 50+ transactions a month.

### FEES

To discourage users from transferring their money back to bank accounts, WeChat and Alipay recently imposed withdrawal quotas of 1,000 and 20,000 RMB, respectively, after which customers are charged a small % of the amount.

### NEW ENTRANTS

UnionPay recently lost its long held clearing monopoly, so Visa, Mastercard, and AMEX are now able to join Apple Pay in seeking a piece of the mobile payments market.

# THE REIGN OF PLATFORMS

WeChat is dominant, and illustrates Chinese acceptance of apps as platforms

WeChat's broad functionality is seamlessly integrated into almost all aspects of participants' lives. It is used as their wallet and their Facebook (through Moments), and allows them to hail cabs, book appointments with government services, and find and order food as well as household items.

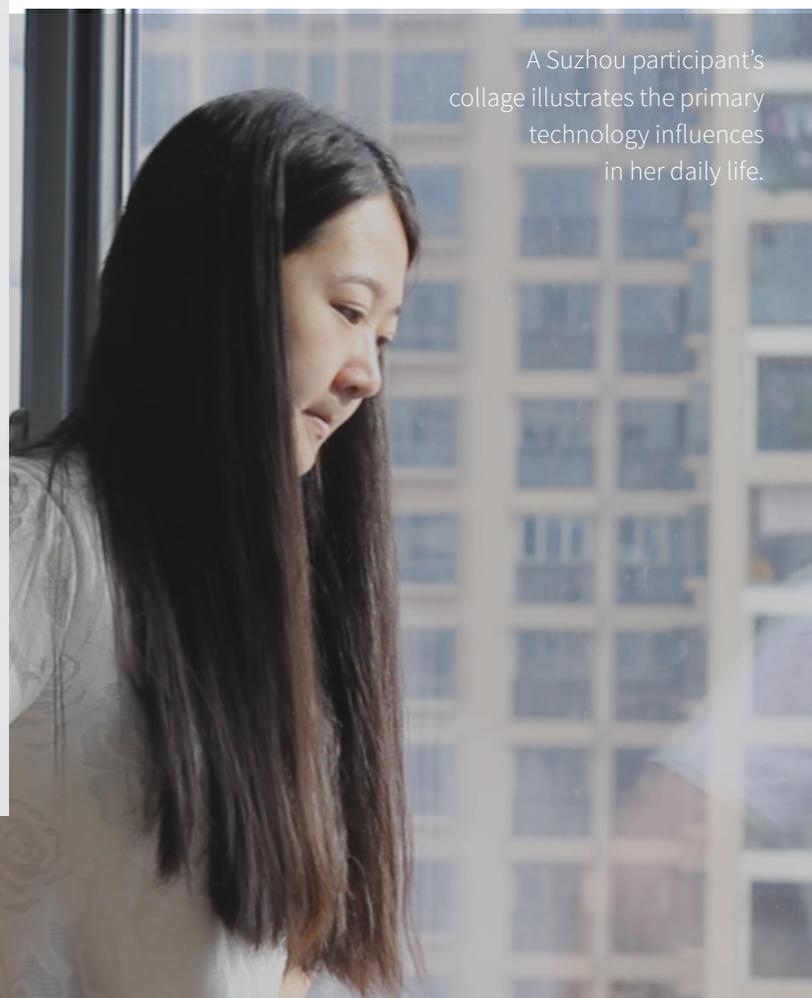
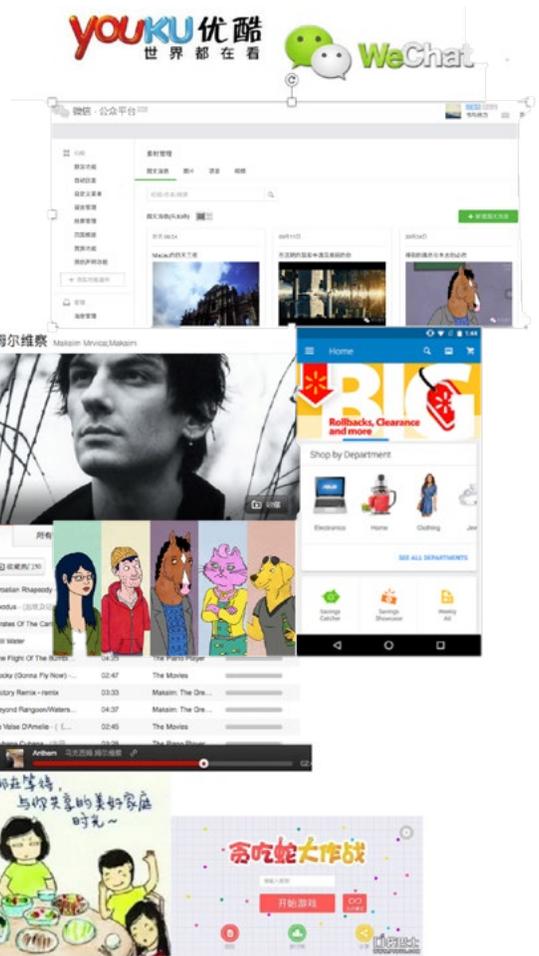
*“When the ecosystem becomes so big that everyone is using it, if you're not in it, you're in the minority. People are talking on WeChat, people are transferring money on WeChat, your friends are transferring you money on WeChat – if you don't have WeChat, you become left out. It becomes difficult for you and inconvenient for other people.”*

*“I can find almost everything that I can think of in the WeChat public service function. I even take books out from the library. I can also buy ferry tickets and bus tickets before traveling to Hong Kong.”*

All participants report using WeChat more than visiting mobile sites, remarking that the mobile experience is rarely as good as what you can find on WeChat.

*“I rarely visit websites via mobile browser, but I often browse websites within WeChat. Sometimes articles in WeChat will lead you to its website – I think that is better than mobile browsers.”*

Similarly, research revealed other popular Chinese Apps that exhibit a blanket approach to functionality. Qunar, a travel app, covers hotel and flight booking, visa handling, itinerary planning, travel research, and shopping, amongst many other capabilities related to travel. Taobao, the shopping equivalent of sifting the ocean, ranks highly for purchasing almost any good.



A Suzhou participant's collage illustrates the primary technology influences in her daily life.

# DISCERNING, SOPHISTICATED SHOPPERS

Consumers are less inclined to be loyal to a specific brand, but some platforms have made inroads.

All participants indicate they are not loyal to any particular brands, but they do prefer to use some eCommerce and digital products more than others.

WeChat grew market share by focusing relentlessly on customer experience. Participants indicate that WeChat is desirable because it offers the simplest, most streamlined interface on the market.

*"You can go around in malls in China and see QR codes everywhere. By using a QR code, the user doesn't have to enter a bunch of information – your account is automatically synced to the purchase. You just scan the code with your phone, scan your fingerprint, and it's approved."*

For shopping, JD.com has implemented an air miles-style loyalty program that keeps participants coming back to shop, allowing them to earn upgrades to their memberships and increased discounts as they purchase.

*"I used to leave customer reviews on Yixun, but now I leave reviews on JD.com after they merged, because the platform will give you some coupons to award you if you leave comments or even images. And these coupons will encourage me to pay more attention to the product information afterwards."*

Right: a participant's digital affinity map. Users enjoy Taobao membership, which provides direct discounts in the purchase step based on their previous purchase log and overall RMB amount. The user joins the store's membership after purchasing.



A Shenzhen participant shares a homework activity revealing online activities, triggers, and behaviors.

WeChat (Private)

微信 (私)

Weibo (Public)

微博 (公)

Youku (Video)

点评 (Review)

Bilibili

JD (Book, Electronics)

书, 电子产品

易平选  
Easy Collection



淘宝  
Taobao

亚马逊  
Amazon

“什么值得买”  
(导购平台)  
Shenmezhidema  
Shopping Guide site)

Some apps can deliver within 2 hours  
(2小时内送达购物)  
线下: 生鲜  
贵的产品  
鞋  
Offline shopping:  
Fresh products  
Expensive products  
Shoes

可以找替代品  
Alternative products



凑单时直减  
Purchase discount

自动会员  
(注册即会员)  
(购买即会员)  
Auto Membership  
Join after registration  
Join after purchasing

包邮  
Free shipping

优惠券  
Coupon

视频网站: 无广告  
独家内容  
(不好的非会员体验)  
Video sites: Ad-free  
Exclusive shows  
(bad non-membership experience)

Video sites: Ad-free  
Exclusive shows  
(bad non-membership experience)

# DISCOUNTS, SALES, & AUTHENTICITY

Everyone is price conscious, but quality and authenticity matter, too.

Well documented already, participants are highly attuned to opportunities to save money, but a sale does not necessarily mean a purchase.

For many, concerns around authenticity and quality will outweigh a steep discount. As shown below, researching reviews is a key step in the purchase process.

*“Sometimes I question whether the brand or product is real. Especially luxury products. I’d rather buy that in the physical store or from someone I know.”*

Authenticity and price play a role in shopping for foreign goods as well, and they have complicated systems in place to secure highly sought after brands.

*“I’ll wait to buy [foreign goods] when I’m traveling abroad, or if I don’t have a trip planned, I’ll figure out which one of my friends is going and get them to help me.”*

For many, the idea of limited quantity increases the appeal, and seems to override their normal purchase inhibitions.

*“I participated in the flash sale on JD.com for a projector. It was in limited quantity and limited time. There was an ad about this promotion. To be honest, I wasn’t planning to buy it because its original price was expensive and I didn’t need it. But since it was a promotion, I decided to get one.”*



## MOBILE GROCERIES

There are many standalone apps for buying groceries. Participants avoid marketplace models with multiple vendors, as the low prices often signal low-quality food. They’ll check across multiple single vendor apps to find the best price, selection, and quality.

*“For fruit, I will stay in the same store and same fruit brand, UNTIL I find a better one. I will consider quality as well as its price. After buying, I am quite satisfied with their service [and the] delivery time. Sometimes [they give me] free gifts, and also they are good at dealing with customer reviews.”*

*“This month I bought some bookmarks from a WeChat public account. They just had a sale for like 500 of them. If you already follow them on the public account, you know about it faster than others. I was able to get one and I felt lucky to get it.”*



# LOOKING AHEAD

## Key Challenges for Chinese eCommerce Entrants

### **Moving from digital engagement to conversion and loyalty**

With the emerging Millennial and Gen Z cohorts increasingly fixated on mobile, and WeChat so indelibly a part of their digital lives, a thoughtful WeChat strategy is necessary for engaging with them and establishing sustainable lifetime customer value. A thorough understanding of potential engagement techniques, loyalty structures, and how to execute them successfully is a good place to start.

### **Understanding the changing face of the Chinese consumer**

Chinese consumer preferences are evolving rapidly as lower tier cities increase their consumption and purchasing power. Meanwhile, Tier 1 and 2 participants are increasing in sophistication and expectation as overseas travel becomes more common and frequent. Diving deep into customer behaviors, needs, and pain points is the catalyst for informed service and experience innovation. Tracking big data through WeChat service account APIs yields important feedback on the performance of current strategies.

### **Building customer confidence around authenticity and quality**

Concerns about authenticity often preclude online purchase. China players need to understand the consumer mindset around their product, experience, or service and leverage the appropriate tools to meet the expectations of their users. WeChat offers a wide range of options for allaying customer concerns, each with their own advantages. Merging physical loyalty platforms with digital offerings is one way EPAM clients are finding success.

### **Creating a seamless, omnichannel “O+O” experience**

Increasingly, the Chinese consumer is navigating across multiple devices, and research indicates that consumers using multiple devices demonstrate higher online consumption. Businesses need to explore how customers interact with their devices and build services and experiences that engage them across all touchpoints: physical, digital, and o2o. Importantly, channel strategies need to be considered holistically, rather than individually, for market success.

[Learn more about how EPAM can help meet your business and technology objectives in APAC through its WeChat Accelerator, Loyalty Competency, and Digital Engagement Practice.](#)

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# EPAM'S APAC PRESENCE

EPAM has over 600 delivery consultants, designers, and technologists in the APAC region with client management locations in Hong Kong, Singapore, China (Shanghai, Shenzhen, Suzhou, Guangzhou), Australia (Sydney, Melbourne, Perth), and Malaysia. EPAM's clients are Fortune 500 firms across a wide range of industries including travel, retail, financial services, and healthcare.

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