Retail Trends in China

WHAT’S IN STORE FOR THE YEAR OF THE ROOSTER?
More of everything for the world of retail

Every year in China, we predict a period of unprecedented change for the 12 months ahead, and all indications are that 2017 will be no exception.

In the Year of the Rooster, we expect more of everything for the world of retail: bigger challenges, but also bigger rewards; heightened consumer expectations, and greater wins for the retailers and brands that meet them and even greater ones for those that exceed them.

Change has become the only constant in the Chinese market, and that change is happening faster than ever.

This makes retailing an enormous challenge. The retail sector is at the nexus of the biggest forces shaping people’s lives: digitization, brand building and a rebalancing of the Chinese economy away from manufacturing towards services and consumption.

To help you focus on what’s most important right now, we’ve distilled this vast ocean of change into 8 key retail trends in China for the Year of the Rooster. These are the areas we think you and your teams should make your top priority.

We’ve drawn on the unparalleled insight into the Chinese retail market of Smollan and WPP organisations.

To learn more about Chinese New Year and how this national holiday unlocks year-round opportunities for brands and retailers, download this informative and visual BrandZ™ study: www.wpp.com/chinanewyear.

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

Here’s wishing you a very happy and successful Year of the Rooster.

Gong xi fa cai.

Mike Smollan
Smollan

David Roth
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Health equals happiness

The rapid expansion of China’s middle classes is transforming the consumer landscape. These increasingly affluent consumers are seeking ways to lead healthier lives, fuelling demand for products and brands from across the globe that are linked to health and wellness.

In the Year of the Rooster, the markets for healthy food, drinks and fitness will expand. The challenge for brands will be in remaining sympathetic to the country’s wellness traditions, while providing enough modern luxury to satisfy people’s desire for hi-tech solutions.

Global fitness and lifestyle brands are already making a big impression in China, and many have announced ambitious launch and expansion plans. These include apparel brands Lululemon and Under Armour, along with Nike, fitness club chain Virgin Active, and Adidas, which has plans to open 3,000 new stores in China by 2020.

The pursuit of fitness and wellbeing will also prompt a rise in niche health and wellness retailers. Smaller store footprints that can offer a more personalized service from knowledgeable sales representatives will appeal to health-conscious consumers seeking expert guidance. This shift explains the recent rise of Chunbo, a niche B2C e-commerce platform specializing in healthy, organic foods.
Augmented Reality (AI) is providing a fresh take on gamification that retailers are realizing can take the shopping experience – and customer engagement – to a whole new level. Dare we say it ... it's a game changer.

Gamification has long been deployed as a way for brands to tap into the innate human desire to compete for rewards and recognition. Service providers in China have frequently been the fastest off the blocks, and have had huge success. Tencent generated incredible levels of engagement with their WeChat red envelope (Hongbao) campaign to attract consumers to WeChat Pay, which saw an astonishing 8 billion red envelopes sent during Chinese New Year 2016. Red paper envelopes traditionally contain ‘lucky money’ as gifts at festival time. Likewise, Alibaba’s used gamification in the loyalty program for its Sesame credit rating system, and the taxi app Didi uses promotional games and lucky draws to boost loyalty.

But it’s the global phenomenon that was Pokémon GO in 2016 that shows how augmented reality can add a whole new dimension to gamification. For retailers, AR games stand to generate a wealth of information about customers’ preferences and behavior. Games will help brands see which items are considered in the purchase cycle, see how a customer shops, and gain additional insight on what drives the final purchase. For the customer, AR promises to bring to life – or virtual life – information on product features and benefits, promotions and price-scanning features.
With the rise of mobile, social and cloud technologies, customer expectations of the brands they engage with are constantly on the rise. The pursuit – and expectation – of unique and memorable retail interactions makes customer experience the new battlefield for brands. Those brands that deliver a winning experience will attract new customers and keep them.

Cutting out the middleman

When manufacturers sell through retail distributors, their ability to influence how their product is sold is often limited. They’re essentially at the mercy of the distributor to ensure that every shopper leaves the store – whether that’s online or offline – a happy customer. In 2017 we expect to see a stronger push from brands to cultivate direct relationships with their consumers. They’ll offer more focused brand experiences that build their brand story, and will be able to deliver more targeted messaging.

By selling directly to consumers (DTC), brands can determine how the customer journey should be, and work to make that vision a reality. Going DTC provides not just a sales channel but can also give a huge boost to the lifetime value of consumers; brands can gather information about their customers and use it to provide personalized shopping experiences. Nike and Under Armour are leading the charge on DTC. This year, there’ll be more entrants in the race to deliver the best customer experience, directly.
The role of WeChat as the ‘super app’ that does just about everything will expand even further in the Year of the Rooster. WeChat combines an online browser, messaging app, social media platform and payment function under one virtual roof, and has in excess of 700 million users who can access over 10 million internal apps (known as official accounts).

Appy days – WeChat gets even bigger

WeChat provides the ultimate gateway through which retailers can reach consumers. Retailers can use their WeChat account to do everything from sharing news and special offers to customer engagement, loyalty programs and payment. WeChat allows users to get product recommendations from their peers, then choose those products directly from the site and pay for them via WeChat wallet - without ever leaving the WeChat app.

It’s a proven business model and one that overseas retailers should embrace as its influence increases. WeChat will be one of the most important business tools in 2017.
Trust and transparency

China’s pollution problem has been well documented – a side effect of the tremendous push for economic growth. But Beijing’s recent record high air pollution levels have led to a social media outcry and heightened awareness among consumers of what they buy, where it’s from, and the effect its production has had.

Consumers in China have been on high alert over product safety, especially when it comes to food, since the 2008 scandal in which toxic melamine was found in baby milk formula. That concern over production and point of origin has not gone away, and the uproar over air pollution has intensified consumers’ need to know more about what they’re buying.

Imported brands have benefited from this – particularly brands from countries perceived to have clean air, fresh water, and strict safety standards. In the Year of the Rooster, consumer interest in point of origin will go deeper than looking for a flag on a label; shoppers want to know more about the ingredients within products and the entire production journey, right through the supply chain.

Environmental awareness and food safety will be hot topics in 2017, and the brands that will win here are those that build safety and the environment into their brand story. Transparency will become a strong selling point.
This is the biggest e-commerce market in the world, and you'd struggle to think of anything that you can't buy online in China. But there are some categories in this sea of online sales that are battling to stay afloat; they're finding it tough to maintain margins, create meaningful consumer connections and control their own brand image in the e-commerce world.

We noted a year ago that brands would need to bridge the gap between physical and virtual shopping, and this continues to be the case. In recent months, online retailers have been making big investments in physical space, but the bigger challenge will be in blending sales across channels to get the ideal balance between margin and volume. The brands that manage to work across the channels – not just use e-commerce to float flagging volumes – might take a hit on growth this year, but will be far better positioned for the inevitable changes ahead.
There's been proof in the past year of the value of looking beyond the most affluent Chinese cities for growth. As the country's economic slowdown has hit consumption in first and second-tier cities, those brands with the vision to roll out in third and fourth-tier cities have been rewarded.

In the Year of the Rooster, we'll see an extension of this trend. The smart money will not just be backing lower-tier cities but also rural consumers, who have been largely overlooked for years. Very few brands have considered these generally lower-income consumers worth the investment it would take to overcome the headache of distribution. But rural consumers are not just a buffer against slowing growth in the top-tier cities – they’re also the big spending city-dwellers of the future. As people move up the income ladder, they’ll migrate to cities and be in the market for a whole new range of goods and services. Now’s the chance to capture their attention and loyalty – and set yourself up to win longer-term battles in key cities.

The rise of rural
Souped-up stores

While smartphone penetration has been soaring in China, in-store technology has been left behind, and remains a largely untapped retail resource. That’s going to change.

Some clothing retailers have built systems that allow shoppers to browse and order out-of-stock items from within the physical store. And cosmetics brands have pioneered ‘virtual mirror’ services that allow shoppers to experiment with new colors. But beyond that, the digital in-store experience just hasn’t got going.

In the Year of the Rooster, we’ll see greater collaboration between digital agencies and retailers. This will inject new life into stores, delivering the sense of theater and richness of experience that’s becoming so important in winning sales and loyalty. Enabling customers to interact with products on the shelf, understand their benefits or investigate the supply chain without having to switch to looking at their phone, will encourage footfall and improve the in-store experience.

We know consumers are using their own screens to seek out reviews and information while they browse; in-store tech is the opportunity for brands and retailers to both streamline and liven up that process. In 2017, winning brands will use in-store technology to enhance the shopping experience – at scale.
The Year of The Rooster
Chinese Astrology

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 Rooster are believed to have the following characteristics:

They tend to be neat, meticulous, organized, self-assured, decisive, conservative, critical, perfectionists, alert and practical.

They can also be critical, puritanical, egotistical, abrasive, proud and opinionated.
Smollan is an international field marketing organization 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 the countries in which we operate.

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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