



Redefining Online Marketplaces

A focus on Asia



Market Insights
by bluebell

Table of contents

Foreword	3
Executive Summary & Key Takeaways	4
Introduction	5
Defining APAC marketplaces	9
Mainland China	13
Hong Kong SAR	20
Taiwan	24
Japan	27
South Korea	32
Southeast Asia	37
Conclusion	42

Foreword

As the CEO of a company that has been around for over 60 years, whose reputation has been built on developing a brick-and-mortar retail distribution for a number of luxury brands across Asia and across many categories, I was constantly challenged over the past ten years on our digital strategy. As it evolved, we found ourselves questioning the most relevant way to integrate digital within our business.

Whilst I would like to think I am progressive and open to new ideas, and consider myself above average in terms of digital literacy despite being a baby-boomer, I continually wondered whether I was finally the dinosaur so many end up working for. On occasions it was like discovering a new language, at others a new way of life, and sometimes even a potential new way of doing business. Many times I wrestled with whether digital was truly disruptive or merely an evolution, whether digital was a risk or another opportunity. As of today I can see it has been hugely disruptive for some, an evolution for others, and both a risk and opportunity. Indeed digital still remains all of these today.

Going forward, although many new names who flourished in the early years of the digital era will continue to thrive in this space, others came to realise early on they needed to co-exist with the old economy. Those within the old economy understood we had no choice but to adapt to the new norm but we hoped, over time, these young upstarts would be tamed as they surely needed to be in order to survive since their business models were mostly flawed. This explains the evolution into providing services outside their core business. Marketplaces are the digital equivalent of the brick-and-mortar wholesalers, and their diversification is seeking to achieve a role akin to previously diversified brick-and-mortar distributors; previously diversified brick-and-mortar distributors on the other hand see marketplaces merely as another channel. Both points of view have legitimacy.

This white paper goes to show, at least as digital impacts the luxury retail business, that the tenets of the two eras have to co-exist. Which becomes all the more relevant in the future is still not certain: will digital engulf brick-and-mortar or will brick-and-mortar merely absorb digital. In truth there is space for both, and for new variations on the theme especially as regards luxury, since brick-and-mortar will inherently maintain an essential space in the customer experience journey, whereas digital is still to find its place within the whole customer experience journey.

Although the research presented in this study is pre-Covid 19, my conclusion in the midst of this crisis remains unchanged - digital is merely an evolution and an opportunity as an additional channel. As a result, Bluebell Group has adapted into an omni-channel operator, constantly evolving channels to embrace yet continually reassessing and questioning the choices of the opportunities in front of us.



Ashley Micklewright

President & CEO, Bluebell Group

Executive Summary & Key Takeaways

Today's retail landscape has undergone a tremendous amount of disruption, with one of the key forces being the emergence and constant evolution of online marketplaces. Bluebell Group's latest study takes a close look at Asia's online marketplaces and examines the current retail reality through a market by market analysis.

Through insights from retail professionals and consumers across Asia, together with analysis of data from key online players, this study provides concrete examples from Mainland China, Hong Kong, Taiwan, Japan, South Korea and Southeast Asia. The study examines the key players in each market, taking into account aspects that affect the development and usage of online retailing across the region – from the geographical characteristics of each territory, which determine the logistics infrastructure, to the digital divide and level of digital literacy within each country.

If over the past ten years the conversation was whether offline would survive the rise of online; with the digital-age now entering its next decade, will online survive without reassessing the crucial role of offline?

As Asian marketplaces keep expanding their breadth and technological reach, and consumer behaviours continue to evolve, we are moving towards what could be described as omni 2.0: a new chapter of retailing, characterized by a number of multifaceted features.

1. The integration of digital and brick-and-mortar

As consumers seek a more seamless shopping experience across online and physical channels, the two should no longer be looked at as separate entities; but rather as part of one fully integrated vision – an omni ecosystem, where consumers can try products offline and buy them online; click-and-collect (purchase items online and collect them in store); and peddle within the two spheres in a frictionless manner.

2. Conversational retail as a new driving force

With social media and new online forms of entertainment such as video sharing apps, e-gaming, and user-generated content (UGC) shaping the preferences and buying decisions of Millennials and Gen Z in Asia, social commerce is the new way to market, sell, and buy.

3. From B2C to B2B

Across markets, marketplaces are increasingly shifting towards a B2B approach, offering not just products to consumers, but services spanning payment methods and banking, insurance, booking platforms and streaming verticals. This is enlarging their sphere of knowledge and influence.

Introduction

The internet has changed the way we shop. From groceries to clothes, home furnishings, electronics and holiday bookings, consumers are increasingly turning to online resources to either make their purchases or, just as importantly, research and compare products and prices.

Access to online data for any available product has created a category of shoppers that is more informed than ever before; changed the game for in-store purchases; and, simply, re-defined the retail experience as we have known it.

In this new commerce space, the online marketplace has emerged as a new all-encompassing player.

Generally defined, online marketplaces are websites or apps that facilitate shopping from many different sources¹. The operator of the marketplace does not necessarily own inventory: their business is to present other people's inventory to shoppers and facilitate a transaction. Amazon is the ultimate example of an online marketplace, and the most established in the West. In China, Taobao is a leader in the field.

Because of their convenience, online marketplaces have mushroomed globally over the last few years. Many have also honed the 'customer experience' – a phrase that has been long associated only with offline retail – creating signature strategies, from user experience (UX) design to loyalty programs, targeted marketing strategies on social media and, in some cases, a shared sense of community.

Their clout is only slated to grow bigger.

Chart 1.



Source: Euromonitor International

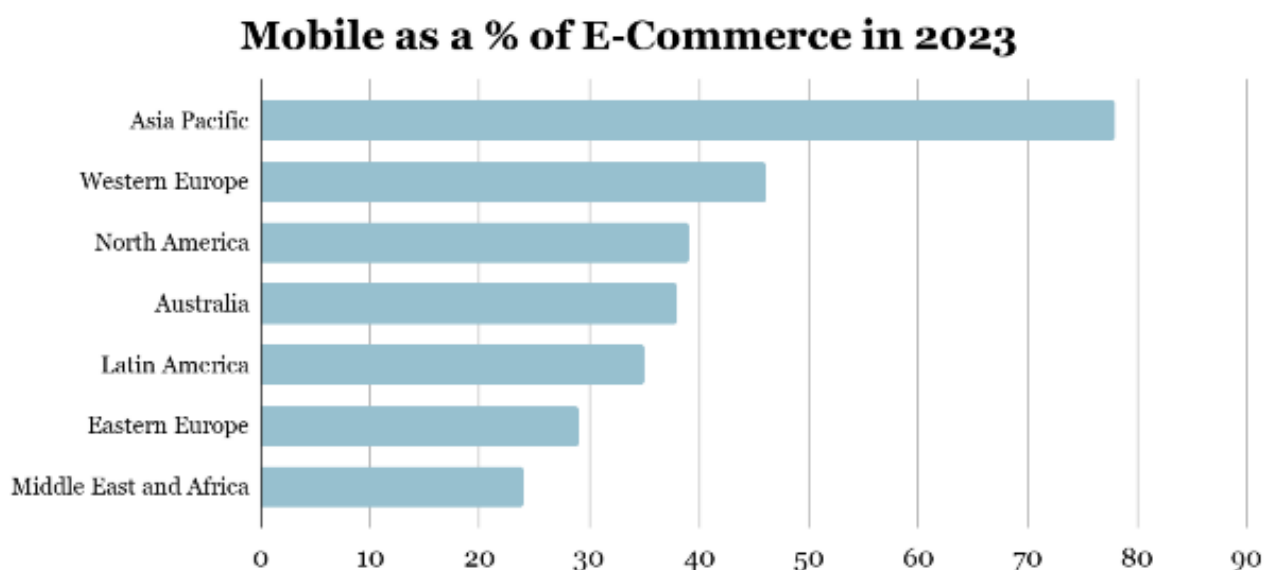
¹ China's e-tail revolution, McKinsey, <https://www.mckinsey.com/featured-insights/asia-pacific/china-e-tailing> [Last access 23/02/2020]

Penetration rates of e-commerce forecasted in 2023 by region shows that North America and Asia Pacific will have the highest penetration rates, around 20%.

According to market research firm Euromonitor International², e-commerce is expected to become the largest retail channel globally by 2021, and account for 16% of the total retail sales worldwide. In absolute growth terms, sales through e-commerce will grow faster than sales through stores, accounting for 60% of sales growth in the global retail industry.

Furthermore, 2019 saw mobile commerce accounting for 50% of total e-commerce sales globally. The figure is forecast to grow to 58% by 2023. Asia Pacific will lead that growth, with almost 80% of e-commerce going through a mobile device worldwide as shown in

Chart 2.



Source: Euromonitor International

From these data, what we might ask is whether we are witnessing the end of brick-and-mortar retail globally. It has already been a tough decade for physical stores – despite a strong consumer economy, almost 9,000 stores closed in the US in 2019³, while some 6,000 shuttered in the UK⁴.

The answer is not straightforward.

While there is no denying that e-commerce is growing sharply and online retailers have changed consumer behaviour radically, the retail landscape is far from being a monolith.

² Euromonitor International

³ More than 9,300 stores are closing in 2019 as the retail apocalypse drags on — here is the full list, Business Insider, <https://www.businessinsider.com/stores-closing-in-2019-list-2019-3> [Last access 23/02/2020]

⁴ Almost 6,000 shops have closed, Retail & Leisure International, <https://www.rli.uk.com/nearly-6000-shops-closed-by-major-retailers-this-year/> [Last access 23/02/2020]

Another survey from Euromonitor International⁵, for instance, states that 80% of online shoppers still go to stores for purchases after having researched what they want to buy online (webrooming), fitting with what is called the ROPO effect – ‘research online, purchase offline.’ That figure has remained unchanged for the past three years.

Other studies have also suggested a counternarrative – that of ‘research offline, shop online,’ whereby customers browse through physical products only to make the purchasing decision later online (showrooming), to get the look and feel of a product and then get the best deal online. More than 55% of shoppers do this⁶.

Offline retail is not fading; rather it is taking on a new role – one that complements online retail. This intersection has led to what we know today as omnichannel retailing – a landscape where touch-and-feel experiences weigh as much – and sometimes more – than likes and shares, and where cohesion, not exclusion, between the two worlds is necessary to secure long-term business success and customer engagement.

Learning to navigate this binary landscape is set to shape the future of retail, and become the biggest challenge ahead for brands and retail executives.

Asia, as our study will show, is where that future is already taking place. With the world’s highest rate of internet shopping and the fastest growth in overall sales, the continent has been at the forefront of this retail digitalization boom, with China leading the throng.

Chart 3.

Market Size in 2023 (USD)		E-Commerce Penetration in 2023	
China	\$1,000 bn	South Korea	37%
South Korea	\$133 bn	China	35%
Japan	\$131 bn	Taiwan	14%
India	\$82 bn	Japan	13%
Indonesia	\$12 bn	Malaysia	12%
Taiwan	\$12 bn	India	10%
Malaysia	\$8 bn	Indonesia	6%
Thailand	\$5 bn	Thailand	4%
Vietnam	\$4 bn	Vietnam	3%

Source: Euromonitor International

Such remarkable growth has led the region’s marketplaces to evolve, and given rise to a new concept, that of retail ecosystems – interconnected communities of consumers, retailers and partners that are expanding the possibilities of retailing through omni channel solutions.

⁵ Euromonitor International

⁶ Why many shoppers go to stores before buying online, Retail Dive, <https://www.retaildive.com/news/why-many-shoppers-go-to-stores-before-buying-online/441112/> [Last access 23/02/2020]

Types of marketplaces

There are three types of marketplaces⁷:

Vertical

Vertical marketplaces specialize in one product category. For example, Chinese e-commerce platform Jiuxian sells only imported and Chinese wines and spirits. Vertical platforms are most influential in generating channel engagement for categories that rely on information delivered by industry professionals and connoisseurs. Their added value is indeed the trust that users have in the platform.

Horizontal

Horizontal marketplaces sell different product categories, usually sharing some characteristics. Players like Zalora, Farfetch and Lazada fall into this typology based on the sectors covered, even though they are becoming more and more generalist platforms, they are mainly focused on fashion, shoes, accessories and beauty. Their added value is cross-branding and category sales and the opportunity to consolidate orders and reduce shipping costs.

Global

A global marketplace sells everything. Buyers and sellers are spread across long distances, who can benefit from the freedom of choice and an expanded inventory. Their range of offerings is key to their appeal. In Asia, Alibaba and JD.com are examples of global marketplaces.

Increasingly, marketplaces are shifting towards integrated systems – described by management consulting firm Bain as retail ecosystems⁸. From a B2C perspective, this means combining e-commerce, social media, entertainment, gaming, live chat, payments and other types of consumer services together in a single platform or app.

From a B2B outlook, the integration of resources translates into sharing services with other marketplaces or online domains (.com) in areas such as cloud computing, advertising and B2B financial services.

⁷ Online marketplace platforms: Horizontal vs. Vertical vs. Global, Syndicode, <https://syndicode.com/ru-by-on-rails-marketplace-development/online-marketplace-platforms-horizontal-vs-vertical-vs-global/> [Last access 23/02/2020]

⁸ Asia's Ecosystems and the Future of Retail, Bain & Company, <https://www.bain.com/contentassets/f48edadc-5f584451a437bc889d44dab3/asiaecosystems004.1.pdf> [Last access 23/02/2020]

Defining APAC marketplaces

Asia Pacific (APAC) is a haven of young, tech-savvy consumers, who spend hours on the internet in search of new brands and products. This has boosted a strong online marketplace landscape dominated by a few giants, but also the emergence of digital native startups with direct-to-consumer models across different markets.

Currently, the region is the global leader in e-commerce market size⁹, making up over 50% of all global online shopping for retail goods and services (Euromonitor International¹⁰). China alone accounted for more than one-half of 2019's global e-commerce revenues, followed by Japan and South Korea. Southeast Asia, where 90% of the population uses a mobile-only approach to digital¹¹, is another major driver of growth.

Online sales in APAC are expected to reach US\$2.5 trillion by 2023¹² – growing from \$1.3 trillion in 2018, with a compound annual growth rate (CAGR) of 14.0% and accounting for 28% of total retail sales (Euromonitor International¹³).

In comparison, e-commerce revenue in Europe, which is forecast to reach US\$387.79 billion in 2020, is predicted to show an annual CAGR of 6.7%¹⁴, resulting in a market volume of US\$503 billion by 2024. The US shows only slightly higher figures, with e-commerce revenue predicted as US\$419.86 billion for 2020, and a CAGR of 9.3% yearly¹⁵, for a total market volume of US\$599.186 by 2024.

A variety of factors have been pushing APAC at the forefront of the e-commerce market.

Mobile commerce is a key one. According to the Asia-Pacific B2C E-Commerce Market 2019 report¹⁶ by Germany-based market research specialist yStats, in 2019 over three-quarters of e-commerce in the region was driven by mobile, while merchant apps accounted for more than half of purchases made through a mobile device.

By 2023, mobile commerce (m-commerce) will make up nearly 80% of online retail in Asia Pacific.

9 Asia-Pacific B2C E-Commerce Market 2019, Research and Markets, https://www.researchandmarkets.com/reports/4846178/asia-pacific-b2c-e-commerce-market-2019?utm_source=CI&utm_medium=PressRelease&utm_code=m-rnqhm&utm_campaign=1311434+-+Asia-Pacific+B2C+E-Commerce+Market+2019F%3a+Asia-Pacific+is+the+World%27s+Top+Region+in+Online+Retail+Sales&utm_exec=chdo54prd [Last access 23/02/2020]

10 Euromonitor International

11 What You Need to Know About Southeast Asia's Growing M-Commerce Landscape, APP Annie, <https://www.appannie.com/en/insights/market-data/southeastasia-mcommerce/> [Last access 23/02/2020]

12 Online retail sales in Asia Pacific to reach \$2.5 trillion by 2023; China to reach \$2 trillion by 2023, Forrester, <https://go.forrester.com/press-newsroom/retail-sales-in-asia-pacific/> [Last access 23/02/2020]

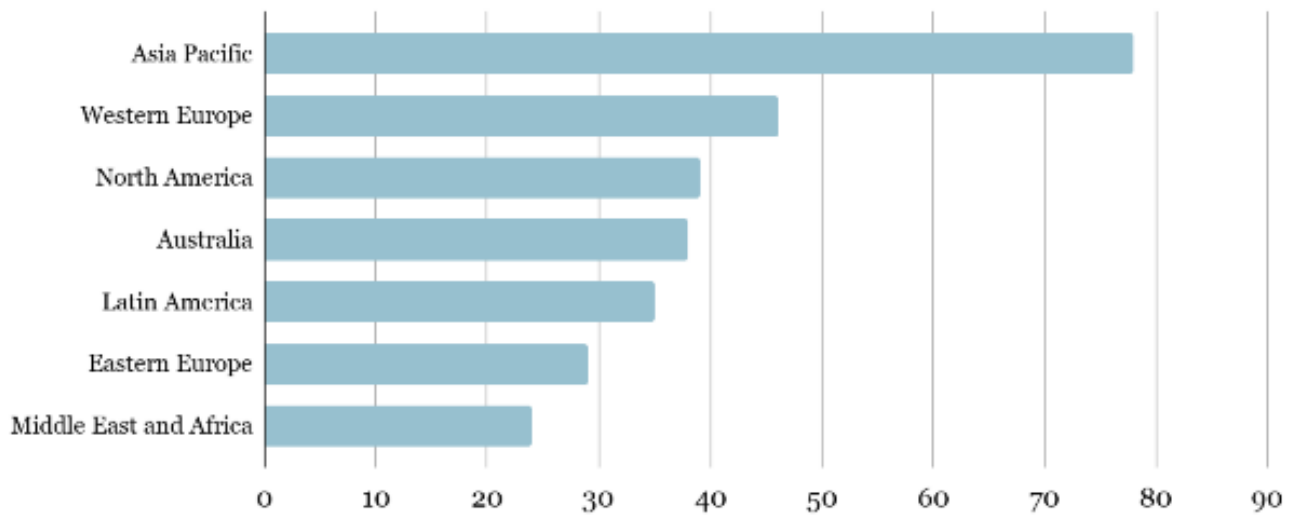
13 Euromonitor International

14 eCommerce, Statista, <https://www.statista.com/outlook/243/102/ecommerce/europe> [Last access 23/02/2020]

15 eCommerce, Statista, <https://www.statista.com/outlook/243/109/ecommerce/united-states> [Last access 23/02/2020]

16 Asia-Pacific B2C E-Commerce Market 2019, Research and Markets, https://www.researchandmarkets.com/reports/4846178/asia-pacific-b2c-e-commerce-market-2019?utm_code=35shw2&utm_medium=GN [Last access 23/02/2020]

Mobile as a % of E-Commerce in 2023



Source : Euromonitor International

Social media plays an important role, too, with an increasing percentage of consumers using it to purchase goods or services. The introduction of shopping features on Facebook and Instagram for business pages over the last few years has made it easier for businesses to attract customers and communicate with them while streamlining their purchasing journey. Using these and other platforms to sell has pushed forward the concept of social commerce, a major driver of growth in the region.

In APAC, consumers also have a much wider selection of platforms to choose from for every daily need — be it to hail a ride, purchase apparel or buy groceries — which has boosted online sales further.

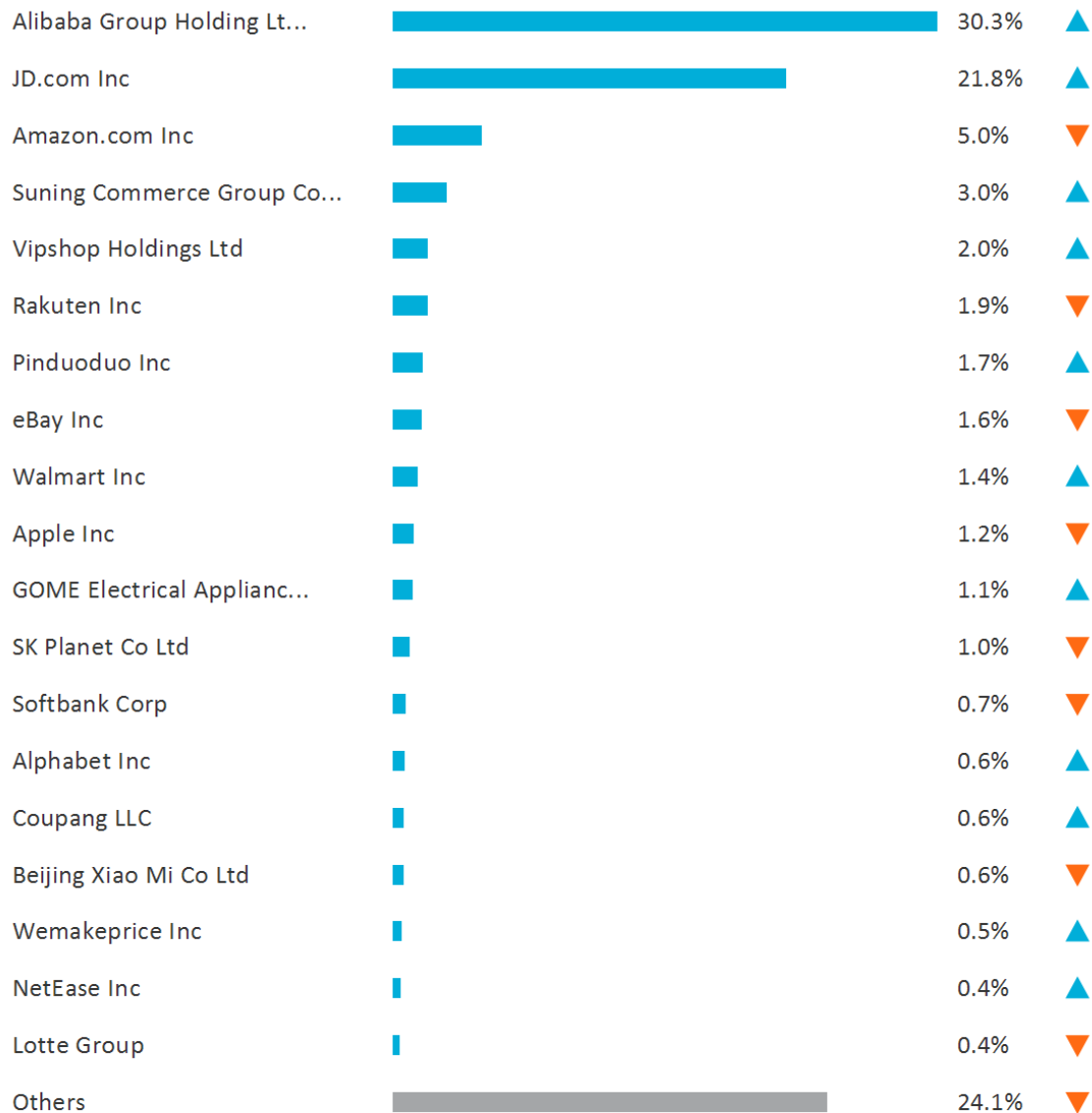
Lastly, a shift from traditional entertainment channels like shows and movies to online gaming and e-sports — two increasingly popular phenomena in the region — have opened up the opportunity for companies to offer branded product collaborations and placements within the game, creating a new tool for marketing.

The resulting digital retail landscape is a highly diverse one, with market shares split across a number of players, as seen in Chart 5.

Chart 5.

Company Shares of Internet Retailing in Asia Pacific

% Share (NBO) - Retail Value RSP excl Sales Tax - 2018

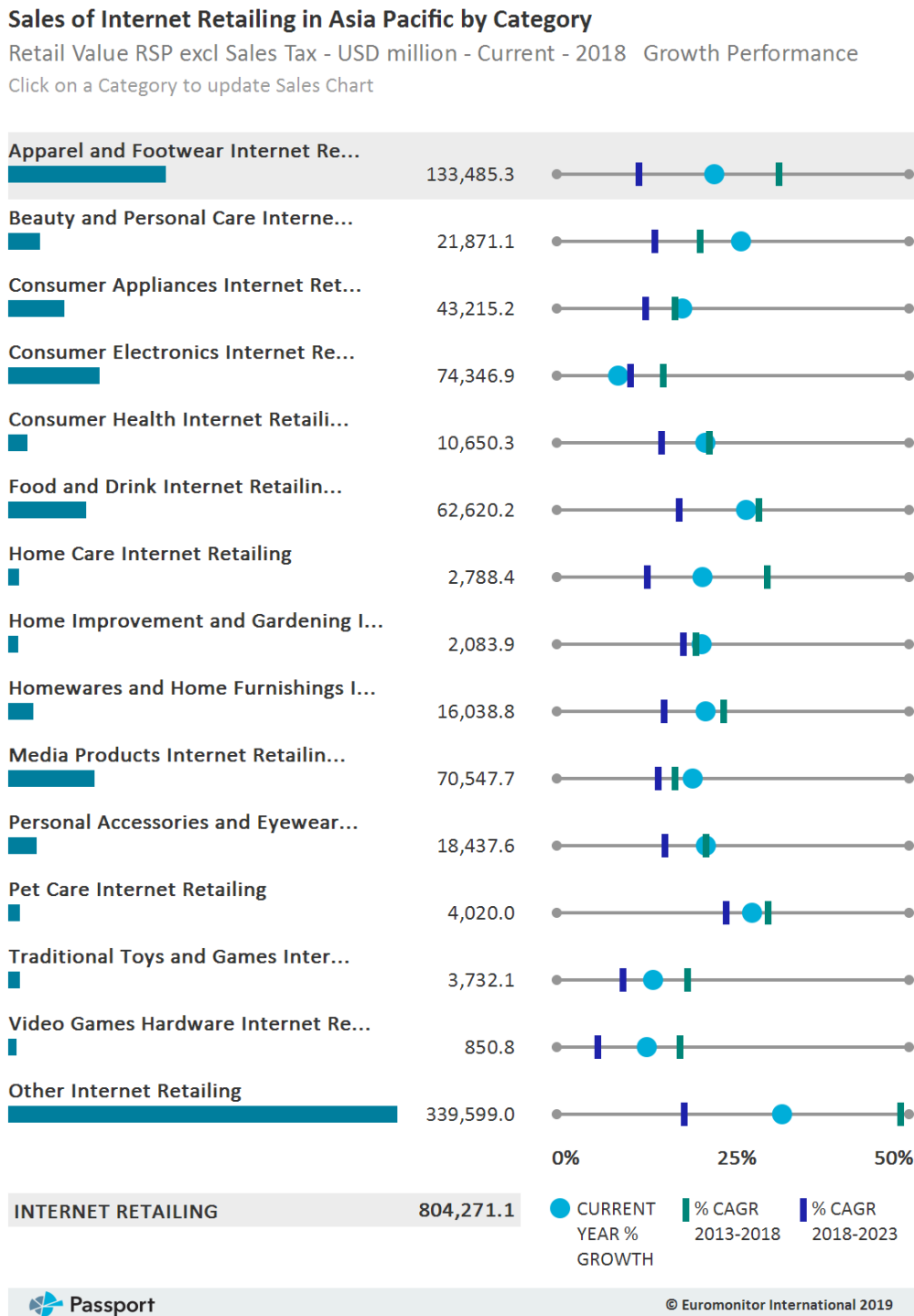


Source : Euromonitor International

As the table shows, while Chinese giants Alibaba and JD.com are the main market leaders, followed by Amazon in third place, followed by other regional and Western names, such as Japanese Softbank and Rakuten; Chinese Suning; American eBay and Apple, to name a few, there is also a strong presence of local companies in the mix, with 'Others' making up 24.1% of APAC online retailing.

Looking at the product categories most popular in APAC, apparel and footwear are omnipresent across the region, followed by consumer electronics, online media products, appliances, and food and drinks.

Chart 6.



Source : Euromonitor International

Amid this large-scale, multi-layered, digitally-powered retail landscape, every market has its own characteristics and success stories.

Mainland China



Within APAC, China has long been at the forefront of digitalization in retail. In 2014, Chinese e-commerce grew so fast that it surpassed US e-commerce for the first time, contributing to 19.4% of GDP growth and 33.5% of total retail growth¹⁷.

Online sales exceeded US\$1.5 trillion¹⁸ last year, representing a quarter of the country's total retail sales volume. Effectively, that is the highest online sales penetration in the world¹⁹. But the consumer's shopping journey is not merely confined online in the country. Quite the opposite: brick-and-mortar retail still accounts for more than 80% of total retail sales.

¹⁷ 70% of China Internet Users to Shop Online by 2020, China Internet Watch, <https://www.chinainternetwatch.com/14344/china-largest-e-commerce-market-the-world-2014/> [Last access 23/02/2020]

¹⁸ China Online Retail Forecast, 2014 To 2019, Forrester, <https://www.forrester.com/report/China+Online+Retail+Forecast+2014+To+2019/-/E-RES118544> [Last access 23/02/2020]

¹⁹ The future of retail is happening right now in China, Quartz, <https://qz.com/1231423/the-future-of-retail-is-happening-right-now-in-china/> [Last access 23/02/2020]

Over the past four years, in particular, Chinese shoppers have made a noticeable shift back to physical stores, especially shopping malls and mono-brand retail stores.

As they have grown more digitally sophisticated, they have also learned to engage with both touchpoints – online and offline – almost interchangeably.

The crossover between online and physical channels has created what Alibaba's founder Jack Ma described in 2017 as New Retail²⁰: the integration, or interlinking, of online and offline shopping using modern technologies, data and customer engagement techniques.

Increasingly, consumer behaviour in China is being influenced by this omni channel approach: seeing and feeling products first-hand in person, and, conversely, using online-to-offline – or O2O channels – to research products while shopping in store.

In this new omni retail formula, in-store digital experiences have grown to play a crucial role. Scanning a QR code to access information, personalized delivery services and the chance to try on products bought online in store have turned into determining factors for purchasing decisions.

So has data. Unlike consumers in other countries, Chinese shoppers are not as sensitive about sharing their personal information with third parties. According to a PwC report ²¹from 2018, consumers are much more comfortable sharing their data if they can receive valuable benefits (like personalized offers) in return. This has prompted tech giants to make the most of data analysis, from data-enabled sales and services, to pricing and promotions.

Alibaba and Tencent

Alibaba and Tencent – leaders in the Chinese market, both as a one-stop solution for consumers and tool for retailers to serve millions of shoppers – have been capitalizing on this integration, creating a whole new level of omni channel fulfilment.




















The two giants have done so by investing in an array of new sectors, both online and offline. The table below maps out the current status of both companies, including their latest investments and co-investments.

From cloud systems to delivery and travel services, media outlets to corporate communication and a wide range of retail platforms (Vipshop, AliExpress, discount group buying platform Pinduoduo), each company's portfolio is tremendously far reaching. It is also the perfect example of New Retail: no longer online vs offline, but marketplaces that incorporate both, offering a 360-degree consumer experience that extends to all aspects of life.

20 New retail to give growth fresh boost, China Daily, <https://www.chinadailyhk.com/articles/55/18/179/1532663338629.html> [Last access 23/02/2020]

21 China's next retail disruption: end-to-end value chain digitisation, PwC, <https://www.pwccn.com/en/retail-and-consumer/publications/global-consumer-insights-survey-2018-china-report.pdf> [Last access 23/02/2020]

Chart 7.

	 Alibaba Group	Both	 Tencent 腾讯
 Online Shopping	Taobao, Tmall, Lazada, AliExpress	Xiaohongshu	JD.com, Vidshop.com, Pinduoduo.com
 Retail Chains	Lianhua Supermarket, Sun Art Retail Group, Intime Retail, Freshippo	-	Yonghui Group
 Local Service	Ele.me, Koubei	-	-
 Electronic Payment	Alipay	-	Wechat Pay
 Financial Services	Ant Financial	-	LiCaiTong, LingQianTon, WeBank, WeSure, Futu
 Social Networking	Sina Weibo	-	WeChat, QQ, Snapchat
 Cloud Services	Alibaba Cloud	-	Tencent Cloud
 Music and Culture	Alibaba Pictures, Youku.com, Tudou.com, Alibaba Literature, Xiami Music, Damai, UC Web	-	Tencent Music Entertainment Group, Tencent Video, China Literature Huayi Brothers Media Corp., New Classics Media, Kuaishou, Huya, Douyu, Spotify
 News Media	South China Morning Post, Chinese Business Network, Alzila	-	Tencent News, QQ KanDian(Newsfeed Services)
 Bike Sharing	Ofo, Hello Bike	-	-
 Peer-to-Peer Ridesharing	-	Didi	-
 Delivery Service	Cainiao, ZTO Express	-	Meituan-Dianping
 Gaming	Aligame	Bilibili	Supercell(Clash of Clans), SEA, Epic Games, Ubisoft, Riot Games(League of Legends)
 Travel	Fliggy	-	Tongchen-eLong
 Start-up	Alibaba Entrepreneur Fund	-	Tencent Industrial Fund
 Data	CNBData, AliResearch	-	-
 Omnichannel	O2O	-	Maoyan (Movie ticketing), 58.com, Mogujie(Shopping guide)

Source: Stratfor, Alibaba, Tencent

Source: Alibaba, Tencent

Brick-and-mortar expansion, digitized payment systems and social commerce have been particularly central to both companies' growth strategies.

Both Tencent and Alibaba have promoted borderless retail experiences by opening highly plugged-in physical stores, like JD E-Space²², a 50,000 square meters outlet that launched in Chongqing last November. It featured popular and bestselling offerings in product categories from electronics, home appliances and digital accessories to health, fitness and beauty products and office supplies.

Tencent's Vipshop, an online e-commerce platform known for its heavy discounts, is another example. Over the past year, it opened over 100 Vipshop stores²³ in department stores around China, mostly in second-tier cities and suburban areas of Beijing, Shanghai, and Guangzhou. Positioning itself in a similar way to Nordstrom or TJ Maxx – two popular inner-city discount stores in the US – the offline outlet asks shoppers to sign up for a membership on Vipshop's WeChat account²⁴ to receive an added discount at checkout.

Tencent and Alibaba have been securing their offline presence also through the acquisition of stakes in a wide range of businesses, from Lianhua Supermarket, Sun Art Retail Group, Intime Retail and Freshippo for Alibaba; to Yonghui Group for Tencent.

Alibaba first started the trend in 2015 (the company spent some US\$10 billion on Chinese offline investments that year) with Tencent following suit in 2017, when it bought a 5% stake in supermarket chain Yonghui.

In the intervening years, the two giants have continued spending billions on offline retail, blazing a trail ahead of Amazon's US\$13.7 billion purchase of US retailer Whole Foods in 2017.

The shift towards offline is always digitally-powered.

Freshippo (formerly known as Hema) is a case in point. Launched by Alibaba in 2016, the supermarket chain – which today has over 150 stores in China – sells fresh daily goods, but it has no conventional grocery shop. Conveyor belts whisk bags of groceries, facial recognition units scan customers at checkouts, and algorithmically determined prices change through the day. Shoppers do not use cash; rather they pay via their smartphones, either at home or in store, through the Alibaba-affiliated online payment platform Alipay.

Indeed, Alipay and its competitor, WeChat Pay, are two other essential components of China's New Retail. The two payment systems – run by the Ant Financial and the Tencent Industrial Fund respectively -- have long dominated the digital and offline spheres in the country, where not many places accept Visa or Mastercard, and most transactions are done on mobile devices.

22 JD.COM opens its largest offline store to date, and in Western China, JD.com Corporate Blog, <https://jdcorporate-blog.com/jd-com-opens-its-largest-offline-store-to-date-and-in-western-china/> [Last access 23/02/2020]

23 Vipshop Holdings' (VIPS) CEO Eric Shen on Q2 2019 Results - Earnings Call Transcript, Seeking Alpha, <https://seekingalpha.com/article/4286014-vipshop-holdings-vips-ceo-eric-shen-on-q2-2019-results-earnings-call-transcript?page=7> [Last access 23/02/2020]

24 How Vipshop's WeChat E-Commerce Mini-Program Added Users but Not Revenue, Jing Daily, <https://jingdaily.com/vipshops-wechat-mini/> [Last access 23/02/2020]

As Chinese consumers' clout has dramatically grown abroad, particularly in the luxury sector – a Bain & Company report²⁵ released last year estimated Chinese consumers were responsible for one-third of the €260 billion spent on personal luxury goods in 2018, and forecasted them to account for 46% of all personal luxury goods purchases by 2024 – the two apps have also been expanding globally. A number of consumer-facing brands have in fact adopted these payment solutions, in order to meet increasing demand from Chinese tourists to complete m-store purchases on their phones.

Alibaba and Tencent have also developed a prominent presence on social media – Alibaba with Sina Weibo, TangoMe and Momo; Tencent with WeChat, QQ and Snapchat.

The why is easy to grasp: China is the land of social media. According to a survey from eMarketer²⁶, Chinese netizens spent as much as 42.1% of their time on social media apps in 2019, the majority of which was on social applications such as WeChat and Weibo's microblogging service.

For many people, these platforms are as important as web browsers to access information²⁷ – and for buying products. Indeed, social media has a greater influence on purchasing decisions²⁸ for consumers in China than for those anywhere else in the world. Seeing an item positively reviewed on a social media site, or recommended by friends or influencers, is more likely to encourage shoppers to spend.

That is all the truer for Gen Z, born after 1996. Raised on mobile devices, China's younger shoppers are not only using social media to spend time, but money.

Alibaba and Tencent have been monetizing on this aspect, engaging with consumers through direct-to-consumer (DTC) channels like WeChat mini-programs, and propelling social commerce as a key part of China's retail innovation.

Interestingly, the two companies have also pushed social commerce by expanding their reach to apps spanning music and gaming, entertainment and pop culture: Youku.com and Aligame for Alibaba; and Tudou.com, Tencent Music Entertainment Group, Huayi brothers Media Corp., Spotify, Epic Games, Riot Games and Supercells for Tencent.

25 The personal luxury goods market delivers positive growth in 2018 to reach €260 billion – a trend that is expected to continue through 2025, Bain & Company, <https://www.bain.com/about/media-center/press-releases/2018/fall-luxury-goods-market-study/> [Last access 23/02/2020]

26 China Time Spent with Media 2019, eMarketer, <https://www.emarketer.com/content/china-time-spent-with-media-2019> [Last access 23/02/2020]

27 WeChat is setting a blueprint for the world's social networks, Quartz, <https://qz.com/1613489/how-wechat-put-the-internet-in-chinas-hands/>

28 Segmenting China's Social Media Market, Harvard Business Review, <https://hbr.org/2012/08/segmenting-chinas-social-media> [Last access 23/02/2020]

Alibaba & Tencent - Shared Investments

Furthermore, they have jointly invested in two sharing platforms: video-centered Bilibili, themed around animation, comic, and game, where users can submit, view and add commentary subtitles on videos; and XiaoHongShu, also known as Little Red Book or simply RED, which today is the number one ranking social commerce app in China according to social media agency WalktheChat²⁹, and, in many ways, a pioneer of China's future marketplaces.

A mix of Instagram and Pinterest with a sprinkle of Taobao³⁰, RED launched in Shanghai in 2014, as part e-commerce portal and part social media platform. Using a peer-to-peer approach (UGC) it has been a particularly interesting unicorn as far smaller digital platforms go in China, gaining momentum by building and growing a community of like-minded users – some 100 million, with a large number being Gen Z – who share shopping tips and tutorials, swap fashion ideas and discover (and purchase) products from overseas, but also discuss travel, fitness, and baby food.

In contrast with other e-commerce platforms, RED places emphasis on trust, content and interaction, which it encourages through UGC and word of mouth advertising, live streaming, and rewarding users for posting suggestions and advice to followers. Its e-commerce section features only qualified brands and retailers, who have to submit an application through the official website to be listed.

By posting regularly, users can quickly grow their followers base, and even earn commissions by becoming micro-influencers brands can seek to partner up with. To that end, RED has changed the way influencer marketing works in China: on it, smaller voices often command an equal level of engagement as the country's biggest KOLs.

The app also avoids some of the most typical e-commerce practices: there are no anonymous reviews or one-click ratings, for instance, but rather so-called “notes”: detailed, informative and expansive product reviews.

Its popularity is telling of how Chinese Gen Z consumers are upending retail in the country: buying goods suggested by social media influencers and using messaging, short videos, live streaming, and social media apps as gateways to making those purchases.

This new era of retail has proved fertile ground for more Chinese upstarts to experiment with new ways of engaging consumers. iQiyi, China's version of Netflix, has an online mall where users can buy clothes and products used by celebrities on shows. Video app Tik Tok, operated by Bytedance, began integrating with Alibaba's shopping platforms in 2018, and allows creators to use the app to tell their Chinese fans about products they are selling on Alibaba's Taobao marketplace, or even have their own Tik Tok (Douyin in Chinese) store to sell products directly on the app.

²⁹ Xiaohongshu (Little Red Book) is fostering e-commerce via word of mouth, WalkTheChat, <https://walkthechat.com/xiaohongshu-little-red-book-fostering-e-commerce-via-word-mouth/> [Last access 23/02/2020]

³⁰ The Little Red Book is a social e-commerce platform that is not an e-commerce platform at all, TechNode, <https://technode.com/2018/09/29/xiao-hong-shu-little-red-book/> [Last access 23/02/2020]

Alibaba and Tencent share a similar e-commerce vision for Bilibili. In April 2019, the platform launched ‘mini’ e-commerce programs, capitalizing on its target demographic’s chief interests: egaming, pop culture and esports.

“Chinese marketplaces are creating complete ecosystems based on social commerce,” said Director, Bluebell China and CEO of Star Brands Asia Rob Robertson. “Conversational commerce and marketing – the intersection of messaging apps and shopping – are also redefining the landscape. Bluebell has embraced these strategies with a number of clients. Take professional men’s hair styling brand Reuzel, for instance. Through innovative use of the Reuzel WeChat account, the brand is able to link barbers with their customers, with sales coming both through the barber and direct to the brand. It is exciting for the sales and is taking the Brand one step closer to its destiny of becoming the ‘home’ of the barbershop community.”

It is important to notice that the luxury industry positions itself slightly differently. Luxury brands in China have tended to open their own websites and official WeChat channels, which offer the richest experience and the highest flexibility when it comes to content and comprehensive ownership of customer data.

Luxury marketplaces such as Toplife and Luxury Pavilion – the high-end verticals for JD.com and Alibaba respectively – have, to an extent, failed to emerge as strong contenders within the digital luxury landscape, as they have limited brands’ influence and positioning over customer experience, thus alienating those aiming for a truly omni channel and singular brand experience.

Indeed, in 2019, Toplife folded into Farfetch’s already existing Farfetch China, while Luxury Pavilion formed a joint venture with Net-a-Porter in October 2018 – both decisions triggered by the portals’ incapability to expand active user acquisition.

“Ultimately, what Chinese consumers want are different, priced-optimized and tailored retail experiences, both on and offline,” Robertson says. “For the latter, travel retail is especially important: in South Korea alone, where Bluebell is the leading travel retail operator, the local duty-free market is composed 80% of Chinese consumers.”

Hong Kong SAR



Just across the border Hong Kong, China's Special Administrative Region, paints quite a different picture from the Mainland.

Here, large-scale online retailing has yet to take off locally, although a few players, including Taobao, are driving sales through cross-border activities.

"Hong Kong appears well positioned to be a future digital leader due to its diverse talent pool, geographical location within the Greater Bay Area, and open internet infrastructure. And yet, just last year, a government survey on IT usage by Hong Kong businesses found that only 34% had a web presence, and around 8% had received orders online," stated Managing Director, Sales & Operations of Google Hong Kong Leonie Valentine in the 2018 Google's report "Smarter Digital City 2.0"³¹ about Hong Kong's digitization.

31 Smarter Digital City 2.0, Google, https://services.google.com/fh/files/misc/google_smarter_digital_city_2_whitepaper.pdf [Last access 23/02/2020]

Indeed, despite low taxation, a tariff free market, the convenience of having a small-size territory for delivery and simplified returns, the SAR's relationship with digital is not as mature as elsewhere in the region, with dominant online retailers of consumer goods lagging across the digital sphere.

There are a few reasons for this.

Hong Kong's high population density in tight urban areas – the city has an average density of 32,100 people per square kilometre³² – means people can access consumer goods from physical stores near their residential homes, making it hard for online retailers to compete with offline shops in terms of immediacy.

What is more, Hong Kongers, both consumers and businesses, still have a fairly traditional mindset, and have delayed or have been reluctant to adopt new technologies and initiatives. According to the Google report, while Hong Kong consumers welcome competitive online prices, they often lament the lack of personal services associated with more traditional channels and engagement, as well as more tailored products.

According to “The 2019 Retail Global Payments Report”³³ by FIS's Worldpay, only 4% of overall retail spending in Hong Kong took place online in 2018. In Mainland China, that number stood at 24%. To date, the e-commerce market amounts to US\$5.511 million, and expected to grow at a CAGR of 6.8% by 2024, reaching a market volume of US\$7.164 million³⁴. Interestingly, the political turmoil and city-wide anti-government protests Hong Kong went through from June 2019 till the end of last year boosted its e-commerce landscape, as consumers have become more wary of going out to shop.

“It has been so hard to push online retailing in the city in the past few years mostly because shopping is so convenient [around the city],” Eric Sun Yung-tson, founding vice-chairman of Hong Kong O2O E-Commerce Federation, the digital retail promotion alliance representing 100 companies with online services, told the SCMP last October³⁵. “Now the tables are turned.”

Among those leading local online retail are HKTV Mall, which offers a wide range of goods from food and beverage items to sports, household, fashion, beauty and health as well as electronics and lifestyle products; and its sister bulk buy discount site HokoBuy. Between July and September 2019 – peak protests time in Hong Kong – both did indeed record higher revenues.

32 Public Open Space Accessibility in Hong Kong, Civic Exchange, <https://civic-exchange.org/wp-content/uploads/2018/10/Civic-Exchange-Public-Open-Space-Accessibility-in-Hong-Kong-GEOSPATIAL-ANALYSIS.pdf> [Last access 23/02/2020]

33 Unified Commerce: Capitalizing on APAC's US\$1 Trillion Retail Opportunity, Adyen, https://www.adyen.com/landing/online/sg/2019-apac-retail-report?gclid=CjwKCAiAzJLzBRAZEiwAmZb0at59toM9AXFOn0P5881_rvBUI-Q6h--M3SYuSvrLsECsIwjbLIT9wRoCzvsQAvD_BwE [Last access 23/02/2020]

34 eCommerce, Statista, <https://www.statista.com/outlook/243/118/ecommerce/hong-kong> [Last access 23/02/2020]

35 Online shopping gets a boost as wary Hong Kong consumers stay home to avoid protests, SCMP, <https://www.scmp.com/news/hong-kong/politics/article/3034600/online-shopping-gets-boost-wary-hong-kong-consumers-stay> [Last access 23/02/2020]

HKTV Mall

HKTV Mall, in particular, is fast becoming a go-to site and mobile marketplace for many consumers, and has seen sales increase steadily since launching in 2015. In an effort to reinvent the city's retail industry and promote an omni approach to its operations, the company has also adopted an online-meets-offline model similar to the one seen in Mainland China, with the opening in 2016 of the first of many brick-and-mortar stores solely aimed at boosting its online shopping business.

Such offline touchpoints have no doubt helped it achieve a quasi-household status: in a survey conducted by data analytics company Nielsen in 2018 on e-commerce in Hong Kong, HKTV Mall ranked only second to Taobao in terms of usage³⁶.

Consumers' growing reliance on the internet and mobile technology has also aided other local marketplaces mushroom over the past years, especially restaurant booking and review platforms, delivery apps and beauty services providers, namely OpenRice, foodpanda and Bloom Me.

Outside of these categories, Hong Kong's e-commerce evolution has mostly rotated around apparel, with international and regional cross-border players such as Yoox, Farfetch, Net-a-Porter and Zalora taking the lead in drawing sales. Among Millennials and Gen Z, one local marketplace that has been gaining traction is Goxip, a mobile-first shopping app that uses image recognition technology to help buyers find the items they are looking for, and serves as a social commerce platform.

³⁶ Hong Kong Television Network Limited, https://ir.hktv.com.hk/eng/ir/presentations/20180102_2017_HKTV_CorporatePresentation.pdf [Last access 23/02/2020]

Goxip

Launched in Hong Kong in 2016, Goxip first started out by aggregating content from about 50 celebrity magazines from around the world (hence its name) as a visual research tool similar to Pinterest. It then moved to aggregate luxury brands on the site, and now offers same-style items at the cheapest price from its database of over 500 merchants with some 37,000 brands and six million products.

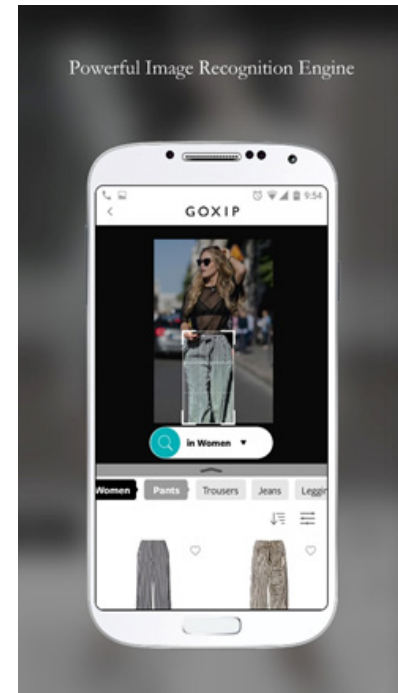
Just like Tmall, Tabao and Zalora, Goxip's mobile app allows users to upload a photo of an outfit and launch a search to identify same/similar items available within its inventory. Unlike those bigger websites, Goxip image search – which allows users to find a range of similar and ready to be purchased items by simply uploading just a photo of the fashion piece they are looking for – has made it especially popular among younger demographics.

Goxip also awards its users with a 3-tier loyalty program and has been working on understanding more and more consumers' interests, strengthening its social media presence, and as importantly, developing content in its Goxip magazine, which serves as a bridge between engaging with users' passion and browsing the marketplace. The platform is also careful to only onboard top tier KOLs, leveraging on these leaders' influence and appeal.

While Goxip currently operates in Hong Kong and Thailand, it plans to expand across the entire Southeast Asia region.

“Hong Kong still relies on a fairly ‘traditional’ retail mindset,” says Jacky Leung, Bluebell Group Chief Information Officer. “Consumers are still hesitant about shopping online, and prefer checking items in person before they buy, which explains HKTV Mall’s soaring popularity, with its online/offline touchpoints – though the channel is not necessarily suitable for all brand categories and positioning.”

For a retail strategy to be successful in the SAR, click and collect, return policies, cash on delivery and purchase incentives should all be part of the experience.



Source: Goxip

Taiwan



E-commerce is surging in Taiwan. Despite the island's fairly small size, the online retail penetration rate is one of the highest in the world, with a market value of US\$ 37.6 billion in 2016, and a 5-year average growth rate of 10-20%³⁷. In the first half of 2019, e-commerce reached a 10% annual revenue growth³⁸.

Driving the growth is the national youth, most of whom do their shopping online (and increasingly through Facebook and Instagram); but also homegrown e-commerce platforms that are mature, expansive and transparent.

³⁷ Taiwanese market: eCommerce, Societe Generale, <https://import-export.societegenerale.fr/en/country/taiwan/e-commerce> [Last access 23/02/2020]

³⁸ Taiwan's Retail Market Value to Reach US\$130 Billion in 2019: Market Intelligence & Consulting Institute, https://mic.iii.org.tw/english/PressRelease_Detail.aspx?sno=11884&type=Press [Last access 23/02/2020]

Moreover, the country boasts a fast and widespread network coverage, and digital retailers can rely on a comprehensive logistics infrastructure that ensures fast delivery of items being shipped domestically.

Within the online retail ecosystem, a 2018 survey from Taipei-based government-backed IT research institute MIC (Market Intelligence & Consulting Institute) ranked the top five B2C platforms in the country as follows: PChome, Yahoo Shopping Center, MOMO Shopping Network, Entrepreneurial Brothers.

Based on other findings from 2019³⁹, the top five e-commerce mobile apps are Singaporean Shopee, momo Shop app, PChome 24hour shop app, Yahoo! Auctions app, and tw.buy.yahoo.com app.

Most users (80%) have downloaded retail apps on their phones, with the number of shopping apps installed averaging at around three per mobile. Players like Taobao and Zalora are at the forefront of the apparel category, while MOMO is the place for deals for womenswear and houseware. However, PChome is the one that has set the benchmark for the evolution of digital marketplaces in Taiwan.

³⁹ Shopee, Momo Shop, and PChome24 Shop are Top Three Mobile Retail Apps in Taiwan, Market Intelligence & Consulting Institute, https://mic.iii.org.tw/english/PressRelease_Detail.aspx?sqno=11806&type=Press [Last access 23/02/2020]

PChome

Founded in 1998 as a news aggregator called e-Paper Network to distribute content from 200 media outlets, PChome was the first internet company to be listed on the stock market (8044-tw) in 2005⁴⁰. Since then, the platform has grown into an all-encompassing tech giant with an integrated portfolio that includes news services (PChome Online), social networking, email and blogging platforms, e-tailing (PChome 24H) and payment systems (PiMobile Wallet, PChome InterPay and PChomePay), a real estate service platform (Rakuya); a telecommunications service (Link Tel) and an e-learning portal (LingVist).

The group's business model relies on making different solutions available throughout the customer journey, and promoting all its services across social media, from Facebook and Instagram to Line and YouTube. By doing so, PChome is leveraging technology to satisfy users however, wherever and whenever they want to shop.

The strategy has resonated with consumers: according to data from the Taiwan Stock Exchange, PChome revenue grew by over 12% y-o-y in the first four months of 2019, reaching NT\$9.2 million (US\$298 million). Currently, it holds a 40% share of Taiwan's e-commerce trade.

Its founder, Jan Hung-Tze, has also cast the firm's reach beyond Taiwan (and, poignantly, China where PChome is blocked, and effectively cut out of the world's largest online market): in March 2019, PChome signed an agreement with the US\$9.6 billion Japanese internet services firm Rakuten that gives Taiwanese consumers access to Japan's e-commerce vendors⁴¹. The following month, PChome's Ruten e-commerce site reached a deal with eBay in the U.S. to co-list goods sold by American vendors⁴².

By forging relationships with e-commerce giants in other countries, the site is hoping to make up one of Asia's largest e-commerce portals – and more.

40 PChome, https://corporate.pchome.com.tw/about_us/about_us.php?item_id=1&lang=eng [Last access 23/02/2020]

41 Rakuten and PChome Enter into Alliance Agreement, Rakuten, https://global.rakuten.com/corp/news/press/2019/0314_02.html?year=2019&month=3&category=corp

42 PChome Online Group's Ruten Announces Further Cooperation with Ebay, Expanding Customers' Shopping Choices, Meet Startup @ Taiwan, <https://meet.bnext.com.tw/intl/articles/view/44801>

Japan



Japan ranks as the world's 3rd largest e-commerce market⁴³, following China and the United States. It is a highly unique retail ecosystem, both in terms of demographics and cross-border opportunities.

Revenue in the sector was predicted to amount to US\$99,130 billion in 2019, and grow at an annual CAGR of 5.0%, resulting in a market volume of US\$120,586 billion by 2024⁴⁴. Among the categories to dominate this landscape are retail, at 51.7%; services, at 37.0%; and digital content, at 11.3%⁴⁵.

Chart 8 shows the traction of each sector in Japan, having media products and apparel and footwear leading the sales.

⁴³ Japan e-commerce, Export.gov, <https://www.export.gov/apex/article2?id=Japan-E-Commerce> [Last access 23/02/2020]

⁴⁴ eCommerce, Statista, <https://www.statista.com/outlook/243/121/ecommerce/japan> [Last access 23/02/2020]

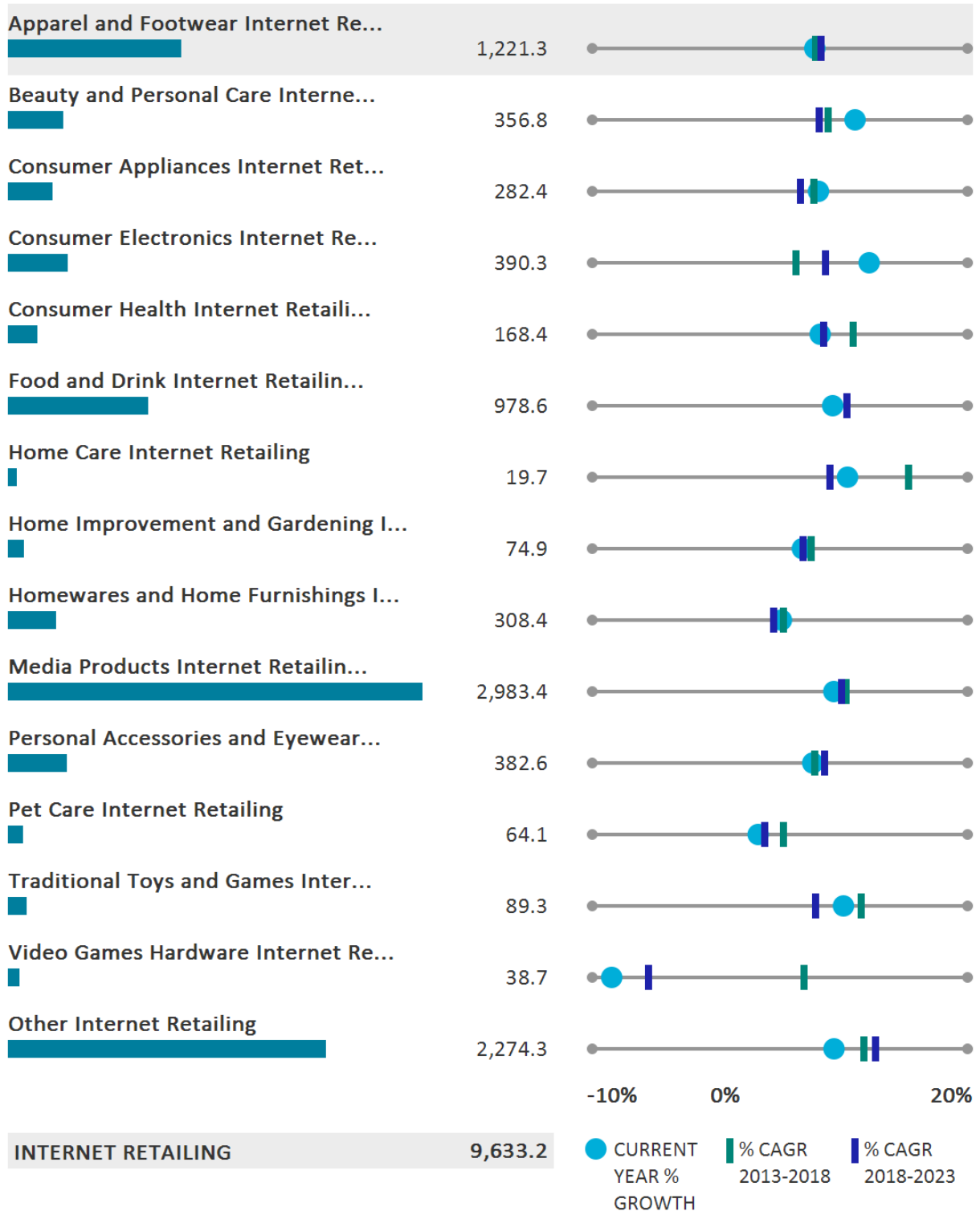
⁴⁵ Selling in Japan: E-commerce Landscape in Japan 2019, Business in Japan, <https://blog.btrax.com/e-commerce-trends-in-japan/> [Last access 23/02/2020]

Chart 8.

Sales of Internet Retailing in Japan by Category

Retail Value RSP excl Sales Tax - JPY billion - Current - 2018 Growth Performance

Click on a Category to update Sales Chart



Source: Euromonitor International

The country is digitally-savvy: internet penetration is estimated at 93.3% of the population, with 74% of netizens purchasing products online – a trend spurred, partly, by an efficient distribution infrastructure that makes deliveries easy and fast.

In a very unusual turn for e-commerce, however, it is an older set of spenders that drives those purchases: 76% of women aged 20-29 purchased online last year, while 93% of 40-49 year-olds did so. Figures for men are slightly lower. Women under 30 spend least often online (<10 purchases per year), and women aged 50-59 spend most often online (almost 20 purchases per year)⁴⁶.

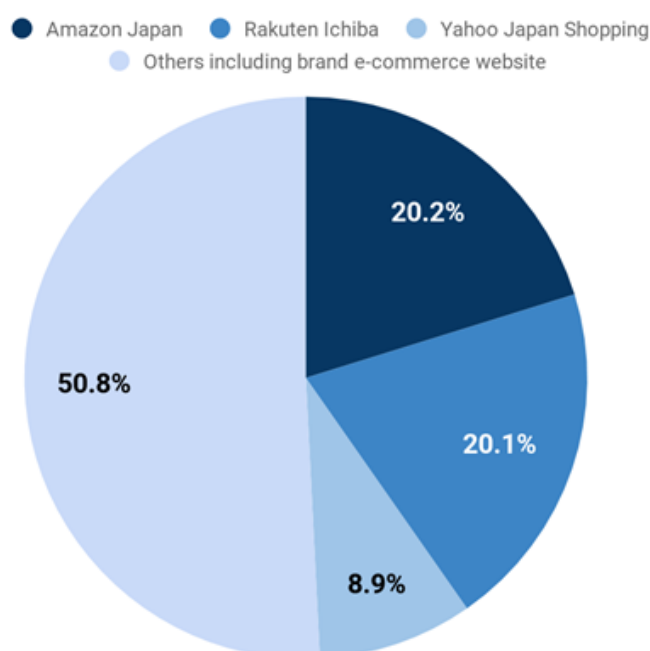
Japan also has one of the lowest cross-border shopping rates in the world: just over 10% of Japanese consumers shop on overseas websites versus 54% of US shoppers.

The language barrier – the majority of the population only speaks Japanese – is mostly to account for that. Japanese consumers tend to demand extensive information before making a purchase, and local marketplaces are able to provide that much better than foreign ones (although often at the detriment of sleek UX design: many Japanese websites look incredibly busy, with long product listings and clunky interfaces. While they might not align with all brands' marketing, it works for consumers).

While the retail ecosystem spans a variety of marketplaces, Amazon Japan, Yahoo! Shopping and Rakuten – Japan's leading e-commerce platform – occupy the largest portion of the B2C e-commerce marketplace share, making up 50% of online sales. The remaining 50% is divided among smaller companies with a strong focus on apparel, such as Zozotown, Wowma!, and Qoo10; as well as single brands' localized e-commerce websites.

Chart 9.

Japan e-Commerce market share 2017 (by % of total sales)



Source: METI, Rakuten

46 Online shopping behaviour in Japan, IMRG, <https://www.imrg.org/japan-shopping/> [Last access 23/02/2020]

Rakuten

Rakuten holds a huge and loyal customer base, with more than 100 million members and a strong share in the household goods, fashion and food categories.

“Rakuten’s business model is simply to be a marketplace in the original sense of the word,” says Jerome Dessagne, Digital Manager at Bluebell Japan. “It allows brands and companies to build shops on its platforms to sell products in exchange for a fee. Because Rakuten is structured by shop (vs. by product for Amazon), it tends to favor shops that handle multiple brands and product categories, as these shops will usually sell more quantities. Shops with high sales volumes rank higher in search results, and to achieve high sales volumes, most of these multi-brand outlets tend to sell parallel imported goods at very low prices”.

For these reasons, Rakuten is a challenging environment for mono-brand shops looking to sell at full price. The company’s business model is that of a generalist, multi-brand retailer with a busy interface which might also not match brands’ messaging. “Japan’s marketplaces often serve more as ‘supermarkets’ rather than mono-brand exclusive destinations,” says Dessagne. “In this regard, single brands looking to engage with consumers have to do so on their localized e-stores and social media, as well as offline.”

Nonetheless, the marketplace’s clout remains strong. And not just as an e-commerce portal.

Just like PChome in Taiwan and Alibaba and Tencent in China, Rakuten has also expanded into a full-service ecosystem, allowing users to access different offerings within the same platform, including mobile payments, online banking, insurance, online travel booking, music streaming, video streaming, job boards, and e-books.

To further incentivize demand and usage, Rakuten has also created a reward system, by which consumers can earn reward points from using its services, which can then be used to buy other products or services from the marketplace.

The platform has also upped its fashion competitiveness. Rakuten Ichiba, the internet shopping mall operated by Rakuten, features a large number of merchants selling fashion-related products, and Rakuten has a long history of creating touch points with users in the fashion sector through activities including collaborations with publishers and sponsorships of fashion events. In 2012, Rakuten launched Rakuten BRAND AVENUE, an online shopping site which now features more than 1,100 popular fashion brand shops. In October 2019, Rakuten entered a partnership with Tokyo Fashion Week⁴⁷, becoming the event’s headline sponsor and strengthening its branding in the fashion sector.

47 Yahoo Japan acquires Zozo for \$3.7bn to combat Rakuten and Amazon, The Drum, <https://www.thedrum.com/news/2019/09/12/yahoo-japan-acquires-zozo-37bn-combat-rakuten-and-amazon> [Last access 23/02/2020]

Zozotown

In the mid-level and high-end apparel, footwear and beauty category, Zozo, Inc, formerly Start Today Group, runs the largest e-commerce marketplace in Japan, a site called Zozotown that counts more than 7,000 brands.

Established as a portal selling imported records and CDs via mail-order catalogue, the venture launched its e-commerce platform in 2004. Currently, it hosts more than 1,100 fashion retailers, with over 8 million people buying from it annually. In September 2019, its majority was acquired by Yahoo Japan.

Only companies that are fairly established and meet certain sales metrics are able to sell on Zozotown, with 30% of royalty fees from sales reportedly going directly to the site.

The marketplace's most stand out feature is its emphasis on the development of fashion technology (it has a whole branch dedicated to that, Zozo Technologies) and the use of data, geared towards improving customers' experiences.

Two good examples are a search bar called "Your Size Search" which enables users to filter and find products that fit them perfectly; and an algorithm-based styling service to identify outfits that users would like based on initial styling questions, such as what their favorite styles, fits, colors, and fashion items are, as well as what their ideal pricing is for each item.

"Japanese marketplaces are all-encompassing, and catering B2C just as much as B2B," says Dessagne. "But they are not exclusive outlets where foreign brands can build awareness. Brands are called to localize their brand identity by creating their own branded cyberspace through their own online domain."

South Korea



Thanks to tech-savvy consumers, strong technological and mobile adoption, and an advanced internet infrastructure, South Korea is one of the biggest e-commerce markets worldwide, and has one with the highest online penetration rates (See p.7).

According to a report by Businesswire⁴⁸, further expansion will be driven by mobile commerce and payment services, as well as cross-border online shopping.

48 South Korea B2C E-Commerce Market Report 2019 - ResearchAndMarkets.com, Businesswire, <https://www.businesswire.com/news/home/20190927005357/en/South-Korea-B2C-E-Commerce-Market-Report-2019> [Last access 23/02/2020]

Indeed, more than 50% of online retail sales are generated on mobile devices, with this share becoming larger every year, according to statistics.

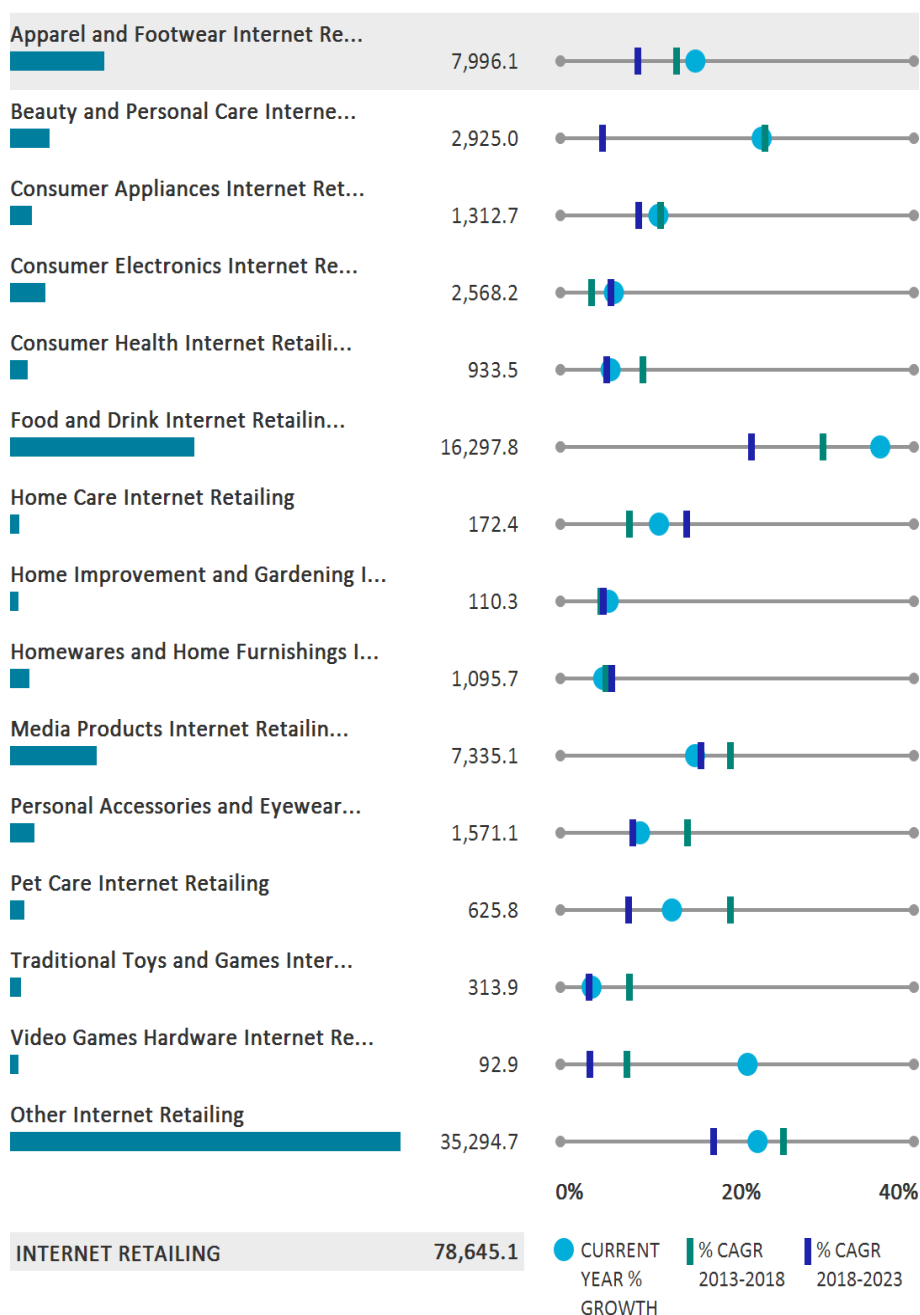
The country also ranks second in APAC for online sales, which are spread across a number of categories, as illustrated in the table below.

Chart 10.

Sales of Internet Retailing in South Korea by Category

Retail Value RSP excl Sales Tax - KRW billion - Current - 2018 Growth Performance

Click on a Category to update Sales Chart



Source : Euromonitor International

The B2C sector, in particular, is well-advanced, taking up nearly a quarter of the country's overall retail sales.

Such landscape has proved fertile ground for a number of big players and startups focusing on different services, from marketplaces Gmarket and Coupang to search engine Naver and messaging/ social commerce platform KaKao, to name a few. Even brick-and-mortar retailers, such as Shinsegae and Lotte Group, have increasingly turned their attention to their online businesses, leveraging on omni strategies and activities – offline and online – to draw more consumers.

Each venture is competing for a share of the revenue in what is an increasingly overcrowded market, often by placing particular emphasis on local discount coupons and daily hot deals.

Seoul-based Coupang, the country's largest ecommerce company, has been leading the throng, capitalizing both on a US\$2 billion investment by Japanese SoftBank in 2018 and the development of its Rocket delivery service, which promises delivery within a day of millions of products ranging from consumer electronics to fresh produce. While its revenue increased by 14 times since 2014 to near US\$5 billion in 2018, the company has also accumulated losses (US\$1.7 billion) however, due to the high fixed costs of manpower and warehouses.

Following Coupang in terms of sales are generalist online shopping malls Wemakeprice, 11Street, TMON and Gmarket.

Gmarket

Launched in 2000 and acquired by eBay in 2009, Gmarket has been at the forefront of South Korea's e-commerce growth. The company revolutionized the local online shopping market by integrating buyers and sellers internationally using an auction format, and offering a wide range of products at competitive prices. Currently it is available in three languages, Korean (since 2000), English (since 2006), and Chinese (since 2013), and downloadable on mobile via the 'Gmarket Global' app, developed in 2015.

Its main categories include home appliances and electronics, apparel, home and car accessories, cosmetics, computers, mother and baby, dietary supplements, food and beverage.

Just like PChome in Taiwan and Rakuten in Japan, Gmarket has increasingly shifted towards B2B services, and also offers loyalty and discounting programs, called Gstamp and Smile Points, to help retain existing customers, as well as other discount promotions.

"While getting listed on Gmarket is not especially hard for brands, it is not necessarily a good fit image and positioning-wise, as marketplaces are there to offer better prices than other venues. On the other hand, authorized brands with a shop-in-shop presence in department stores are able to build a brand-focused communication as they are able to connect the offline to the online experience," Alex Ryu, eCommerce & Digital Director, Bluebell Korea, adds.

Naver and KaKao

South Korean online consumers also shop through search engines and mobile messenger platforms.

Naver is the number one search engine in the country in terms of traffic and shopping conversions⁴⁹. Since launching in 1999, it has branched into services such as Naver Blog, News, Shopping, and others, effectively growing into a corporation that dominates the Korean search market. Naver also provides an integrated system for payments and marketing such as ads, coupons, discounts to target consumers. 30% of search queries on the search engine are shopping-related, and all major malls in the countries are listed in the platform, making it the first destination to search products across different venues and compare prices.

KaKao Talk, on the other hand, is the most popular messenger app in the country, ahead of WeChat, Facebook and Line, used by an estimated 93 percent of South Korean smartphone users.

Since 2014, the platform has also been aggressively pushing into e-commerce, rolling out a BankWalletKaKao service that enables money transfers among KakaoTalk friends, and offering its own e-commerce marketplace through Kakao Gift Shop and KakaoStyle.

While the former lets users deliver gift coupons to one another through Kakao Talk for anything from food and beverages to cosmetics and household items; the latter features 100,000 browseable items and almost 200 brands. Following a social commerce model, it also allows shoppers to share style opinions and information on products. On their part, brands can push discounts, coupons, ads and content through to customers, who are then redirected to their e-store.

The app launched KaKaoMusic, its own version of Spotify in 2013, enabling users to create and share their own playlists in 'music rooms.' KaKao Pages, a fee-based mobile optimized platform for entrepreneurs, gives users the opportunity to sell and market their original content in the form of text, images, audio, or video.

For instance, in terms of social media content, KOLs and influencers are not as effective as in China, while YouTube creators are able to interact with their audience and engage with them, making the video platform ever more popular as a revenue tool.

Moreover, South Korean youth is more drawn towards one-to-one communication rather than social media blasts, especially on social media.

Overall, Korean consumers want brands to pervade their daily life with continuous interactions, and blend entertainment and informational texts to grab their attention and build a long-lasting relationship based on loyalty.

"South Korea is not an easy market to penetrate," says Ryu. "Brands need to develop a localized strategy to have access to their pool of customers – not only by translating content into Korean language, but understanding the nuances of consumer behaviour."

⁴⁹ Punch Korea, <https://punchkorea.com/naver-ads-korea-search/> [Last access 23/02/2020]

Southeast Asia

Southeast Asia (SEA) consists of eleven countries that reach from eastern India to China, and is generally divided into “mainland” and “island” zones. The mainland (Burma, Thailand, Laos, Cambodia, and Vietnam) is actually an extension of the Asian continent. Island or maritime areas include Malaysia, Singapore, Indonesia, the Philippines, Brunei, and the new nation of East Timor (formerly part of Indonesia).

Each country is wildly different in terms of geography, culture, and stage of economic development; therefore, retail infrastructure and e-commerce have been growing at a different pace and with different specificities across the sub-region.

One commonality, however, is that online retail occupies a bright spot in SEA: according to the Google-Temasek e-Conomy SEA 2018 report⁵⁰, e-commerce here has grown by more than 62% CAGR since 2015, and is estimated to exceed US\$100 billion in GMV by 2025, from US\$23 billion in 2018.

Such astonishing figures go hand in hand with the widespread access to cheap mobiles and high quality telecommunication networks, which have boosted the percentage of population with access to the internet to 90%, and framed SEA as a mobile-first territory with a rate of 90% of the population. The 2018 report also found that there were more than 350 million internet users across Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam, 90 million more than in 2015.

However, online commerce still only makes up around 2 -3 % of total retail sales in the region, partly due to challenges in building a solid distribution network offline because of large distances, infrastructure issues, and the fact some countries are mostly composed of small islands.

Catching momentum, SEA has seen a huge proliferation of social media and e-commerce platforms, from international to regional and localized. In fact, the region plays host to more than 7,000 start-ups, and consumers often use a number of different e-commerce apps on their phones.

Marketplaces operate as generalist portals, as in the case of Shopee, Lazada, or Qoo10; deal-based sites for specific categories, such as Hermo and Sephora; or selling pre-loved goods, like Vintage Qoo (Singapore). There are also marketplaces specializing in luxury goods such as Reebonz (Malaysia, Indonesia, and Singapore), W-Grampot, The Attic Place (Singapore), Luxury Vintage, Madam Milan (Singapore), That bag I want (Singapore), Style Tribute (Singapore), Refash (Singapore). Among social media, Instagram and Instagram TV are especially popular.

⁵⁰ e-Conomy SEA 2018: Southeast Asia's internet economy hits an inflection point, Think With Google, <https://www.thinkwithgoogle.com/intl/en-apac/tools-resources/research-studies/e-economy-sea-2018-southeast-asias-internet-economy-hits-inflection-point/> [Last access 23/02/2020]



What is interesting for the sub-region is how diverse it is also in terms of payment methods across countries. Singapore relies on credit cards, cash on delivery still dominates in Vietnam, Indonesia, the Philippines and Thailand, and internet banking is the most common payment method in Malaysia.

Zalora

Among the sub-region's different players, digital portal Zalora, launched in 2012, is leading by example.

Owned by the Global Fashion Group and with headquarters in Singapore, the e-commerce site focuses on fashion, shoes, accessories and beauty. It currently serves Singapore, Malaysia, Brunei, Hong Kong, Macau, Taiwan, Indonesia and Philippines.

In Global Fashion Group's earnings from 2019, Zalora and The Iconic (its Australian online fashion retailer) delivered a net revenue of US\$116.6 million, a 36.2% from the previous year on a constant currency basis.

Driving the website's growth are a number of factors – starting with localization.

Zalora has teams in seven locations, and targets its offerings to each and every market it operates in. For example, it was one of the first e-commerce companies to launch a modest wear range by its private label Zalia in 2014, which went on to do well in Indonesia and Malaysia, both Muslim-majority countries.

It has localized payment solutions with local partners, to meet each market's different practices.

The platform has also been watching market trends and demographics carefully, often through data-driven analysis. Noticing that in the Philippines consumers were more into basketball wear from top sports brands whereas in Malaysia they would be drawn towards badminton or soccer gear, it tailored its athleisure offerings accordingly.

Strong logistics infrastructure has also been behind Zalora's success. The company has invested in expansive warehousing facilities in each country, and built a network of local fleets and direct delivery services to ensure a high level of operational efficiency.

Technology has played a big role in its bumping growth, too. Mobile Picking, for instance, is a customized solution transmitting picking information of customer orders through mobiles, allowing greater scalability and on-time fulfilment. Since its introduction, picking productivity has increased significantly and delivery accuracy is now at 100%, due to the real-time item verification.

Another important element for Zalora's business model is its emphasis on the click-and-mortar experience. Since 2014, the platform has in fact been running offline activations across SEA, from Singapore to Malaysia and Indonesia. In the Philippines, the company partnered with retail conglomerate Ayala Group through the launch of initiatives such as pop-up Zalora stores in Ayala malls.

The offline concept – which allows consumers to try products in person and have face-to-face interaction with Zalora’s staff, and then place orders online through on-site tablets – is aimed at building trust and confidence among consumers with a physical presence through a brick-and-mortar store, and has proved effective in converting shoppers into loyal repeat customers online. Today, it is one of the company’s key brand-building strategies.

Moreover, influencer and KOL campaigns have been another pillar of Zalora’s expansion and branding efforts, especially to promote singular brands on the platform.

Lazada

Launched in 2012, Lazada Group is another success story in Southeast Asia. The e-commerce venture has grown rapidly to include over 4,000 employees in the region, with operations in Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam, and an office in Hong Kong that drives cross-border marketplace activities. Its online footprint amounts to approximately 2 million daily visits to its websites, and the largest Facebook following in Southeast Asia with over 9.7 million followers.

It currently offers an extensive list of products ranging from consumer electronics to household goods and fashion, and allows multiple payment methods (including cash on delivery), extensive customer care, and free returns. To its sellers, the company provides simple and direct access to 550 million consumers through one retail channel.

Consumers have constantly remained the focus of the company's marketing efforts throughout its expansion: Lazada has created easy-to-navigate UX-driven interfaces for its portals, accessible via desktop, smartphone or tablet.

BlinQ

On the higher-end of the spectrum is BlinQ, Southeast Asia's leading luxury online fashion marketplace. Operating out of Singapore, the venture carries brands such as Prada, Kenzo, and Off-White. Earlier this year, it sealed a commercial affiliation with global online fashion retailer YOOX Net-a-Porter Group. The partnership closely followed the launch of the BlinQ pre-loved segment and Asean Houz – a collection of high end fashion brands from around the region.

Besides stocking premium brands, BlinQ is also a pioneer in the AR e-commerce sphere. The company has in fact invested in technology that allows users to virtually try on and purchase designer apparel and accessories from online luxury and contemporary fashion retailers globally. A rental subscription model also provides users the option of renting designer apparel and accessories.

“Southeast Asian markets are highly diversified, and fertile terrain for the rise of e-commerce players,” says Nelly Ngadiman, Managing Director, Bluebell Southeast Asia. “Indeed, they represent a promising market in terms of growth of population, digital literacy, number of devices, and the need to fill the lack of offline presence for several brands in other areas other than the main cities. Online players able to succeed are the ones focusing on strengthening their delivery services with their own fleets or strong local partners and focusing alternative payment solutions tailored to local consumers' demands.”

Conclusion

Overall, a few giants dominate the markets in Asia and build platforms that enable seamless experiences. Competition amongst them boosts innovation, leading to investment in smaller businesses within their home markets, to tap into new solutions that are currently fueling a large new sector of retail-tech startups.

As Asian marketplaces keep expanding their breadth and technological reach, and consumer behaviour continue to evolve, we are entering what could be described as omni 2.0: a new chapter of retailing, characterized by a number of multifaceted features.

Among them, a few have especially emerged as leading forces of change within the current the e-commerce landscape:

1. The integration of digital and brick-and-mortar

Whilst online players are improving UX design and mobile-first layouts, payment solutions, and logistics management, the transition to a completely integrated digital journey has yet to start for certain brands. Specifically, high-end brands, for which factors like authenticity of product, price point, positioning, allocation of budgets across the platforms, and lack of cohesion between online and offline retail are slowing down online distribution.

As consumers seek a more seamless shopping experience across online and physical channels, the two should no longer be looked as separate entities; but rather as part of one, fully integrated vision – an omni ecosystem, where consumers can try products offline and buy them online; click-and-collect (purchase them online and collect them in store); and peddle within the two spheres. To that end, physical experiences are just as important as VR-led ones; and can often be woven together, thanks to technology and big data, which could come from direct-to-consumer (DTC) touch points such as retail stores or WeChat mini-programs; or from specialized digital platforms that can provide valuable insights on how to engage the consumers there.

Taking it one step further, Asian marketplaces are allowing consumers to browse entire inventories, expanding the omni experience. At the recently revamped Funan shopping mall in Singapore, for instance, warehouse facilities within the mall enable brands to ship directly, and customers to collect the products in the stores or via a pick-up offsite to optimize their time. Moreover, Taobao, which has a physical presence in the mall, has created a retail experience through which shoppers can not only touch and feel the merchandise before buying, but also make use of the free virtual reality (VR) station to help them visualise how the items would look in their homes. The VR programme can take on an apartment's specifications to create an interactive digital mock-up.

Unsurprisingly, as Julia Liotard-Vogt, Bluebell Group Business Development Director explains “conversations between distributors and brands in Asia are increasingly focusing on omnichannel exclusive agreements. In markets in which sales are more and more digitally influenced and brick-and-mortar still plays a key role in building brand awareness, we have been carrying out the omnichannel conversations also with digital native brands and they also recognize that touch-and-feel experiences weigh as much as likes and shares”.

While over the past years the future of offline retail was painted as uncertain, it is clear that in Asia, digital and brick-and-mortar are now on the same playing field.

While social commerce is leading the conversation about how offline sales are digitally-influenced, there is a counter narrative around ROPO (Research Offline Shop Online). This is stimulating the debate around the limitations of a digital-only approach.

2. Conversational retail as a new driving force

With social media and new online forms of entertainment such as video sharing apps, e-gaming, and user-generated content shaping the preferences and buying decisions of Millennials and Gen Z in Asia, social commerce is the new way to market, sell, and buy. Asian marketplaces are shifting their attention to these channels, monitoring and engaging with their users, and collecting and analyzing data to place products, run marketing campaigns and create conversational retail based on peers and KOLs.

Throughout this study, we see China leading the trend for this key takeaway as well, with most notably RED, which bridges conversations around varied topics from travel, to baby food, to lipsticks, with a Instagram and Pinterest like savvy front end, all user generated, plus a buy / sell function. The agility and empowerment this represents to digital natives is the foundation of their continuous usage.

South Korean youth also respond to such online ‘freedom’ but are more drawn towards one-to-one communication rather than social media blasts; however they also expect continuous daily conversations around brands, blended with entertainment and information at their fingertips.

3. From B2C to B2B

In Japan, Taiwan, Mainland China and South Korea, marketplaces are increasingly shifting towards a B2B approach, offering more, not just in terms of products to consumers, but services spanning payment methods and banking, insurance, booking platforms and streaming verticals. These fully integrated online marketplaces create digitally-sourced, self-service environments, improving the customer experience by making transactions simpler and more transparent.

Southeast Asian marketplaces are following suit, providing goods and services that were previously unavailable in rural areas, and thus helping regions become more digitally connected and embrace a more dynamic online retail model.

Their increasing role in facilitating consumption and innovation makes these marketplaces key players in the future of regional economic integration through e-commerce. Online marketplaces are not only changing how retailers and consumers sell and purchase goods, but are challenging traditional models of growth.

Methodology & Sources

The paper is the result of the analysis and interpretation of data collected from published reports, official websites, media platforms, informal conversations with different stakeholders within the retail industry, workshops with influencers and Gen Z individuals, conferences and consumers.

Given the specificity of each market in the region, the paper provides examples from different markets in Asia, and highlights the main players and features shaping the development of online retailing.

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