

E-Commerce

Online VS. In-store: War or Opportunity

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As Alibaba, the Chinese e-commerce giant, making the biggest U.S. IPO ever in history, whether the e-commerce is posing a serious threat to offline stores or not becomes a most heated topic. Does the Online vs. Offline turn out to be a zero-sum game? Or is it a great opportunity to converge each other to leverage the whole business? Jane Hou, a partner from Value Partners Management Consulting, makes a deep analysis of the global e-commerce market and believes that cooperation will be the futuristic choice of online and offline companies for reaching a win-win situation.

Although Chinese Double 11 & Double 12 shopping spree had just past, the relationship between e-commerce and in-store is still an interesting topic going forward. As e-commerce rockets in China, we are also eager to know the trend of global e-commerce. Could we feature the future landscape of both online and offline in China from that? An IBDaily journalist interviewed Jane Hou – a Partner from Value Partners Management Consulting.

Asia: e-commerce market with great potential

The U.S. market is a remarkable benchmark when mentioning the e-commerce industry. As Jane introduced, according to the analyses report, e-commerce accounted for nearly 10% of total retail sales in U.S. in 2013, against 8%~9% in China.

“This number may vary due to different statistics. However, generally speaking, the gap is quite small whilst China ecommerce development takes on a rocket.” Jane explained, the advantages of e-commerce are “Inexpensive & Convenient”. Attributed to that, e-commerce expands fast especially in countries or areas with vast territory.

Jane elaborated, “Therefore, if we look at the whole picture globally, e-commerce soars particularly in North America, Russia, China and India, while stagnates in Hong Kong and Singapore confined to their relatively small geographical areas and well-distributed retail stores.

Moreover, other factors affect e-commerce development, including infrastructure, such as broadband network, telecommunications, smartphone, payment, logistic and so on. Benefited from that, countries like China, India, Russia, etc., are boosting their e-commerce industry.

In addition, customers in Asia are more open to new products and willing to try them out. In contrast to Europeans’ conservativeness, Asian consumers are more acceptable to the new things and more prone to have a try, which greatly drives the development of e-commerce and mobile e-commerce in Asia.”

Cooperation will be the mainstream

Talking about the relationship between online and in-store in the future, Jane firmly believes that they are

complementary and will finally form the synergy. O2O and O2O2M (Online, Offline, Mobile) will be the tendency in the coming future.

She said, “E-commerce’s birth inevitably had a negative impact on traditional retailers, lose traffic, customers, and even shut down. The consequence is not exclusive in China. It also happened in markets like North America, Japan and Korea. However, after e-commerce steps into a certain stage, online stores have to cooperate with traditional stores instead of taking the place of them.”

Jane believes that the growth of e-commerce will stimulate traditional offline stores to transform by either cooperating with e-commerce giants or developing their own e-commerce. Meanwhile, the physical stores will continually take full advantage of their strength by re-positioning their stores and products, to leverage the whole business.

On the process of evolving from traditional sales to O2O model, the key successful factor is to find the right and proper position of the online/offline stores and exploiting their strength as much as possible. The offline channel will focus more on customer experience, customer education, supply chain etc. Online channel, on the other hand, plays a role as customer attraction, information sharing, big data and precision marketing, customer relationship maintenance, payment options etc. Besides, as physical stores adjust their positioning, the product portfolio could also potentially change. For example, in the future, the shopping mall will offer more experiencing service and products like restaurants, entertaining, parenting, fitness, SPA, which will focus more on recreation, social and business function while products with less experience needs will shrink.

As Jane Hou mentioned, currently the merging of online and offline under O2O and O2OM business models is the main trend both domestically and internationally, and there are numerous cases. Macy’s, for example, has been a pioneer in exploring O2O business model. They audaciously tested their Mobile Payment (especially NFC payment), APP innovation, and smart fitting by allowing their customers to make the order online, pick up the order offline and mail home the same day to enhance their customers’ overall shopping experience. In China, Wal-Mart is also integrating with its holding company – YHD (a leading e-commerce company in China) by collaborating on global sourcing, supply chain and storages to build up a more effective O2O business model and achieve mutual benefits. In addition, Alibaba’s collaboration with Intime (a renowned department store in China) and RRS (a logistics Giant with 30,000 retail stores in China), JD’s collaboration with CR Vanguard (a leading chain convenience stores company) are all cases of O2O business strategies. “Such O2O model will become the main stream in the future. In the meantime, as smart phones quickly develop, O2O2M model also has a huge potential.” Jane said.

Technology is the key

The development of e-commerce still needs logistics’ support. In China, a large number of couriers is an important driver for e-commerce’s growth. However, the increase of Chinese labor cost is inevitable, and this will directly affect logistics cost. If such situation continues, will e-commerce’s development be affected as well? “Definitely, otherwise why Amazon is developing drones to deliver orders?” Jane gave out a positive answer.

In fact, foreign online retailers’ development, especially that in North America, does not have cheap labor cost to take advantage of. Therefore, e-commerce has been investing heavily on technology and capitals in purpose of achieving efficiency improvement and cost saving.

A report said that Amazon will release 15,000 warehousing robots in preparation for the Christmas this year. These robots will be responsible for most of the goods sorting.

Jane thinks that this is something that Chinese e-commerce could learn from. “Although the raising labor cost will not be considered as a constraint in the short term, but it is definitely a problem that Chinese e-commerce companies should keep an eye on. Intelligent logistics construction, effective storage and routes planning, cooperation model innovation(such as thousands of last-mile pickup locations) can all improve efficiency and slow down the rising of labor cost to some extent. In future, technology and capital investment are still the

keys for online retailers' development.”

Jane believes that there still lies a gap between Chinese e-commerce and North American e-commerce from technology perspective, but Chinese companies' enthusiasm, or even obsession towards internet will undoubtedly accelerate their development. Meanwhile, Chinese companies have great localization innovation, such as the thousands of last-mile pickup locations created by e-commerce's collaboration with property management, convenience stores and gas stations. All these innovative collaboration models have shown a prosperous Chinese e-commerce market. Emerging opportunities such as the convergence of online, offline and mobile, e-commerce's penetration into rural areas, and cross-border e-commerce will bring the next round of e-commerce fever.