



Navigating the Digital Divide  
Addressing the evolving  
needs of Chinese Customers

Deloitte China Consumer Products and Retail Industry

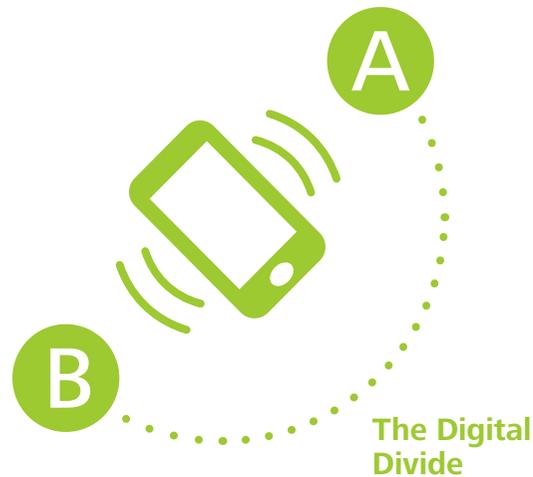




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# Preface



Many retailers continue to underestimate the influence of digital and are caught in a situation where digital capabilities fail to meet the rising expectations of today's omni-channel customers. While investment in digital capabilities are indeed increasing, investment decisions are often solely made with the objective of driving online sales.

The Digital Divide highlights the gap between consumers' digital behaviors and expectations versus retailers' ability to provide the desired experiences. Digital capabilities do not only drive online sales but also influence customers' purchasing behaviour across traditional channels. For the third year, Deloitte has studied consumers to understand how their digital interactions are influencing in-store retail experiences and buying decisions.

Bridging this gap requires a well-defined omni-channel strategy. It requires that we look beyond the rigid confines of "in-store" and "online" to embrace a much more holistic perspective and explore means to enhance the end to end customer journey, irrespective of the channel where the point of sale occurs.

To help understand the applicability of this concept to China, we are pleased to present this whitepaper focused on today's Chinese consumers. The whitepaper showcases how Chinese consumers continue to visit brick and mortar stores; however, digital is growing and increasingly impacting their in-store behaviors and ultimately, brick and mortar sales. Deloitte Consulting China has conducted rigorous and detailed customer research in China this year on this topic. In order to have a thorough understanding about customer behavior in the new digital era, we conducted an online survey that represents users who are connected to the internet. We selected 10 cities in China, consisting of a cross section of tier 1, tier 2, and tier 3 consumers. Income, education, and other factors were considered in the survey sampling. Surveying more than 2,000 respondents, we are confident that our research speaks to "the new norm" of urban Chinese consumer.

Bridging the Digital Divide creates an opportunity for businesses to create a competitive and sustainable advantage through enhanced digital focus and investments. We hope this study will be a call to action for consumer business companies in the Chinese market.

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The Digital Divide highlights the gap between consumers' digital behaviors and expectations versus retailers' ability to provide the desired experiences.

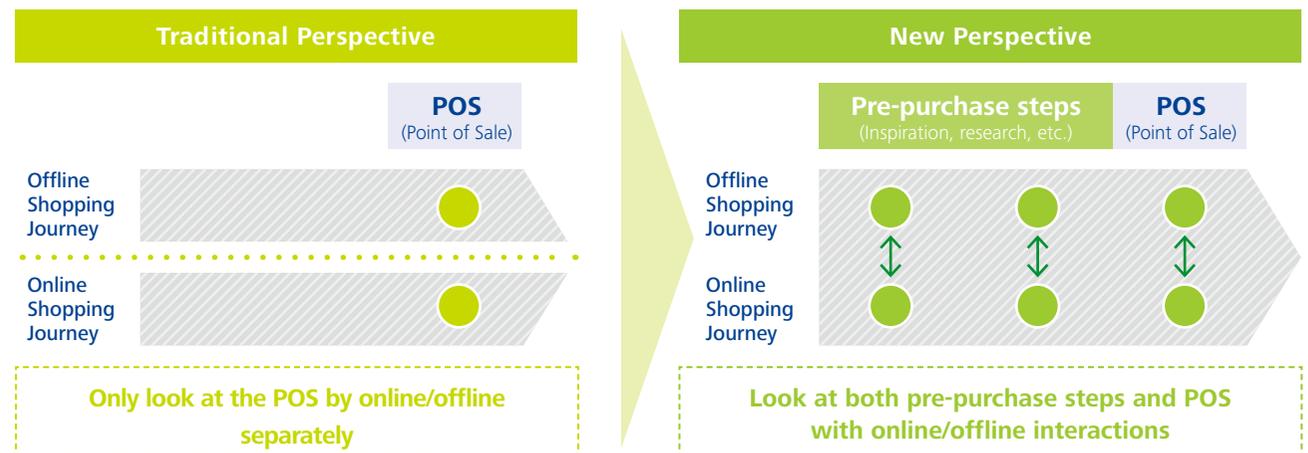
# The Evolving Customer Perspective



Digital is dramatically changing the ways Chinese customers shop. Information online, such as detailed product descriptions and pricing, often allow customers to make informed purchasing decisions regardless of whether they ultimately make the purchase in-store or online. Leading retailers are already working relentlessly to address these evolving requirements. Case in point: Alibaba's recent announcement of a 19.99% interest in Suning may serve as a proxy of how the online to offline (O2O) phenomenon is challenging our traditional views of offline versus online.

As a result, businesses should no longer look at traditional performance indicators such as online sales and brick and mortar sales separately. They need to consider a more holistic view of the end to end customer's omni-channel journey to assess how they can better cater to the needs of today's Chinese customers. With the rapid growth of smartphone popularity and more affordable data plans, Chinese customers are much more frequently going online. The gap between online and offline is getting blurred. Operating businesses for online and offline separately is misaligning valuable time and resources. This is unfortunately how most brands and retailers operate today.

**Figure 1: New Perspective of omni-channel journey**



↔ Online/Offline Interactions

# Critical Questions

To fully appreciate how digital impacts Chinese customers' shopping journey and to better address customers' needs in an era of digital influence, we seek to answer three critical questions:

01

How influential is digital?

02

How do customers leverage digital to assist with their shopping journey?

03

What do customers expect in today's omni-channel retailing environment?



01

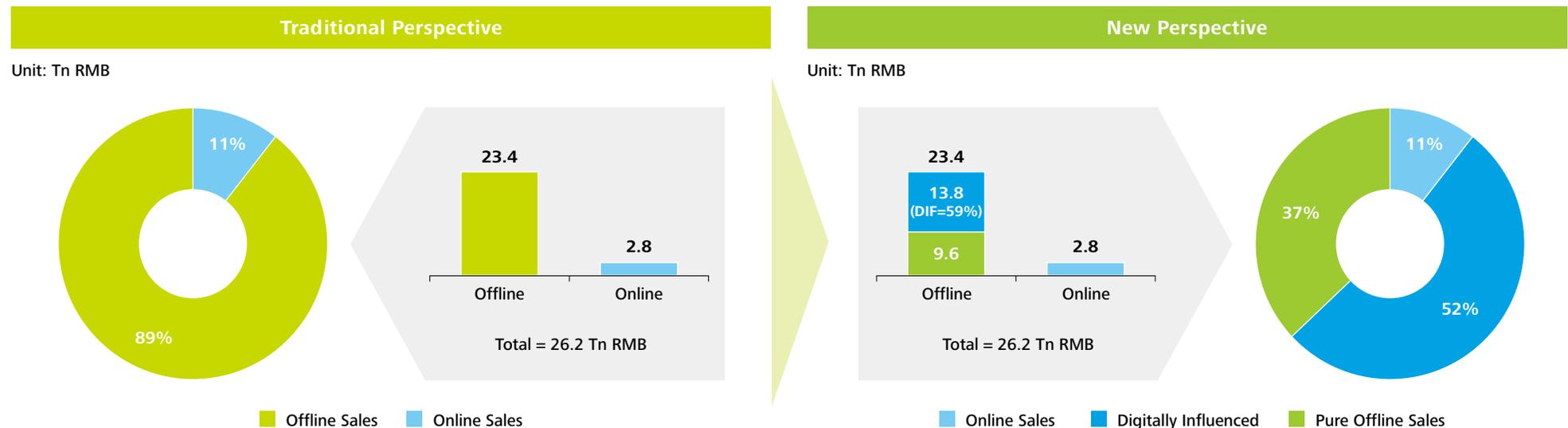
How influential is digital?

## 01 How influential is digital?

*While only 11% of sales occurred online, 59% of offline sales were digitally influenced*

In 2014, total retail sales in China reached 26.2 trillion RMB. In an era where Online-To-Offline (O2O) is the “buzzword du jour,” 23.4 trillion were offline sales (89%) and 2.8 trillion were online sales (11%). This is consistent with a most recent study by China Internet Network Information Center (CNNIC), which indicates that China internet penetration rate is 47.4%. While offline sales continue to account for the majority of all retail sales, our study identified that 59% of offline sales were actually influenced by digital<sup>1</sup> – this is what we call the Digital Influence Factor (DIF). If we deploy the conventional method of dissecting sales between online and offline, we may not see the need to immediately address the digital challenge. However, if we recognize how digital is already influencing the majority of purchases, we may understand why brands and retailers who have yet to develop a robust omni-channel agenda are, in fact, contributing to the widening of the digital divide.

Figure 2: China Total Retail Sales under “New Perspective” (2014)



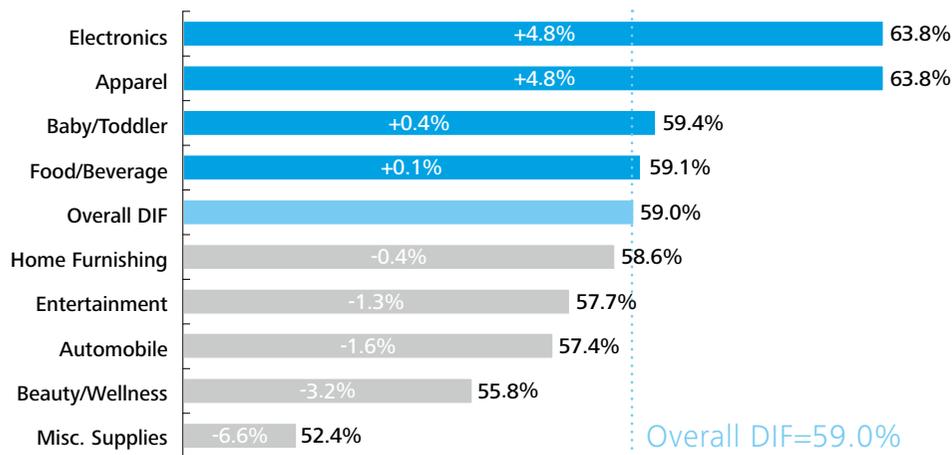
<sup>1</sup> In which case, customers use digital to assist them during offline purchase.

## 01 How influential is digital?

Digital influence factor (DIF) refers to the percentage of in-store retail sales influenced by the shopper's use of any digital device, including desktop computers, laptops, netbooks, tablets, smartphones, wearable devices, and in-store devices (i.e. kiosk, mobile payment device). It is an accelerating phenomenon that is both shaping how consumers shop and setting heightened expectations for retailers' digital capabilities.

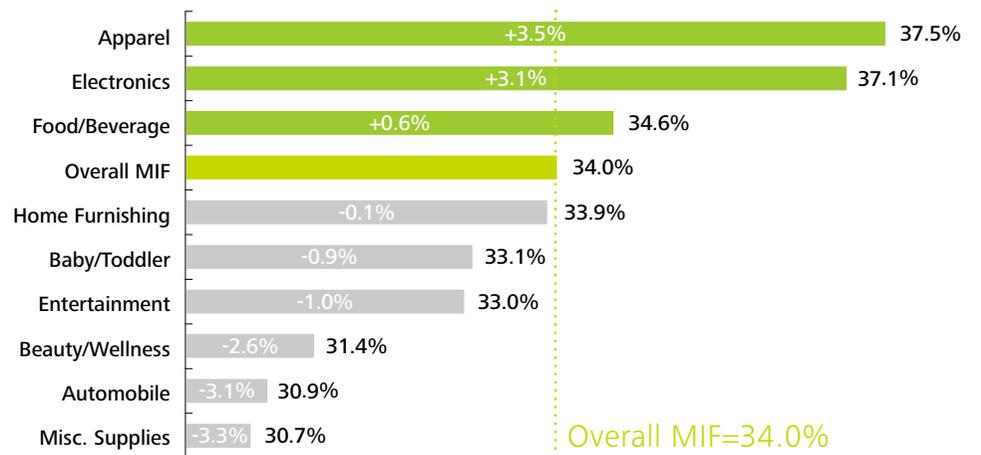
Mobile Influence Factor (MIF) is a subset of DIF and refers to the percentage of in-store retail sales influenced by the shopper's use of a web-enabled mobile device, including smartphones.

Figure 3: China 2015 Digital Influence Factor (DIF)



Over 50% of in-store retail sales are influenced by the shopper's use of digital devices in all of the product categories listed above. It is higher in "Function Driven" product categories such as Electronics and Apparel (both 64%), and lower in "Experience Driven" product categories such as Automobile (57%) and Beauty products (56%)

Figure 4: China 2015 Mobile Influence Factor (MIF)



Among consumers who use digital devices to shop, over 30% of in-store sales are influenced by shopper's use of smartphones. The MIF in all categories exhibit similar characteristics as DIF; Apparel is relatively higher (38%) and Automobile is relatively lower (31%)

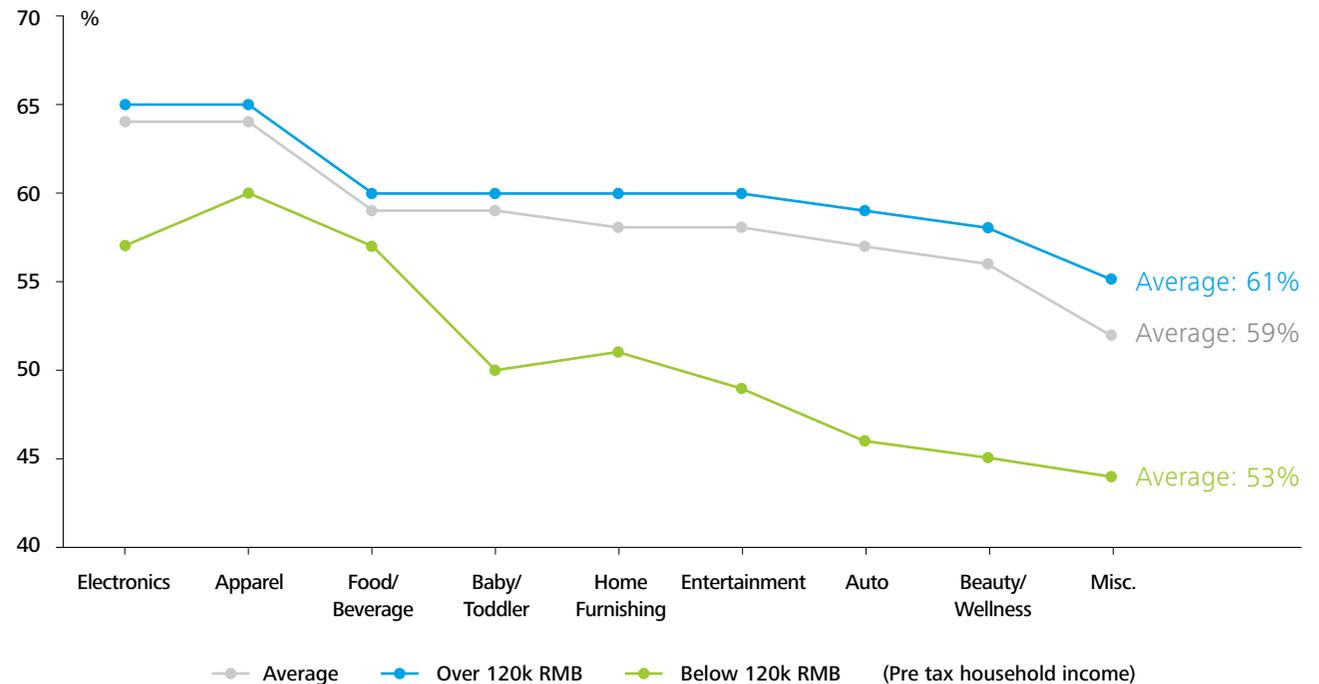
## 01 How influential is digital?

*Overall, digital is more influential among high income consumers*

*The gap is more pronounced for product categories that are more experiential in nature, such as entertainment, auto and beauty*

While the increase in digital usage is quite clear, our research indicates that digital usage is much more pronounced among high income consumers. The DIF gap between high income and low income customers becomes wider in product categories with lower average DIF (such as auto and beauty/wellness products).

Figure 5: DIF breakdown by income level



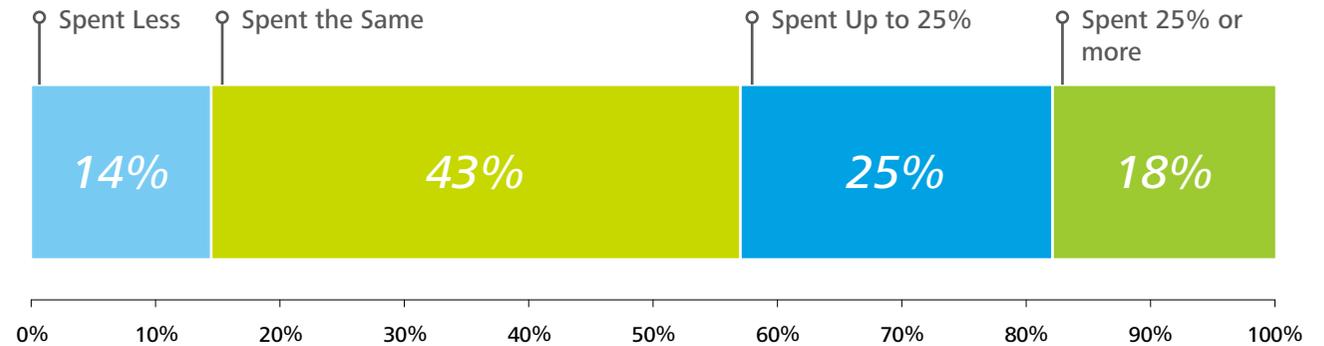
01

## How influential is digital?



Among consumers who use digital devices for purchases, we also found that digital has a strong impact on the total amount spent. From the customers surveyed 43% (25%+18%), indicated that using digital devices makes them spend more than they would otherwise. Among which, 24% of respondents believe digital gave them confidence that the product was a good fit; 23% believe they ended up spending more when trying to take advantage of online discount/coupon. On average, these respondents are spending 10% more than they would normally do.

Figure 6: Digital impact on spending amount



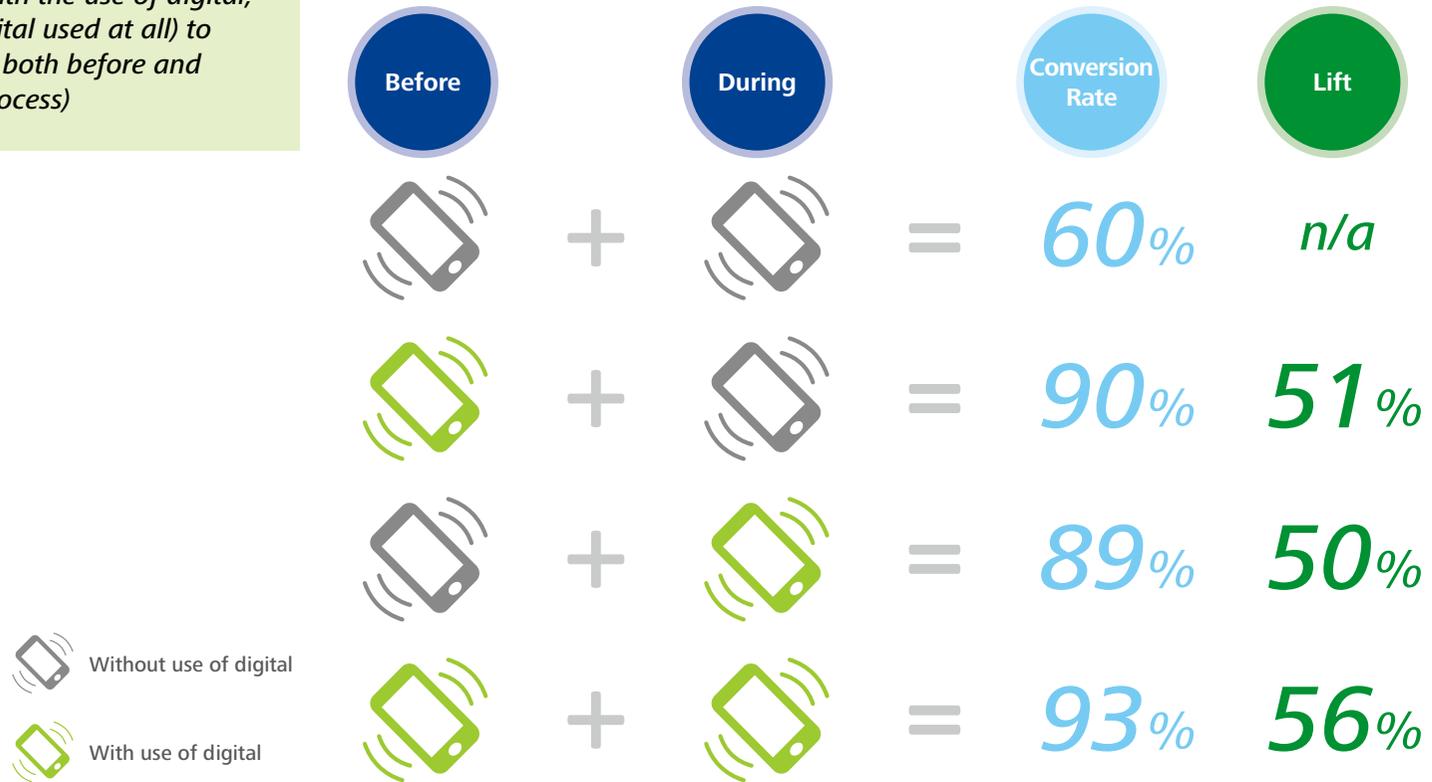
*With the use of digital, 43% customers surveyed indicated that they spent more than anticipated, with an average 10% increase in spending amount*

**01** How influential is digital?

Our findings reveal that shopping conversion rates significantly increase as a result of using digital, whether it is used before or during the shopping process, with a 50% lift in conversion rate when digital usage is involved. Furthermore, using digital throughout the whole shopping process has the biggest impact on conversion rates – from 60% to 93%.

*Conversion rates rise with the use of digital, from 60% (with no digital used at all) to 93% (with digital used both before and during the shopping process)*

**Figure 7: Digital impact on conversion during the shopping process**



# 01

## How influential is digital?

Digital is very influential – 59% of offline retail sales are influenced by digital (DIF), among which, smartphone is a key digital device, influencing 34% of all offline retail sales (MIF). Hence retailers should not just look at the 11% of online sales, but have a broader perspective that 63% of total retail sales are influenced by digital.

Furthermore, higher income customers are more influenced by digital; as a result of Digital usage, the conversion rate rises from 60% to ~90%, and 43% consumers claimed they spend more, with an average increase of 10%.

Understanding digital, including the impact of mobile influence, will assist companies to bridge the digital divide. It's no longer about how to address the digital business. Quite simply, it's leveraging digital to drive business.

02

How do customers leverage digital to assist with their shopping journey?

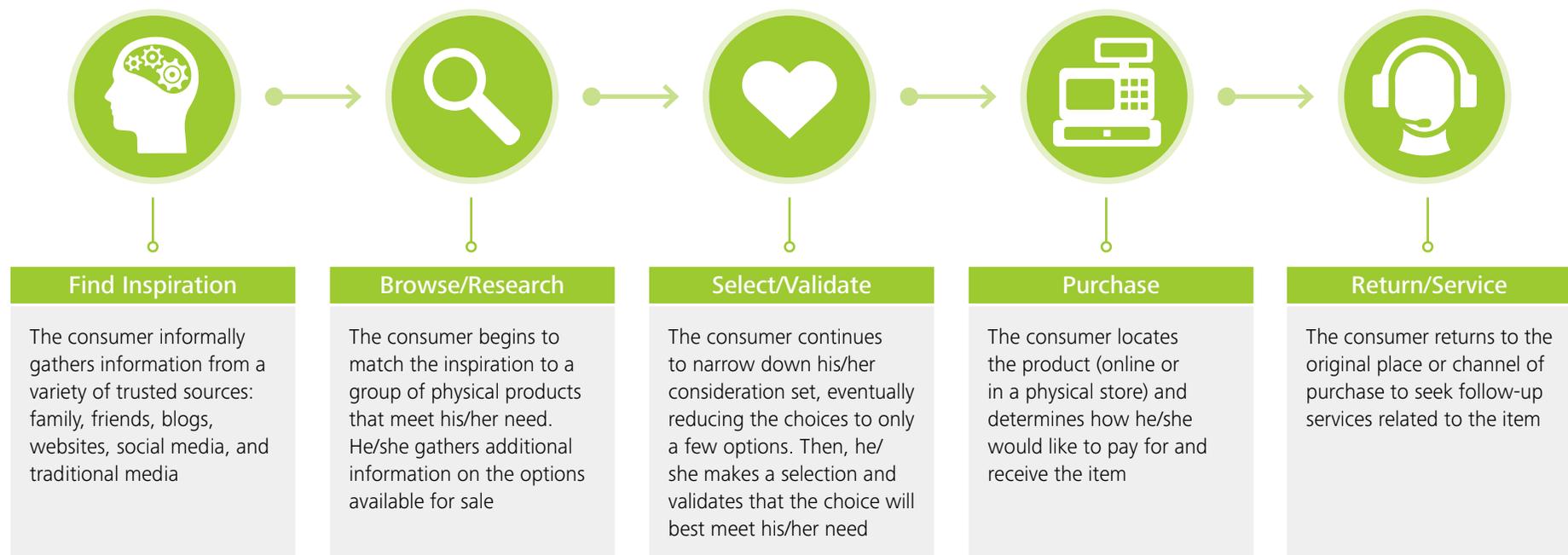
TRANSFERRING  
PAYMENT DETAILS

02

## How do customers leverage digital to assist with their shopping journey?

Digital is certainly influencing the way consumers are shopping and making purchase decisions. By understanding how consumers are using digital during the different stages of their shopping journey we can enrich their experiences and to become a consideration for their purchase. The customer shopping survey can be broken down into five key phases.

Figure 8: Customer shopping journey

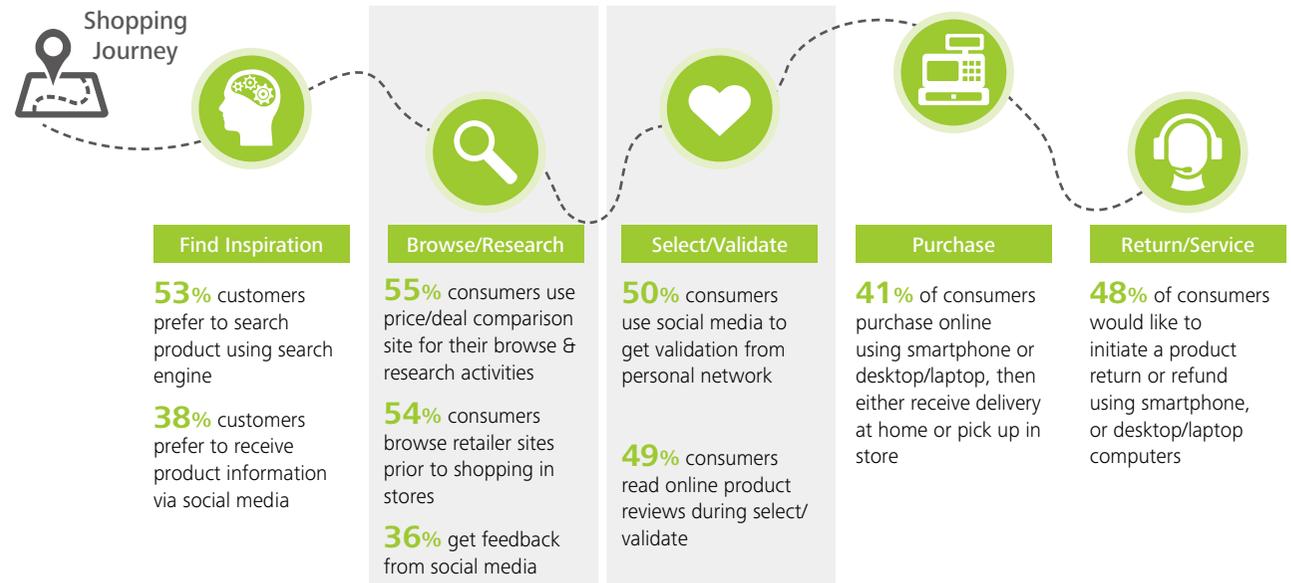


02

## How do customers leverage digital to assist with their shopping journey?

Studying the behavior throughout the customer's shopping journey, our research shows that consumers are relying heavily on digital across various stages of a shopping journey.

Figure 9: Different digital interactions during a customer's shopping journey



Overall, digital, especially social media is very influential during pre-purchase steps

Retailers should pay extra attention to their online brand image, as customers rely heavily on sources from online resources & social media to make purchase decisions

### Different behavior observed in different city tiers:

- When browsing and researching, T1 consumers are more willing to use retailer's website/mobile pp, whereas T2/3 consumers are relying more on social media
- When selecting, T1 consumers prefer social media and T2/3 consumers refer to existing consumers/experts review
- In China, people do not readily trust brands. They trust people and friends who have experiences with brands. This is even more pronounced among T2/T3 consumers

<p>Retailer's website /mobile app</p>	<p>Social media</p>	Tier 1 city consumer
<p>Social media</p>	<p>Customer/expert review</p>	Tier 2/3 city consumer

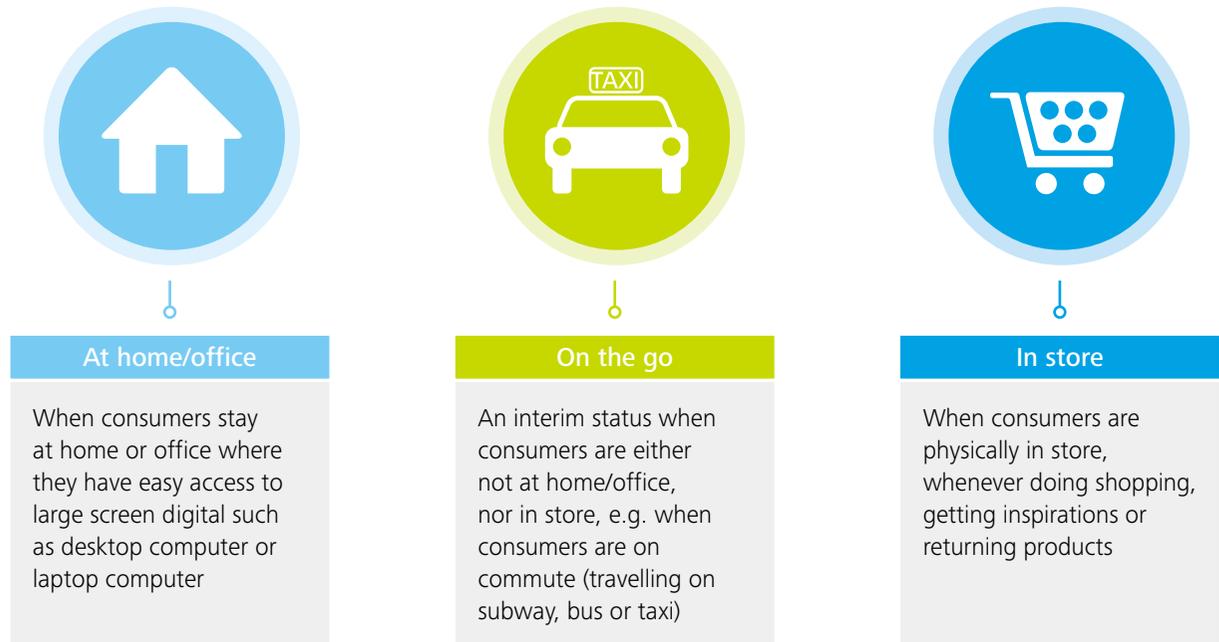
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## How do customers leverage digital to assist with their shopping journey?

In addition to understanding digital usage throughout the customer's shopping journey, we explored 3 different occasions when consumers leverage digital during their shopping journey.



Figure 10: Customer shopping occasions

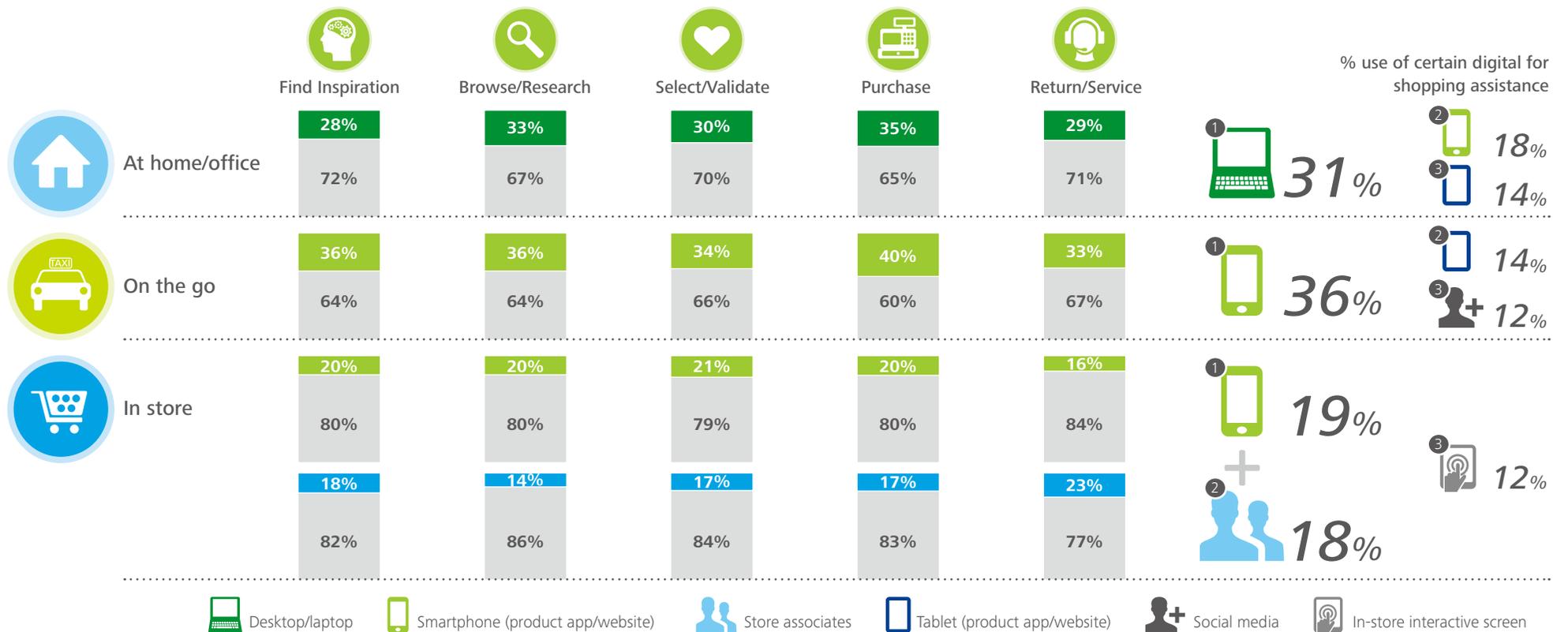


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## How do customers leverage digital to assist with their shopping journey?

When we look at the usage of different digital mediums across different journeys, not surprisingly, the evidence suggests that desktop/laptop computer is the main digital device when at home/office (31%); while smartphone (with product app/website) is mainly used when on the go (36%); and surprisingly, smartphone (19%) is considered more helpful than talking with in-store associates (18%) when consumers are in-store. Smartphone usage while on the go is used more than desktop usage at home – at any stage of the shopping journey. This finding is consistent with the latest research released by China Internet Network Information Center (CNNIC), which highlights that 88.9% of Chinese netizens use their smartphone to go online.

Figure 11: Key interactions along the customer shopping journey



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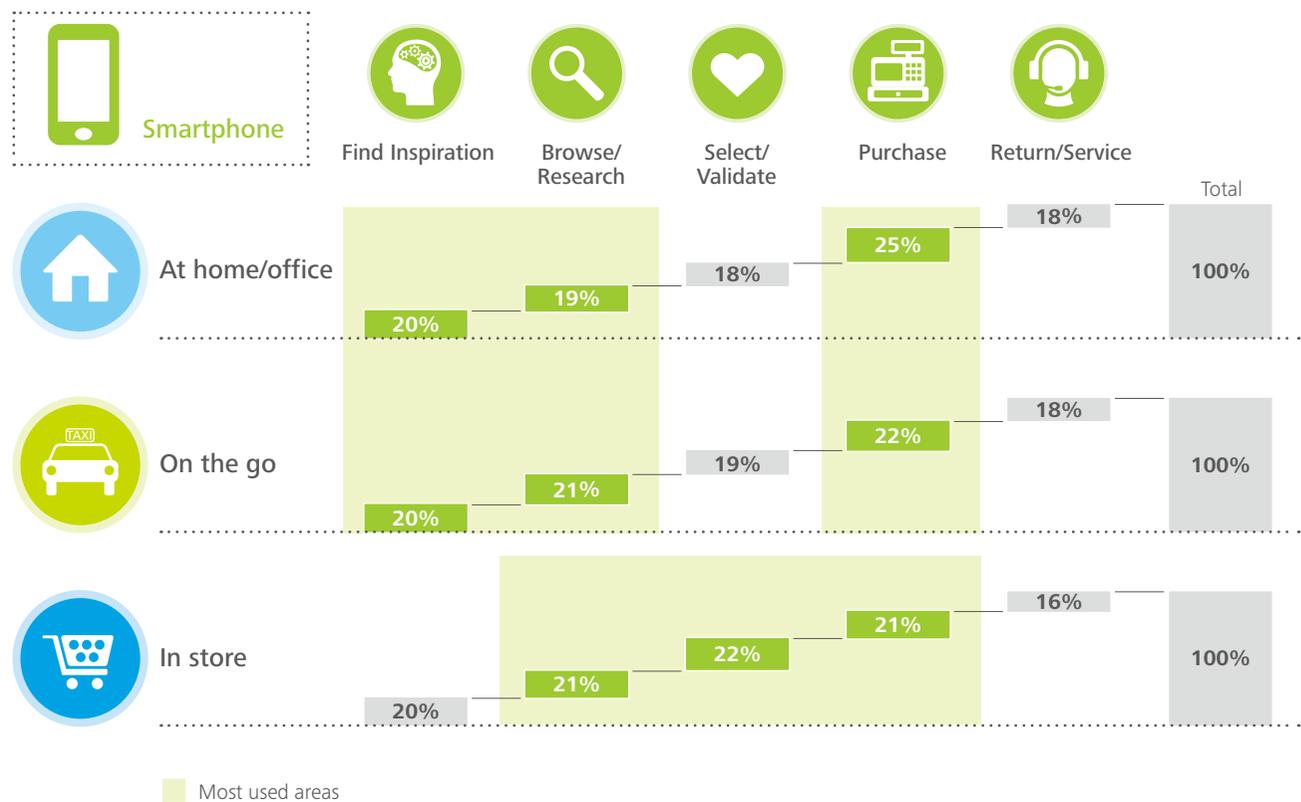
## How do customers leverage digital to assist with their shopping journey?

*The top 3 usage for smartphone is: to assist inspiration, browse/research and purchase (when at home/office and on the go), and to assist browse/research, select/validate and purchase (when in store)*

*The most significant difference between online and offline usage falls on select/validate. When in stores, customers leverage their digital device to help with the selection and validation of products*

Figure 11 highlights the importance of smartphones -- it is the most used digital medium when on the go and in store, and the second most used digital medium when at home/office. Given the importance of smartphone usage among Chinese consumers, we explore the way they leverage it during the different stages of the shopping journey.

Figure 12: Smartphone usage during customer shopping journey



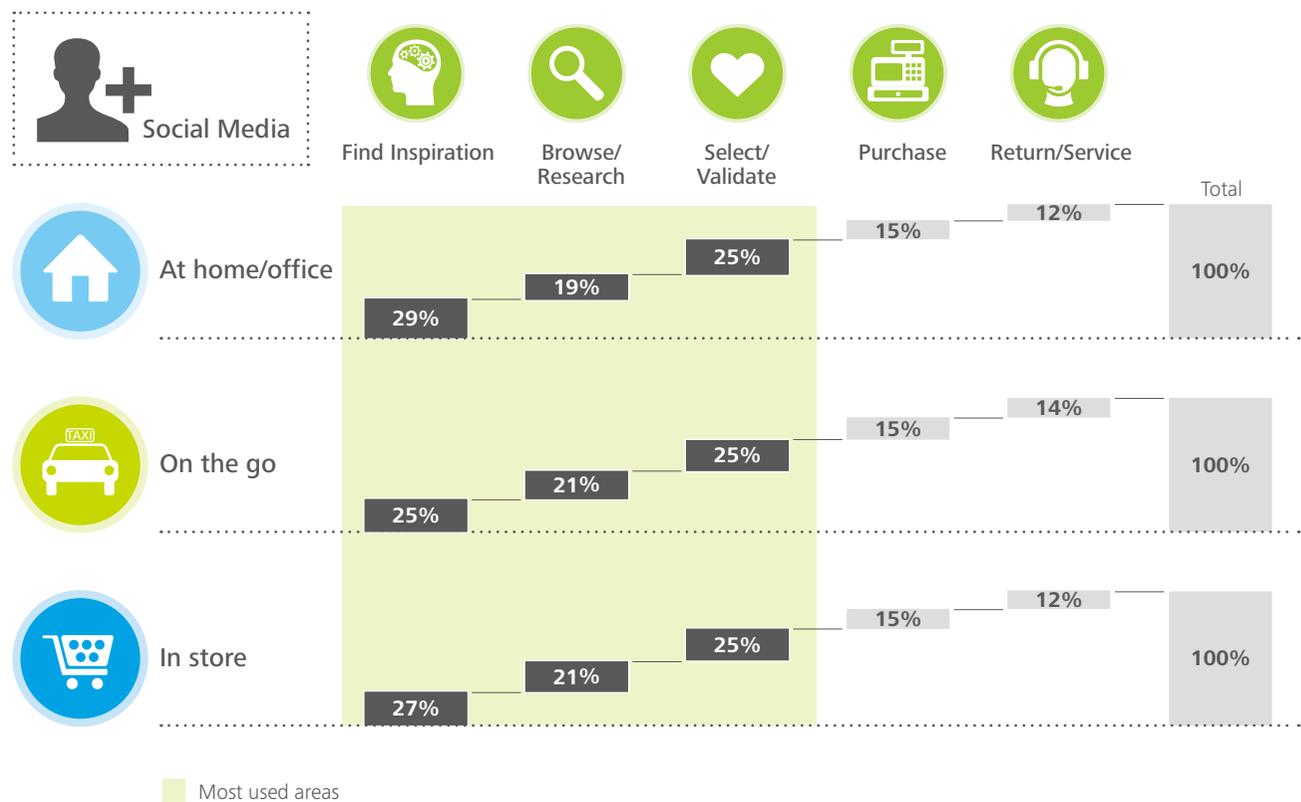
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## How do customers leverage digital to assist with their shopping journey?

*Social media is mostly used to assist inspiration (29% at home/office, 25% on the go and 27% in store), select/validate (25% at home/office, on the go and in store). This means social media is considered a trusted source and plays a crucial role in their purchase decision making process*

The importance of social media can not be over-emphasized in China. Chinese consumers rely on social media at many critical stages of the shopping journey. In particular, social media is an important source of inspiration and selecting/validating products. As previously mentioned, Chinese consumers do not necessarily trust brands; however, they trust people or friends who have experiences with different brands. Social media provides easy access to such input.

Figure 13: Social media usage during customer shopping journey



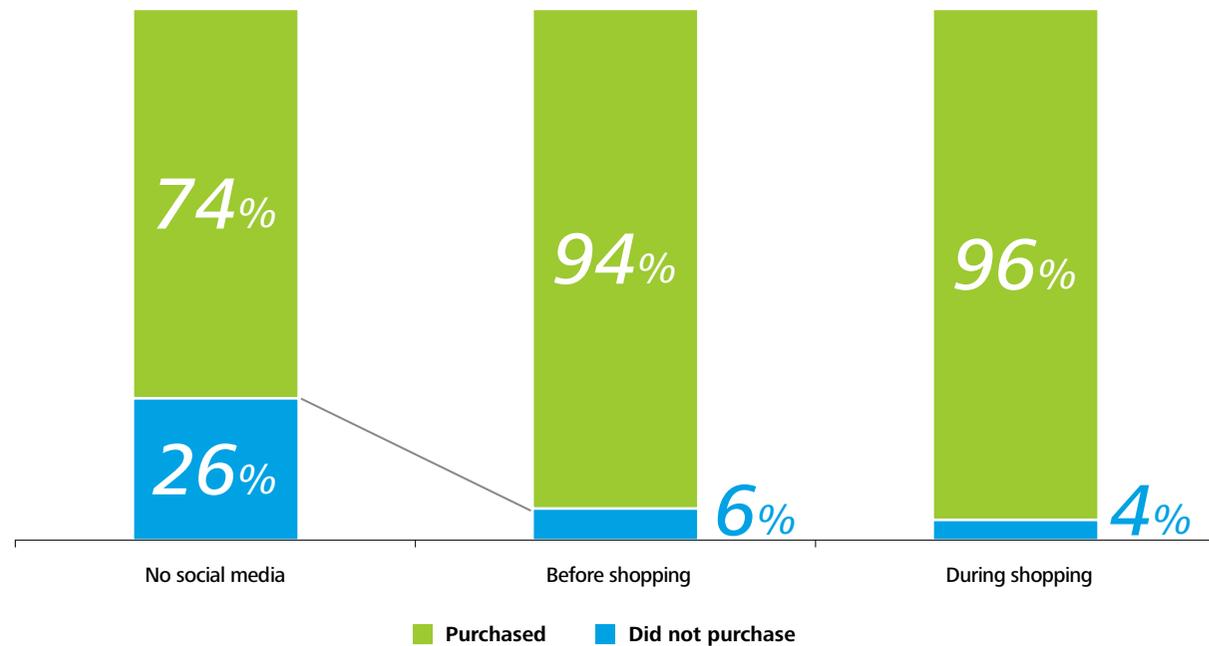
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## How do customers leverage digital to assist with their shopping journey?

*Retailers need to consider social media as an important consumer contact point and fully leverage the word-of-mouth marketing*

Considered as a trusted source by Chinese consumers. Social media also has an ability to drive conversion. When social media is used before or during the shopping journey, customers are 20% more likely to make purchases.

Figure 14: Social media impact on purchase

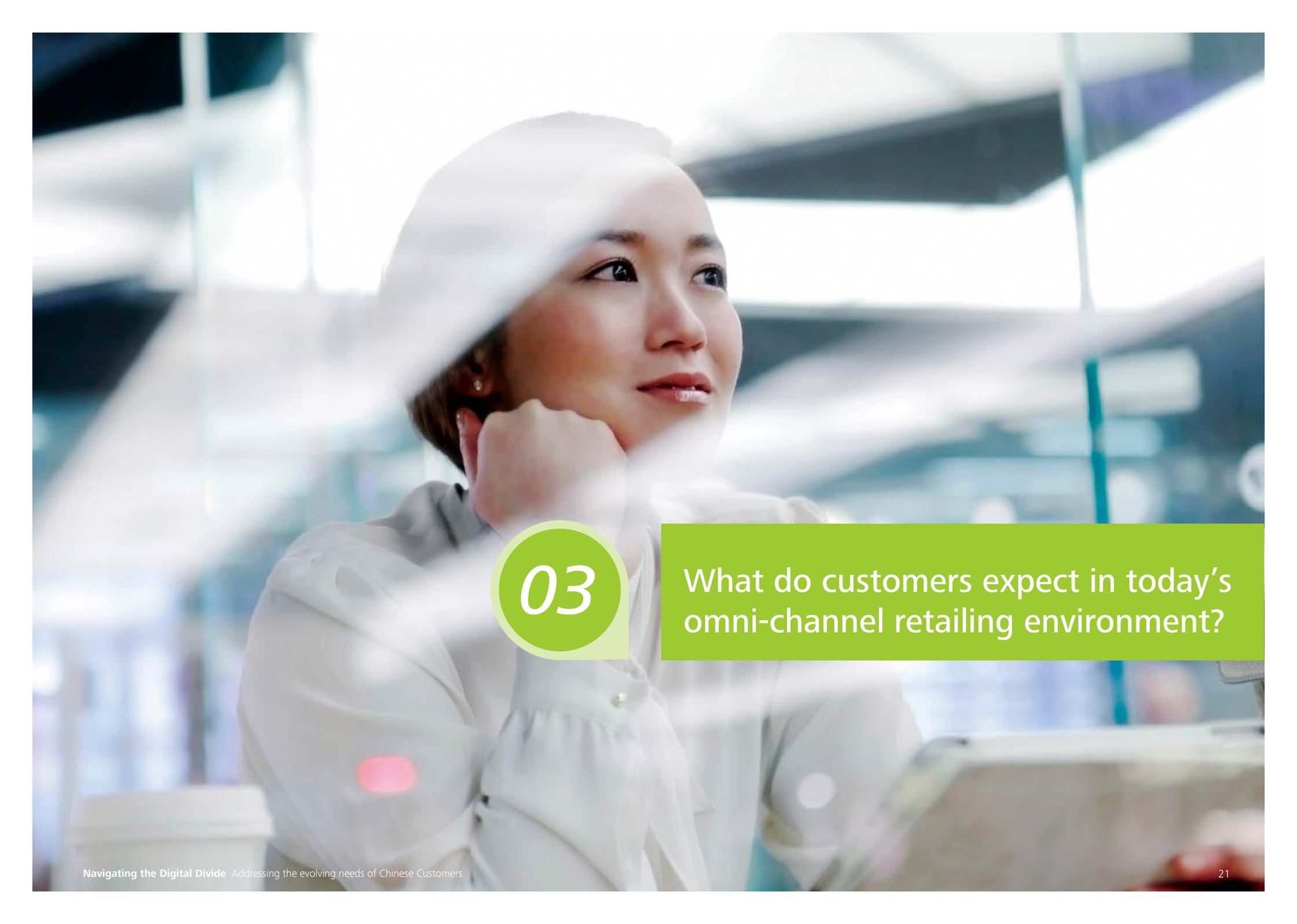


## 02

### How do customers leverage digital to assist with their shopping journey?

Digital, especially social media, is widely used during pre-purchase steps (find inspiration, browse/research, and select/validate).

Of the 3 occasions (at home/office, on the go, and in store), most consumers use desktop/laptop at home or office (31%), while smartphone (with product app/website) is mainly used when on the go (36%); surprisingly, smartphones (19%) are considered more helpful than talking with in-store associates (18%) when consumers are in-store. In addition, smartphones are mostly used for browse/research (20%) and purchase (23%), while social media usage is concentrated in inspiration (27%) and select/validate (25%).



03

What do customers expect in today's omni-channel retailing environment?

03

### What do customers expect in today's omni-channel retailing environment?

The answer to the question is the classic response: it depends.

As Chinese customers are becoming more and more sophisticated in their shopping journeys, they do not simply view online and offline as points of sale like retailers do. From finding inspiration to browsing, selecting, and making purchases, consumers criss-cross between online and offline. The customer journey outlined below is one of the most prevalent paths in today's retailing environment. It is also the path that is closest to the concept brought by DIF – measuring offline purchase that is influenced by online pre-purchase behavior. Let's focus on this for a moment.

Our research shows that while this journey may be the most common route, the expectations that consumers have in online and offline varies dramatically depending on whether the product or category is function-driven or experience-driven. Let's start by focusing on the pre-purchase phase, which includes finding inspiration, browsing, and selecting products.

Figure 15: Customer's expectation during the online to offline shopping journey



03

### What do customers expect in today's omni-channel retailing environment?

During the pre-purchase phase, the usage of digital differs significantly for function-driven products and experience-driven products.

For function driven products, customers go online for product and price comparisons. In fact, 55% of customers expect a brand or retailer to offer online functionality for price and product comparison. In addition, 43% of respondents expect to have clear visibility of all promotions and discounts for a particular product. Conversely, for experience driven products, 50% of customers go online to read customer reviews or seek close network feedback from social media such as WeChat prior to making a purchase decision. Therefore, websites with embedded review features (that are perceived as credible and trustworthy) appeal more to Chinese consumers. Case in point: Starwood's reservation website which provides user reviews of its hotels is effective as users can only submit a review if they have stayed at the hotel in the last 18 months and details on corresponding reservation must be provided before a review can be written.

Figure 16: Customer's expectation during the online to offline shopping journey (pre-purchase online)



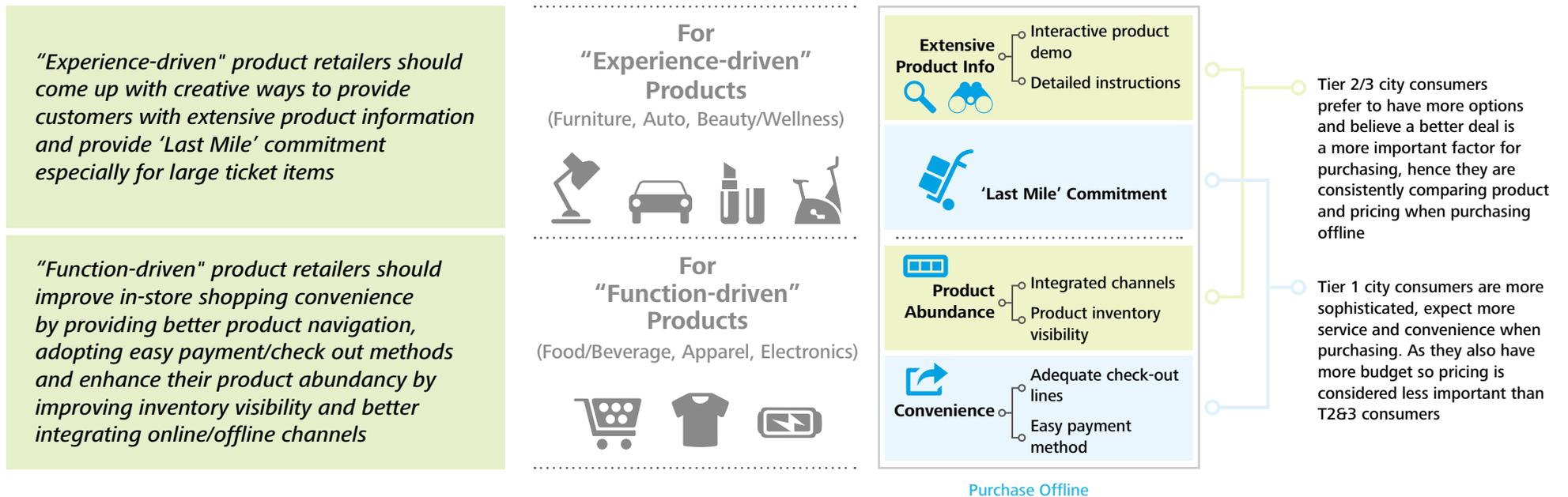
03

### What do customers expect in today's omni-channel retailing environment?

During the purchase stage, the expectations of in-store experience also differs. For function driven products, the name of the game is convenience and stock availability. Customers demand a better check-out experience and for products that are not available, they expect stores to have clear visibility of inventory, regardless of where it resides. In fact, 32% of customers are currently not satisfied with in-store shopping convenience and 18% of respondents noted that they are often not able to buy the desired products due to out of stock issues.

For experience driven products, customers are looking for stores to provide extensive product information (14%), including interactive product demos to augment information seen online. They are also looking for stores to provide flexibility in delivery, or what we call "Last Mile" commitment (17%) – they want the option to deliver directly to their homes even if purchases were made at the stores.

Figure 17: Customer expectation during the online to offline shopping journey (purchase offline)



## 03

### What do customers expect in today's omni-channel retailing environment?

During a typical “Online to Offline” path outlined by the concept of DIF (consumers find inspiration, browse/research and select/validate online, and purchase offline), for “function-driven” products, consumers conduct product and price comparison online (55%) and then make purchases offline, with the focus of in-store convenience (32%) and product abundance (18%); and for “experience-driven” products, consumers prefer to read customer reviews online (50%), and then look for “Last Mile” commitment (17%) and dynamic product information (14%) when purchasing offline.

# Summary



Retailers should assess how their value proposition meets Chinese consumer's expectations in an evolving omni-channel retailing environment.

- **Digital, especially smartphones, is very influential in consumer's purchasing behavior**

- In 2014, 59% of offline retail sales were influenced by digital and 34% were influenced by smartphones
- The digital influence is high across different product categories and the influence by smartphones follows the similar pattern
- Digital is more influential among higher income consumers, and on average, consumers spend ~10% more than they normally would under the influence of digital

- **Consumers use different digital mediums to assist their shopping journey at different purchasing steps when they are in different occasions**

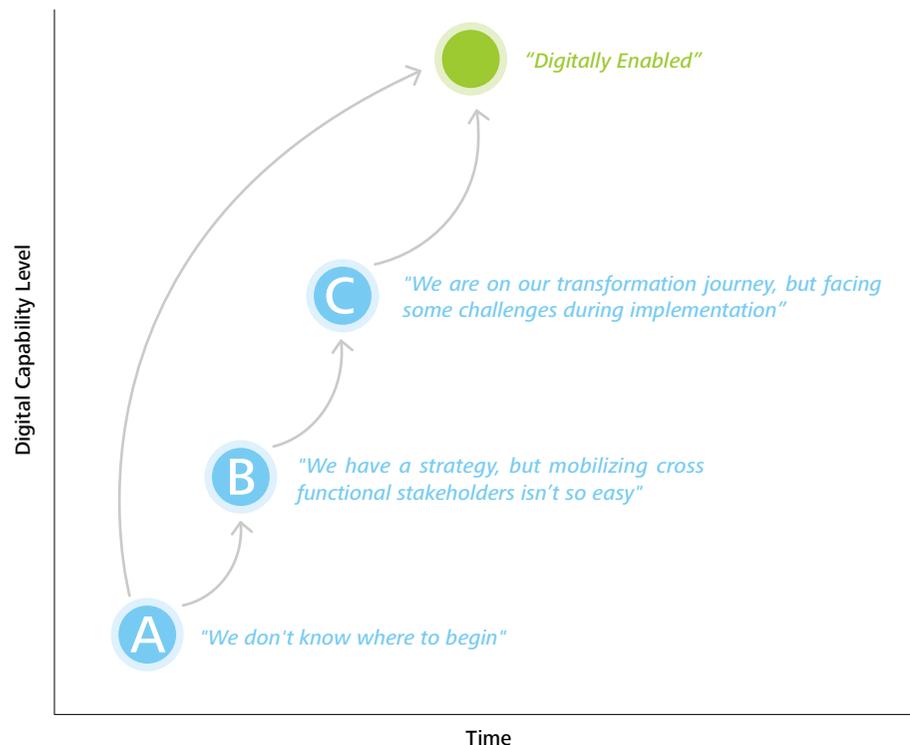
- Desktop/laptop is the most used digital when at home/office, and smartphone is the most popular digital when both on the go and in-store
- Of all 3 occasions, smartphones are most liked used for browse/research and for purchase, while social media has huge impact on all pre-purchase steps

- **During a typical "Online-Offline" path, consumers look for different features at different purchase stages; their preference differs between "function-driven" and "experience-driven" products; in addition, consumers from different city tiers show different features**

- For "function-driven" products such as food/beverage, apparel and electronics, consumers prefer the ability to compare product/price online and to provide shopping convenience and product abundance offline.
- For "experience-driven" products such as furniture and automobile, consumers prefer ability to view customer reviews online and to provide extensive product information and logistic services offline
- In general, T1 consumers care more about convenience and service during the shopping journey, while T2&3 consumers focus on product/pricing comparison

# A Call to Action

The transformation journey begins today. If your organization is hiding behind one of the following excuses, it's time to understand the root Issues and take action.



## "We don't know where to begin"

- In order to effectively develop an omni-channel strategy, companies need to address some fundamental questions: what are our goals and aspirations for the Chinese market, where do we want to play, how do we win, how do we configure our business, and what capabilities do we need?
- Companies should start by learning about your customers and what they truly demand in today's omni-channel environment. How do they shop? What drives their purchasing behaviors? Are all consumers equally valuable to your company?



## "We have a strategy but mobilizing cross functional stakeholders isn't so easy"

- Are our KPIs driving the desired behaviors? If not, what changes are required to encourage stakeholders to drive growth across the business versus for a particular channel?
- Companies can consider mobilizing a cross-functional task force to tackle the omni-channel customer challenge; winning in the omni-channel environment requires we break down internal functional silos.



## "We are on our transformation journey but face challenges during implementation"

- Companies need to have a holistic view regarding implementation capability, including current capability assessment, identify the gap needs to be fulfilled, and develop a solution to the implementation challenges.

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