Online Shopping In China

Now a cost effective and viable alternative to traditional market entry and sales strategies in China

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DATA DRIVEN MARKETING ASIA

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DDMA
MARKET RESEARCH & CONSULTING

FGC
FOCUSGROUPCHINA
A subsidiary of DDMA

Introduction to this report:

In the past month, 5.7 million consumers in Shanghai bought at least one item online. This is the equivalent of the population of Denmark.

Source: DDMA Online Shopping Incidence Study. Jan – Feb 2012.
Sample Size: 9,057 Chinese Consumers . Across Shanghai, Beijing, Guangzhou, Chengdu, Wuhan

The spiralling costs of doing business in China combined with structural inefficiencies and growing competition means that online shopping now offers a genuine and possibly a more effective alternative to either enter or to develop sales in the Chinese consumer market.

In contrast to the struggling traditional consumer retail sector, online shopping by consumers grew by 66% in 2011. There are now over 195 million Chinese consumers shopping online, this is the equivalent of the population of Brazil, the fifth most populous nation in the world. In 2011, Chinese consumers spent US$ 125 billion online. This is equivalent to the total GDP of New Zealand.

This report by Data Driven Marketing Asia (DDMA) is based on four key data and market intelligence sources. These are:

1. Interviews with 9,057 consumers that were conducted in January and February 2012 across the key urban markets of Shanghai, Beijing, Guangzhou, Chengdu and Wuhan.

2. Twenty two qualitative focus groups with online shoppers in Shanghai

3. An interview with the co-founder and chairman of the fastest growing B2C website in China, Yihaodian. Yihaodian was selected as the fastest growing company in the Asia Pacific region in the 2011 Deloitte Technology Fast 500 Asia Pacific Report.

4. A wide variety of trade and industry sources within China

This report introduces and details the following:

1. Official inflation figures do not tell the full story of rising costs in China. This report introduces the six key areas that are driving the steep increase in the cost of market entry, sales and marketing costs in China. This rapid increase in basic business operational costs is undermining the viability of traditional market entry and sales models for many consumer products.

2. Twelve key reasons why consumers are turning to online shopping in China.

3. The socio-economic and demographic profiles of online shoppers in China. How these differ from the general population and why these consumers represent the target group for most consumer goods companies in China.

4. What services that progressive companies such as Yihaodian are developing to allow companies to either enter the market with an online sales strategy or to further develop their sales in China with an effective online sales strategy and with minimal investment.

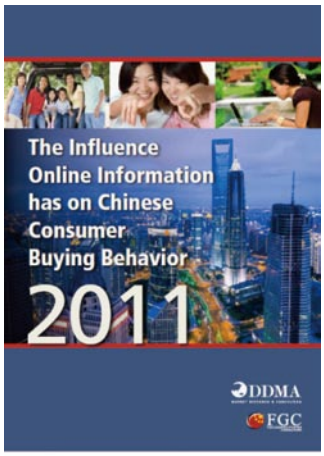
5. The relative size of the online market for thirteen selected product categories across the key urban markets of Shanghai, Beijing, Guangzhou, Chengdu and Wuhan. The thirteen product categories of focus are:

Categories of focus

Books	Daily Foods, Snacks, Confectionary	Leisure Travel and Vacations
Children's Items	Discount Coupons	Mobile Phones
Computer Equipment	Fashion Accessories	Sports Goods
Consumer Electronics	Fashion Clothing	
Cosmetics	General Household Goods	

1. Introduction to DDMA

Data Driven Marketing Asia (DDMA) is a full service market research company based in Shanghai, China. The company was founded in 2002 and conducts consumer and business-to-business market research projects across all key markets in China on behalf of leading international and Chinese companies. Types of data collection techniques include telephone interviews, face to face interviews, online interviews, retail evaluation and retail audits as well as executive and key business decision maker interviews.

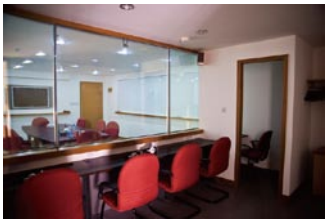


Released: March 2011

DDMA research experience in the Chinese online shopping market: Over the past three years, DDMA has specialized in helping international and domestic companies understand the online shopping market in China and to formulate business and marketing strategies based on these research findings in order to successfully promote and sell their products online in China.

In March 2011, DDMA released a 180 page report called "**The influence of online information on Chinese consumer buying behavior**". This report introduced how Chinese consumers gather information online during the purchase consideration stage across twelve key product categories. This report was designed to highlight the differences in the online information gathering process across different online channels and how this differs between different product categories. The report also measured the overall influence that online information has on the final purchase decision across multiple product categories.

Focus Group China (FGC) is the qualitative market research subsidiary of DDMA. The company has developed the largest independent qualitative market research network in China and provides qualitative market research services to both international and domestic companies. The types of research conducted includes focus groups and in-depth interviews with key decision makers and high value consumers.



A selection of DDMA and FGC Clients

ABN AMRO	eBay	Maxeda DIY	Ricard
AEGON	Eckes-Granini	Maxxium	Scientific Games
Anheuser-Busch Inbev	Essilor	Metro Retail	Seven Eleven
B&Q	Frontier Japan	NSEC	Standard Chartered Bank
Brown Forman	Icelandic Glacial	PAR Research	Stragetic Pathfinders
CCMP Capital Asia	IMC	ParkwayHealth	The Modo Group
Charney Research	Insighting Ideas	Pernod	TNS Gallup
Crocs	Institut fuer Marketing	Pop Weaver	Transitions Optical
Driscoll's	Intel	Redburn Consultants	Van Deusen & Levitt
Dell	JiannanchunGroup	Reliance Retail Ltd	Vin Sprit
Diageo	Ketchum	Revlon	Wanglaoji

2. Methodology and Data Sources Used

This report is based on data and market intelligence that was drawn from four sources:

Source One: Telephone interviews with 9,057 Chinese consumers

In January and February of 2012, DDMA conducted telephone interviews with 9,057 Chinese consumers across the key cities of Shanghai, Beijing, Guangzhou, Chengdu and Wuhan. The core objectives of this study was to measure the incidence of last month online shopping within each city and with each demographic and socio economic sub group. In addition to overall incidence, DDMA also measured the levels of last month online purchase of thirteen key product categories. Based on this data, DDMA was able to estimate the actual number of consumers that had purchased each individual product category within each city and demographic sub group in the past month.

Completed sample size for each city and sub group

Market	Total Sample	21—30 years old		31—40 years old		41—50 years old		51—60 years old	
		Male	Female	Male	Female	Male	Female	Male	Female
Shanghai	2,020	251	253	252	250	251	252	256	255
Beijing	2,015	251	256	252	254	250	251	250	251
Guangzhou	2,000	250	250	250	250	250	250	250	250
Chengdu	2,022	259	249	265	245	249	253	249	253
Wuhan	1,000	132	124	123	125	121	125	125	125
Total Sample	9,057	1,143	1,132	1,142	1,124	1,121	1,131	1,130	1,134

Source Two: Twenty two focus groups conducted in Shanghai with consumers that had bought at least one item online in the past month.

The results from the quantitative data provided insight into individual market size and how Chinese online shoppers differ from the general population from a socio-economic perspective. The qualitative research was conducted to understand the motivations that drive online shopping behavior. In addition to identifying the reasons behind the growth in online shopping in China, the perceptions of a selection of online shopping brands, and the attitudes towards a selection of recent online marketing and communication campaigns was also collected.

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Source Three: In-depth interview with the co-founder and Chairman of Yihaodian, one of the fastest growing Business to Consumer (B2C) online sales platforms in China.

With 18 million members, a range of 180,000 SKUs and a 235 percent increase in revenue to US$ 425 million in 2011, Yihaodian is one of the fastest growing B2C platforms in China. The company was recently selected as the fastest growing company in the Asia Pacific in the Deloitte Fast 500 Asia Pacific 2011 report.

Yihaodian commenced business by selling groceries and household items online. The company has now expanded its product range to include consumer electronics, consumer durables, sporting and travel products. The Deloitte report shows that the company's revenue has grown by 19,218 percent over the past three years. The company now holds an estimated two percent share of the total Chinese B2C market.

DDMA met with Mr. Gang Yu, the co-founder and Chairman of Yihaodian, to gather his views on the next era in online shopping development in China and also to find out what new services that Yihaodian is developing to help international and domestic brands to become more successful in selling their brands and products online in China.

Mr. Gang Yu.
Co-founder and Chairman of Yihaodian

Yihaodian subway display advertising

Yihaodian warehouse

Source Four: Secondary data from a variety of sources.

DDMA also collected data from a wide variety of public sources. These include:

China Internet Network Information Center (CNNIC)

Global Demographics Ltd, a company that specializes in demographic and socio economic forecasting

A variety of Chinese language published reports and news articles, the key findings of which have been translated for the purpose of this report.

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