

# New Retail evolves, confronting brands with opportunities, more complexity



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## Added competition, social commerce accelerate change

The term entered the retail lexicon in 2017, introduced by Alibaba founder and CEO Jack Ma. It described a historic, transformative shift from the reliance on physical locations to distribute merchandise to a consumer-data-driven system that integrates all retail functions to distribute merchandise with a seamless online or offline shopping experience and efficient delivery.

New Retail enables brands to expand their reach, consumers to access more brands, and retailers and brands to more efficiently manage inventory. Speed is fundamental to New Retail. Not surprisingly, New Retail has changed rapidly in just the two years since the phenomenon received a name.

Added to China's retail lexicon is the abbreviation ATJ, which stands for the key players: Alibaba, of course, and the alliance of Tencent, China's leading online platform, and JD, Alibaba's main rival and a logistics leader in China. These New Retail players have evolved differently, and those differences affect how brands can most effectively understand China's changing consumers and expand market share.

Alibaba tends to centralize all its web traffic into Alibaba. In contrast, Tencent acts as an enabler, decentralizing its operation and typically using its WeChat social platform to direct customer traffic to its partners. Both organizations have recently made important strategic investments to strengthen their competitive standing by expanding their ecosystems and adding more presence in the physical world, Alibaba through acquisition and Tencent with alliances.

Alibaba has a major stake in Suning, the electronics mass marketer, and it owns Hema, the supermarket known for the freshness of its products, especially seafood. Alibaba also purchased a controlling position Ele.me, the food delivery operation. Tencent entered into alliances with retailers, including Walmart, Carrefour, and Yonghui Superstores. It also aligned with the rapidly-expanding e-commerce site Pinduoduo. To strengthen delivery, Tencent aligned with Meituan.

Despite their operational differences, Alibaba and Tencent-JD share a strategic priority: the customer. Customer expectations vary, however, depending on where the consumer lives. In higher tier cities, customers can shop in a luxurious shopping mall and visit the physical stores of just about any Chinese or international brand. In lower tier cities, gratification is not quite as immediate, but customer access to brands is greatly expanded by the combination of shopping online—on Alibaba's Taobao or Tencent's WeChat—and having purchases delivered.

### Choosing an ecosystem

Given how rapidly New Retail is evolving, brands have little choice about participating. Whether to participate on one ecosystem or the other, or on both, depends on the ambitions of the brand. Often a leading Chinese brand will join Alibaba in part because the global reach of the T-mall site enables Chinese brands to sell overseas. A smaller competitor whose priority is deeper penetration into the Chinese market might work with WeChat and Taobao. Brand owners often sell their products and services on both sites. Retail brands need to align with just one of the ecosystems.

WeChat clearly demonstrates differences between the Alibaba and Tencent-JD models in how customer data is gathered and shared. WeChat has a mini program within its app that serves as a kind of shopping mall of third-party apps from retailers and brands. It extends the customer-centric ethos of New Retail by enabling a customer to shop conveniently at a variety of sites without having to move from app to app.

The advantages for the retailer or brand are: (1) the ability to reach the consumer with the least number of clicks; and (2) access to all the customer data for Customer Relationship Management. It is also possible to gain a wider view of a customer's shopping behavior through Tencent.

Access to customer data becomes ever more important in the New Retail world, where sustaining a brand depends on cultivating customer relationships and providing personalized experiences. Some brands are reluctant to build their own apps and then pay WeChat for space on the WeChat app. Data is available through Alibaba as well, but in that ecosystem, Alibaba owns the data and make reports and insights available for a price is part of its business model.

Advertising is also an important component of the Alibaba model because it can deliver large audiences. Traditionally reluctant to monetize its social media site, WeChat recently has opened up possibilities for brand advertising as Tencent seeks to compensate for a decline in gaming revenue after the government objected to certain content.

### Social commerce accelerates change

Meanwhile, social commerce is accelerating the rise of New Retail and making it more complicated, as illustrated by the emergence e-commerce site Pinduoduo, which in just two years reached a level of general merchandise transactions that took Alibaba five years to achieve, and JD 10 years.

Pinduoduo is similar to Groupon. Shoppers earn discounts when they increase their order by inviting friends to purchase together. The higher volume purchases enable Pinduoduo to beat the prices of most other sites. The lower prices, the browsing possibilities, and the social experience make Pinduoduo popular, especially in lower tier cities. Shoppers typically access Pinduoduo on WeChat.

To compete in such a rapidly-changing environment, both Alibaba and Tencent are looking to both enhance and streamline their ecosystems. Alibaba's Taobao recently integrated within its site user reviews from Little Red Book, which is a community of people interested in personal care and makeup. This addition means that shoppers see not only peer reviews but

also comments from people who are beauty industry professionals in the field.

Alibaba announced it would merge its two food delivery services, Ele.me and Koubei. This development echoes the earlier combining of Tencent-backed Meituan with Dianping, to become a super platform for a wide range of services, including entertainment ticketing, travel reservations, and food delivery.

### The impact on traditional retailing

For almost 40 years, from the period of opening up the Chinese market in the late 1970s, two imperatives drove retail: entering the market and building scale. The objective of traditional retailers in China, like retailers in other parts of the world, had been to get the customer into the physical store with advertisements, promotions, and other persuasive communication. With New Retail, the imperative changed to getting the customer to transact online.

Traditional retailers are aligning with e-commerce giants and adopting the relevant shopping technology. The possibility of transforming excess retail space into a distribution location provides an opportunity for hypermarkets and other big-surface stores to reinvent themselves in ways that better serve how people shop today, with more frequency and a higher priority placed on convenience. RT Mart, part of Alibaba, adopted the logistics system of Hema, which synchronizes in-store and online orders, using the store as retail outlet and a distribution center.

Although seamless online and offline purchasing is a worldwide phenomenon, the way it is expressed as New Retail seems particular to China because of a variety of intersecting factors, including the availability of low-cost labor to provide delivery, and the influence of government policies that are favorable to driving consumption and advancing digitization.

New Retail thrives in China in part because of the almost ubiquitous use of mobile devices. Not only is the future potential of internet penetration substantial, China already leads the world in absolute numbers, with a staggering 802 million people using the internet, 98 percent accessing it with mobile devices, according to the China Internet Network Information Center (CNNIC), a government agency.

## BRAND ACTIONS FOR SUCCESS IN NEW RETAIL

- 1 Be there**  
Brands need to be a part of New Retail. The only question is how to participate.
- 2 Learn**  
Each ecosystem offers unique strengths. Study what each ecosystem is doing and how it fits best into the brand's business objectives. Alibaba offers the potential of high profile, even overseas exposure. Tencent's WeChat creates a social context for the brand. The best way to understand which approach works best for the brand is to take a test drive.
- 3 Be efficient**  
Go where the market is growing, which is the lower tier cities. It is possible to reach the shoppers in lower tier cities using mobile, which is much more efficient and cost-effective than building physical assets
- 4 Experiment**  
Once a brand selects an ecosystem, or ecosystems, it is important to experiment, to get to know the potential of the ecosystem and how it can help the brand advance its objectives.
- 5 Move quickly**  
Chinese consumers prefer speed over perfection. In China's rapidly-changing market it is easier to correct a mistake than to make up for lost time.