



THE DAWN OF THE E-TAILERS

China's favourite retailers

CHINA'S TOP 10 FAVOURITE RETAILERS

This year's top 10 favourite retailers, as voted by the Chinese consumer are:



OC&C's Retail Proposition Index 2012 surveyed more than 2,500 consumers across China (East, North and South) to vote for their favourite retail brands. In doing so, we collated more than 18,000 consumer ratings on 49 retailers across 5 retail categories (grocery, sportswear, apparel, health and beauty, and electronics).

The top three favourite retailers in China are all sportswear brands showing the strong adoption of this category in China. Four of the other retail champions are e-tailers demonstrating how successful online has been in capturing share of overall retail. Outside of sportswear and online, grocery and health and beauty retailers make it into the top 10, given their high levels of penetration.

GROCERY

Rank	Retailer
1	RT-Mart
2	Walmart
3	Wu Mart

SPORTSWEAR

Rank	Retailer
1	Nike
2	Adidas
3	Li Ning

APPAREL

Rank	Retailer
1	Vancl
2	Uniqlo
3	Meters/bonwe

HEALTH AND BEAUTY

Rank	Retailer
1	Watsons
2	Mannings
3	Sephora

ELECTRONICS

Rank	Retailer
1	360buy
2	Suning
3	Five Star

THE RISE OF THE E-TAILERS

e-tailers in China have exploded over the last 5 years and as a result have established a dominant position amongst our retail champions, with four online pure-plays amongst our top ten. Within China, B2C e-commerce sales increased in just 5 years from RMB 4 billion to RMB 180 billion in 2011; and it is not going to stop here. The results of our survey show that consumers in tier 1 cities in China expect their online spending to increase quicker than that of consumers in other countries over the next three years. e-tailers already represent a significant share of the Chinese retail landscape and will only continue to gain share.

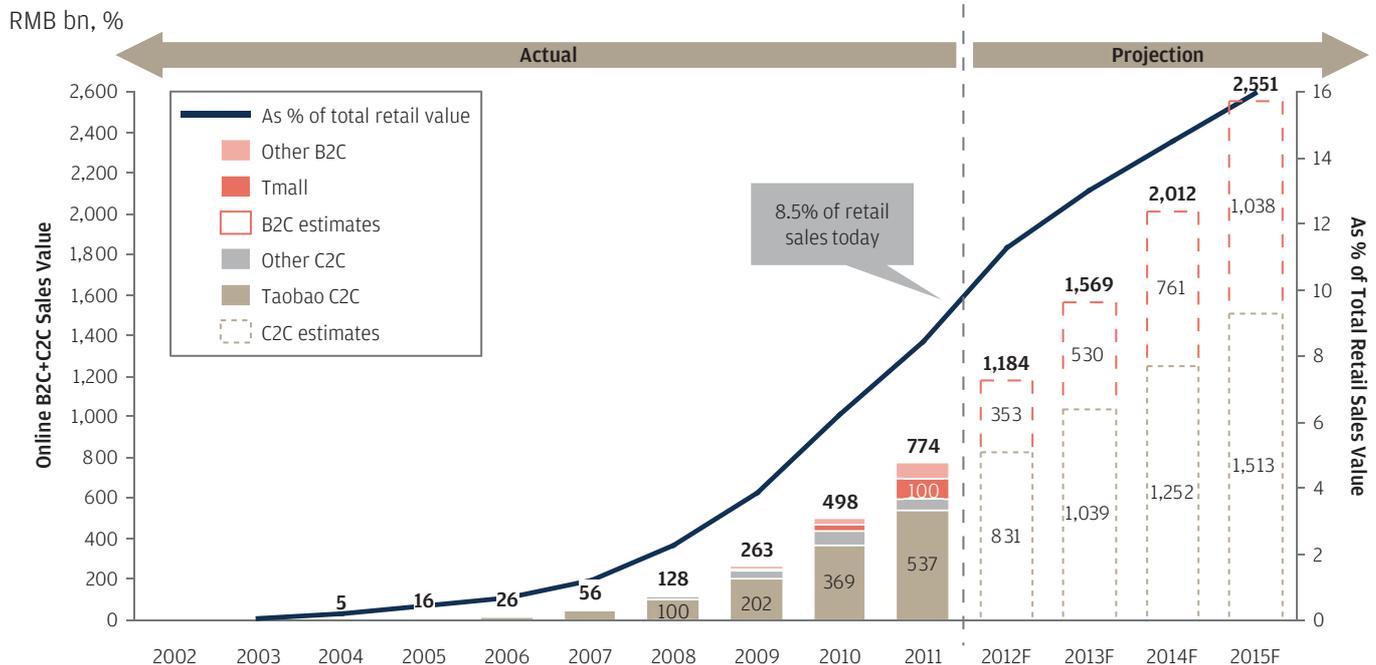
e-tailers are especially valued for their low prices (online players are perceived to be around 15% cheaper than their physical counterparts) and viewed as offering high service.

However, despite their popularity, many of the B2C e-tailers are not yet profitable and it is a race for scale to reach a level that will deliver value.

Traditionally the online market in China has been dominated by C2C, but 2011 has seen the genuine emergence of a new wave of retail competition in China - the B2C e-tailers.

The rise of the e-tailers has also been seen in our Category Champions, with the e-tailers securing 2 of the top 5 Category Champion awards (in apparel and electronics).

China e-commerce Market



THE CATEGORY CHAMPIONS

GROCERY: RT-MART

RT-Mart outperforms its competitors across the board, but especially on low prices, value for money, choice and trust. RT-Mart's winning proposition delivers the widest range in most categories at the lowest prices together with a very attractive fresh food section. Through its proposition RT-Mart generates the highest traffic and sales numbers per store. This level of scale leads to a virtuous circle improving supplier terms which it can pass through to consumers in price whilst still maintaining healthy margins. Walmart comes second, winning in Northern China, despite its relatively poor store standards. The ratings of the others are close with large differences between regions.

SPORTSWEAR: NIKE

The most valuable global apparel brand (source: BrandZ Top 100 2012) entered China in the 1980s and currently has over 7,000 stores. Together with Adidas, Nike helped shape the apparel landscape before the non-sports international fashion players entered China. Through their nationwide scale and continuous investment in the brand, both Nike and Adidas have built very strong positions in China with high consumer ratings. They score especially high on quality, store look and feel, fashionability and trust. Nike and Adidas demonstrate that although value for money is very important in China, retailers can win on other factors. Li Ning (#3 favourite Chinese retailer, although being behind the two powerhouses) is a great example of a Chinese retailer who has managed to create a strong brand and to compete vs western brands on product quality and store experience and not just price.

APPAREL: VANCL

Founded at the end of October 2007, Vancl capitalized on the high online share in fashion (currently ~20%) and achieved impressive growth rates leading to current sales of ~RMB 5 billion. Vancl is a clear favourite of consumers, winning on trust, service and price. Vancl's low priced, good quality, basic

	← Increasingly Important to Consumer									
	Trust	Value for Money	Store Look & Feel	Suited Products	Service	Product Quality	Product Choice	Low Prices	Fashionability	Overall
Nike	78.4	72.9	79.2	74.4	75.0	82.5	73.6	45.0	79.9	83.7
Adidas	78.5	72.7	78.9	74.5	76.2	83.4	73.3	47.4	79.6	83.5
Li Ning	75.3	73.6	74.1	70.2	72.7	77.2	70.0	59.5	71.4	78.6
Taobao	68.4	73.8	70.9	78.8	67.5	59.2	89.7	80.5		78.5
RT-Mart	72.5	74.3	72.7	77.5	70.9	73.3	80.6	72.3		77.6
Amazon	74.2	73.9	72.6	75.0	73.2		74.6	71.0		77.3
Watsons	72.3	68.9	75.3	72.2	72.8	75.7	71.3	52.8		76.6
Walmart	70.9	71.3	72.7	74.0	69.6	72.4	79.2	66.0		75.5
360buy	72.9	73.2	71.8	73.8	70.1	73.7	76.3	71.5		75.5
VANCL	72.5	71.7	75.4	69.0	75.1	71.5	70.2	70.5		75.5

apparel items together with its excellent service make it a winning proposition across China. The good service (free delivery above RMB 59, cash on delivery available in 1,100 cities, good exchange and return policy) made Vancl one of the winners of the "Best After-Sales Services Award in China" in 2010-2011 (issued by China Information Industry Association and China Association of Trade in Services). Despite the high growth, Vancl is not yet profitable as this low price and high service model is very expensive and requires significant scale to be profitable (according to Chen Nian, the CEO of Vancl, sales of RMB 30 billion is the turning point to becoming profitable). Uniqlo comes second in this category followed by Meters/bonwe being valued for its transformation to a fast fashion player, and scoring high on fashionability and store look and feel.

HEALTH & BEAUTY: WATSONS

Watsons is the longest established and largest health and beauty chain in China, with currently over 1,000 stores in more than 200 cities. Watsons understands the shopping mission of consumers very well and chooses the right locations for its stores, generating high traffic. Watsons' sales density is between 2 to 5 times higher than that of its nearest competitor, giving Watsons the best proposition to malls and therefore ensuring

that Watsons continues to get the best locations. The strong trust of Chinese consumers in Watsons, made it possible to launch a private label brand in a high engagement category like skincare. Watsons wins on almost all criteria from Mannings - who only scores better on low prices, but suffers from a low brand awareness in China.

ELECTRONICS: 360BUY

360buy was founded in 2004 and is now the biggest online retailer in China with sales of RMB 30 billion in 2011 (up from RMB 10 billion in 2010). 360buy sells electronics at a discount with a high service level (free delivery for spending over 39RMB, cash on delivery possible in most cities, after sales 100 min service, good return policy). To achieve this high service level, 360buy invested heavily in logistics and now has branch offices in more than 200 cities. This has led to strong ratings on trust, service and especially price (low price and value for money). Like Vancl however, the current scale is not yet sufficient to be profitable. The winning bricks and mortar electronics retailer is Suning, who just missed the top 10 with a rating marginally below 360buy. Suning beats its rival, Gome, on all proposition elements and is especially highly valued by consumers for its in-store execution.

HOW TO BECOME THE NEXT CHAMPION

Scale is key to success in China – all of our champions can be considered as large national players. There are, however, 3 Golden Rules that can help you to accelerate your journey to becoming the next champion.

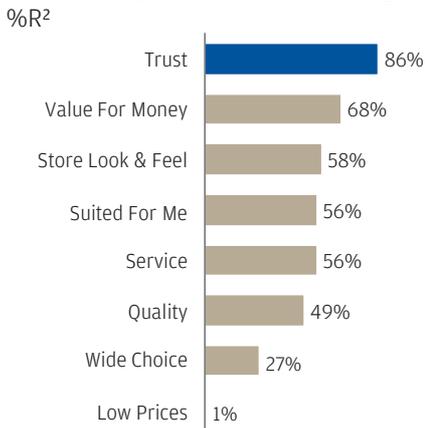


GOLDEN RULE 1

Invest in understanding what drives consumer trust and how best to build and maintain it

In China trust is critical and it remains the key driver of consumer brand perception.

Correlation of Sub-ratings and Overall Brand Ratings (All Retailers, All Regions)



Source: Proposition Index 2012 Survey, OC&C analysis

Although trust is thought of as a relatively intangible concept it is closely correlated with value for money – ie. for consumers to trust a brand they must believe it provides good value products and is not trying to ‘cheat’ them.

It is therefore key for brands to understand what drives trust and how they can best optimise this.

In China, trust can be destroyed in an instant and maintaining trust requires consistent operational control. We have seen recent

examples of how negative news can quickly impact consumer trust and retailer popularity.

Consumers’ trust in Carrefour dropped heavily after nationwide news on incorrect pricing and customer cheating.

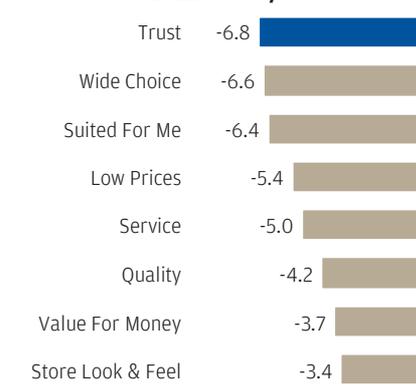
News on Carrefour Pricing

NDRC has uncovered various kinds of price gouging at certain Carrefour branches in various cities across the country
– China Radio 28 January 2011

More Carrefour stores caught overcharging
– China Daily 9 February 2011

This also had a significant impact on the consumer ratings across other key purchase criteria, which showed marked declines.

Difference in Score on Key Metrics for Carrefour vs 2011 Survey



Source: Proposition Index 2011 and 2012 Survey, OC&C analysis

Trust is also key for online. Online players will need to continue to invest in their high service level and maintain a sharp focus on operational control. Indeed there are already online rumours and complaints that 360buy does not always keep its promises: “360buy cancels orders without notifying customers, the delivery speed is low, sometimes products are lost during the delivery process, staff is impatient in answering inquiries or dodges customers’ questions”. Will the rating of 360buy be lower next year due to these consumer complaints?

HOW TO BECOME THE NEXT CHAMPION



GOLDEN RULE 2

Develop a point of differentiation for your off line proposition that resonates with consumers

As online wins share (particularly in the value segment) and consumers are becoming increasingly aware of online price advantages, they will demand an increasingly differentiated shopping experience in-store.

The good news, however, for offline retailers is that investing in store experience and product range still resonates with Chinese consumers and can drive positive brand perception. Therefore in the bricks and mortar stores it is not purely a price game.

Overall champions Nike and Adidas show in consumer ratings how quality and products that are suited for me, along with store look and feel can deliver trust and high consumer perception. They have successfully developed a sense of differentiation versus the competitive set in clothing which is compelling to consumers and has somewhat insulated them versus the threat of online.

Difference in Score on Key Metrics of Nike and Adidas vs Other Clothing Retailers



Source: Proposition Index 2012 Survey, OC&C analysis



GOLDEN RULE 3

Use online to strengthen and broaden the multi-channel relationship with consumers

Delivering a consistent experience across multiple channels and touch points can accelerate brand building in China. The aim for retailers should be to allow its consumers to access the product when they want, where they want and how they want. Managing all of these different consumer touch points across channels is key to providing a consistent and integrated brand to the consumer. Online in particular represents a significant opportunity to deepen relationships with consumers and how brands engage with digital consumers is going to be increasingly important moving forward.

Vancl for example engages consumers through its social advertising portal, "Vancl Star", allowing users to upload photos of themselves wearing Vancl clothing and receiving 10% commission on sales.

Local fast fashion player Meters/bonwe has employed an integrated multi-channel approach to drive an impressive improvement in its proposition strength. Meters/bonwe used celebrities, new flagship stores and the online platform to make a credible transformation to a serious fashion alternative to its international counterparts. Meters/bonwe now uses the famous Chinese model Lin Chi-Ling as spokeswoman for the brand, publishes extensively online and has one of the most extensive online features on its website (offering China-specific fashion news, look-a-like items, latest trends, etc).

In addition, the importance of online as a channel for information should not be overlooked even for retailers who have a low online penetration. In Western markets

Difference in Score on Key Metrics for Meters/bonwe vs 2011 Survey



Source: Proposition Index 2011 and 2012 Survey, OC&C analysis

c.50% of in-store consumers use online for product and price information, therefore, a sophisticated online presence is vital even for those with less lofty multi-channel ambitions.

DO YOU HAVE WHAT IT TAKES TO BE THE NEXT WINNER IN CHINA?

❶ Do you have the ability to build and maintain consumer trust?

- What drives your consumers to trust your brand?
- How can you improve the trust consumers have in your brand?
- What are the key operational levers to ensure you do not harm brand trust?

❷ Is your proposition and experience in-store sufficiently differentiated?

- What are you 'famous' for?
- How does your product range and relevance differ to the competitive set?
- How have you optimised the in-store shopping experience?

❸ Do you have a multi-channel strategy which is relevant to consumers?

- How consumer centric is your multi-channel strategy?
- How do you manage product range and pricing across channels?
- How integrated is your multi-channel strategy, ie. 'click & collect'?

If you would like to achieve a winning retail proposition in China, then please get in touch with us and we'd be delighted to discuss how we can help you to win

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