Digital Economy Development in China
- Take Alibaba as an Example

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You Wuyang, nickname: Xijiang
Head of Alibaba Supply Chain Research Center, Senior Expert. Joined Alibaba in 2012, was deputy dean of the AliResearch of Alibaba. Focuses on consumer product supply chain and S2B platform.
Program Agenda

1. The Development of China's Digital Economy
2. Alibaba's Development
3. China's New Retail
On April 20, 1994, a 64K international hotline connected the Chinese Academy of Sciences to the Internet.
Internet Applications: From "Pure Bit" to "Bit + Atom"

The First Wave of the Internet

The Second Wave of the Internet

The Third Wave of the Internet

New Retail
New Manufacturing
New Finance
The essence of Internet+ is online and data-oriented.
Consumers: The Internet and Big Data Empower Consumers

- **Industrial Economic Era Consumers**
  - Ignorance
  - Negative Passive
  - Scattered from Each Other

- **Internet Era Consumers**
  - Informed & Knowledgeable
  - Proactive
  - Widely Connected
  - Socialized Network
  - Mass Data
Marketing: Two Paths of Capturing Consumer

1. Big Data Insights:
   - DNA replication, identifying distribution of potential users across the country
   - TOP Group
   - Top Cities
   - Recent purchases of high-end lipstick

2. Consumer Community - Toffler’s Production-consumption Combination - Prosumer

- Skirts
- Camisoles/tank tops
- Cars
- “Hand-chopping people” (fervent online shoppers)
- Bird nests

- Foundation
- Eye shadow
- Fake eyelashes
- Blusher
- Colored contact lenses
- Earrings
- Entertainment
- Female
- Single
- Undergraduate
- Foreign wine
- Instant food
- Instant noodles produced in Korea
- Fur coats
- Fur coats
- Pre-adjustable wine
- Baileys
- Propolis
Case Study: A Taobao Internet Celebrity Shop = A Million Fans + A Flexible Supply Chain

张大奕 百搭森女短款休闲牛仔外套
价格 ¥239.00 退换三件

立即购买 加入购物车
Retail: Internet Tea Seller "Efuton" Trade Link

Traditional Mode:
- Customers
- Tea Farmers
- Malls & Supermarkets
- Sales Agents

Efuton Mode:
- Sellers
- Tea Market
- Tea Companies
- Customers

5 Interest Chains

1 Interest Chain
Internet + Physical Retailing: The Core of O2O is to realize the Online and Data-oriented of "People - Commodities - Stores"

People
- Recognizable, accessible, interactive

Stores
- Online, mobile, physical
- Marketing methods: Both online and offline interaction

Commodities
- Single product visible, inventory visible
Case Study: 2014-2015 Massive O2O Start-up Tide
Distribution: Based on Low-cost, Rapid Establishment of Online Distribution System on the Internet

Traditional Distributor Mode

- Manufacturer
  - First-level distributors
    - Second-level distributors
      - Third-level distributors
        - Retailers
          - Consumers

Transmission mechanism of market information

Network Sales Mode

- Manufacturer
  - Network distributors
  - Consumers

Information transmission mechanism
Chinese Indigenous Innovation: Powerful “drop shipping"
Production: Flexible Production, Rapid Response

The market demands massive variety, small batches, rapid response

Contradictions

Most of the production equipment, processes, production flows, systems, and concepts are prepared for mass production

- Large-scale and low-cost
- High speed automation equipment
- Cost accounting, piece work wage

- Individual needs
- Shortened life cycle
Case Study: Quiet Changes in the Workshop

From bundle system to "one piece flow"

Small dye tanks

Fast response production

Digital printing
Summary: Digital Economy Brings Companies with Systematic Change

Traditional digital economy

1. Circulation technology: Based on IT ——— Internet ¥ Big Data ¥ AI
2. Sales chain: Brands-Distributors-Users ——— Brand S Users
3. Retail mode: Pure offline ——— Offline + Offline + Logistics
4. Distribution mode: Push-type ——— Pull-type
5. Inventory mode: Large Inventory ——— Low Inventory
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Alibaba's Dream and Mission - Started in the Great Wall:

Make it easy to do business anywhere!
Alibaba’s Business Sectors: 4+2

- **E-Commerce**
- **Finance**
- **Cloud-computing**
- **Logistics**
- **Health & Entertainment**
In 2003, the online retail platform - Taobao was established

- 550 million active users, 10 million active sellers, 1 billion items, and 4.82 trillion turnover

(* data as of March 30, 2018)
In 2004, Alipay launched "secured transactions" to promote the rapid development of China's e-commerce.

- The large-scale use of Alipay's "secured" transactions has promoted mutual trust between buyers and sellers in e-commerce; this allows for fast and convenient online transactions, which has greatly promoted the development of e-commerce in China.

- Using goods, transactions and credit data of the three platforms -- B2B, Taobao and Alipay, we issued batches of loans to small and micro-companies which were unable to obtain loans through traditional financial channels. These loans were generally "small amount, short term, instant issuance & repayment";

- Alipay launched "fast payment" so that bank card users no longer needed to open e-bank accounts before conducting easy online payments;

- The launch of the "Yu'E Bao" had a widespread social impact. By the end of 2017, Yu'E Bao reached 1.58 trillion yuan, the world's largest monetary fund.
In 2009 we started a company to provide cloud computing services to the public

- On August 15, 2013, a single Aspara cluster of 5000 servers officially began production and operation with the same level of competitiveness as Google and Amazon.
- The number of paid users exceeded 1 million.
- During “Double 11” in 2017, it supported a transaction peak of 325,000/sec and a payment peak of 256,000/sec.
In 2013, the "Cainiao Network" was established to promote the development of China's smart logistics backbone network.

- We hope that in 5-8 years' time, we'll be able to build a nation-wide open, socialized logistics infrastructure and establish a smart backbone network that can support a daily average of 30 billion (around 10 trillion annually) in online retail sales.

**Skynet + Ground Net**

- Build a nation-wide network of socialized warehousing facilities; centered on a transit allocation system formed around the storage network, make full use of the existing trunk lines, vehicles and LTL resources to reduce logistics service costs and improve the service efficiency of logistics companies

- Establish an open, transparent and shared data platform to provide data and information services for e-commerce companies, logistics and warehousing companies and third party logistics providers, support the development of logistics companies
Alibaba's e-commerce ecosystem was initially formalized over 18 years.

From the platform to the ecological system
The Important Composition of the Ecosystem: E-commerce Service Industry

- **Infrastructure Services**
  - Fast delivery
  - Online payment
  - Data/cloud-computing
  - Credit certification
  - Education & culture
  - Industry associations
  - Exhibitions
  - Law

- **Sellers Services**
  - Agent operations
  - Marketing
  - Data analysis
  - IT/outsourcing

- **Consumers Services**
  - Shopping comparisons
  - Shopping tools
  - Shopping guides
  - Match fitting

- **Public Services**
  - Shopping guides
  - Match fitting

- **E-Commerce Transaction Services**
Alibaba's Three Major Post-IPO Strategies

- Rural online shopping market: The next 300 million online shoppers
- Urbanization of rural areas
- All businesses are data-oriented, all data is business-oriented
- Global multilateral trading platform: How to help Indians sell their goods to Russia.
- Internet WTO
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New Retail - The Big Picture

Retail development is at an early stage
Overall low efficiency of circulation
Lack of top-end retail brands

Platformized unified market
New business infrastructure:
New finance, logistics & express deliveries, big data, cloud computing, ends

High degree of consumer digitalization
Full range of brand awareness
Full range of shopping channels

Upgrade Consumption
Varied content
Value proposition
Quality consumption
Features of New Retail: Business Model Innovation, Channel Fragmentation & Integration, Scene Diversity, Experience First

- **Technology**: Big Data, IOT, Mobile Internet
- **Needs**: Personalization, Emotions & Connections, Quality

**Retail formats**: Diversified innovation, full channel

**Retail main body**: Democratization: Everyone is a retailer

**Retail scene**: Geographically centered-human-centered

**Products & services**: Function centered—emotional experience centered
Case: Hema Fresh rebuilds people-commodity-stores

Stores: brand-new formality: over 70% online
People: got through Alipay, data-oriented
Commodities: fresh, experience, direct purchase from buyers
Highlights of New Retail

New Retail

More Efficient
- High sales per unit area/per person
- Higher purchase rate and conversion rate
- More economical cost structures
- Repurchase rate

A Better Customer Experience
- Fast delivery
- Personalized, customized needs
- Consumer upgrades, cost-effective
- Community needs
Thank You!