Coffee Break Reports

2020 H1 Digital trends China

Introduction

Hardly a day passes where we do not read or hear about "the new normal". As with any great disruptive event, the COVID-19 pandemic has been responsible for much innovation and the acceleration of many an emerging trend. As we reach the halfway mark for the year it is useful then to get the lay of the land and identify any insights and opportunities.

As always, it is important to acknowledge the presence of uncertainty and the risk of making predictions. If this year has taught us anything it is that the future can change quickly and dramatically. Instead, one must try rather to identify and plan for multiple potential future scenarios. Understanding the underlying forces which drive trends like the following allows one to do exactly that, and I would argue that is where true value lies – rather than in the specifics.

Either way, all evidence suggests that life under COVID-19 is here to stay for the foreseeable future and these trends are likely to continue to develop – possibly forming part of "the new normal" for good.

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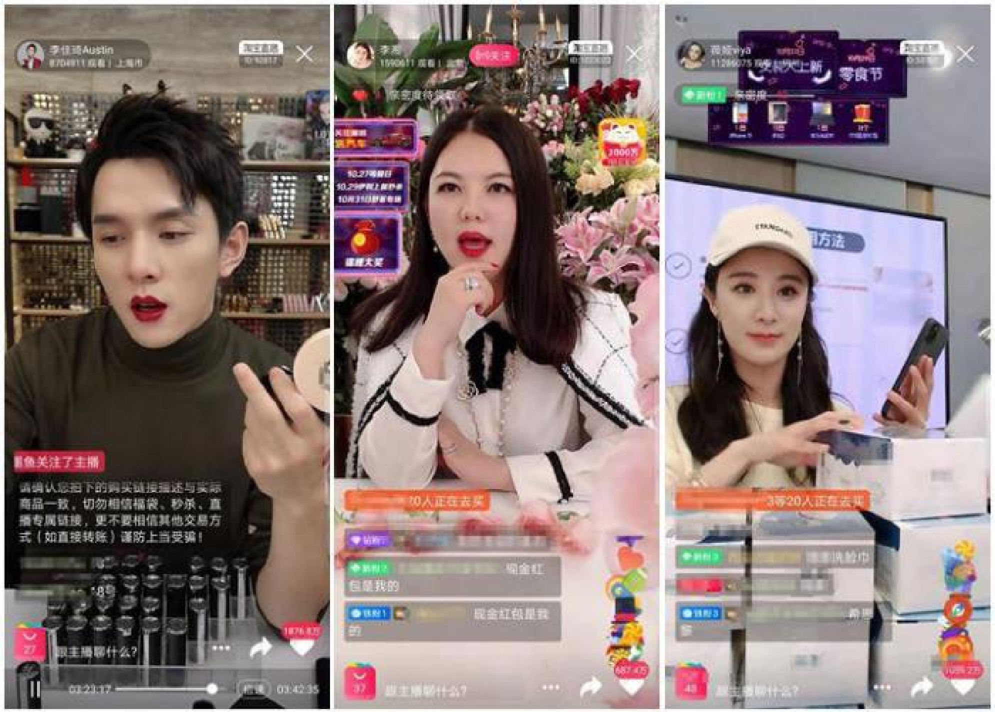
Live streaming e-commerce fuels growth as platforms reduce dependence on advertising revenue

Internet usage has increased sharply due to the COVID-19 outbreak, with Chinese internet users spending an average of 7.2 hours online every, compared to 5.6 hours a day in 2019. Online video streaming platforms have been no different, continuing strong growth in 2020. 433 million people (roughly 30% of China's population) reported watching live streams in 2019. By March of this year, however, this number had already climbed to 560 million people. Despite the growth in audience size, spend on digital advertising has been significantly lower than forecasted – as part of a slow down in growth witnessed across all media channels. Chinese ad spending is currently forecasted to grow slower than at any time in the last decade, again due to the effects of the pandemic.

In a continuation of an existing trend, streaming platforms are seeking new revenue channels and moving away from a dependence on advertising revenue through a diversification of their offering. Better models for collaboration with content creators, for instance, is leading to expansion into less familiar types of content like education and music. Live streaming e-commerce is proving, however, to be the big winner. The industry's latest trend of promoting and selling goods through influencers' streams has exploded, with market leader Taobao Live reporting +700% growth in first-time merchants in Q1 2020.



Live streaming e-commerce isn't simply the new infomercial though. A key part of the success of live streaming e-commerce is the hosts or "Key Opinion Leaders". While similar to social media influencers in most ways, these hosts differ from their Western counterparts in their remuneration model. Eschewing the fixed fees favoured by influencers, KOLs partner directly with brands to receive appearance fees and commissions on brand sales – sometimes as much as 50%.

It is not just the technology and beauty products that are usually associated with influencer marketing that are benefitting from this trend either. China's farmers have not only been able to weather the economic crisis of COVID-19 lockdown through live streaming e-commerce, but many have seen enough success to pivot completely to this entirely new way of selling their products and are likely to continue doing so after the pandemic is over.

The success of live streaming e-commerce, especially that of the rural industry, is an indication of the desire from consumers for honest opinions about products, transparency around how these products are produced and relatable personalities rather than faceless brands.

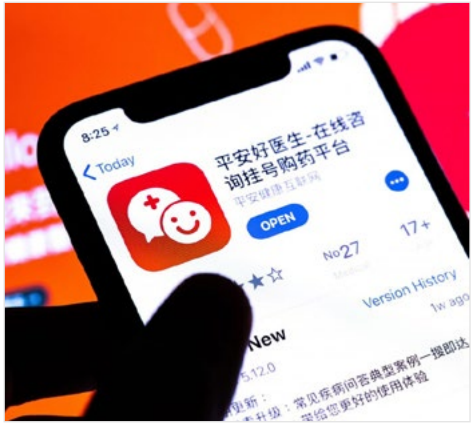
Xuwen pineapple farmers [Photo\Nanfang Daily]

Key points:

- Live streaming e-commerce is proving a major success as consumers respond favourably to the authenticity and transparency offered by Key Opinion Leaders
- Platforms continue to reduce their dependence on ad revenue, potentially negating the effects of reduced advertising spend

Online health services offer integrated experiences for patients, eases pressure on healthcare system

That the pandemic has accelerated the healthcare aspirations of the big tech companies is hardly a surprise. But while it remains to be seen if Microsoft, Amazon and Alphabet's investments will yield mainstream adoption of online medical services from Western consumers beyond the COVID-19 crisis, Chinese patients are expected to make over one billion online consultations in 2020.



Online health service providers like Ping An Good Doctor and Tencent's Trusted Doctors provide real-time online medical services, connecting patients with doctors for consultations and diagnoses, make outpatient appointments or get rehabilitation advice. Good Doctor's registered users has increased more than tenfold this year, providing critical service as the COVID-19 outbreak peaked in the country.

Tencent's partnership with hospitals and local government has resulted in an integrated healthcare experience for patients. Users can pay hospital bills, check diagnostic reports and personal health records via WeChat's Public Services. The Trusted Doctors platform has also helped ease the strain on the Chinese healthcare system this year by directly addressing the challenges of overcrowding in hospitals and a lack of primary care resources. Through the platform, users have access to services such as medication refills, their health records, medication lists and treatment plans. The platform looks to further expand its offering with services like outpatient surgery, ophthalmology and dentistry.

With a COVID-19 vaccine seemingly unlikely before the end of 2020, expect these services to continue developing as consumers adapt and new needs are identified/addressed.

Key points:

- Online health services are reducing the need for in-person medical consultations
- These services help to reduce the strain on the healthcare system during COVID-19 peaks and provide users with an integrated healthcare experience

Younger consumers are taking over household-shopping duty

A rise in online shopping due to pandemic restrictions is of little surprise, but what is of interest is the demographics of those doing the shopping. Since the start of 2020, more than two thirds of consumers born after 1995 have shifted from "buying only for themselves" to "buying necessities for the whole family".

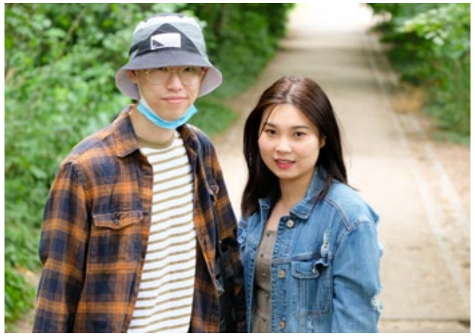


Photo by Mathieu NEUILLY on Unsplash

This shift in behaviour is due to the unique combination of factors caused by the pandemic restrictions. With schools in lockdown young people have been spending more time at home, enjoying extended holidays or engaging in online tuition. In this time they have taken on more responsibilities around the house, including the shopping – being the family members most savvy when it comes to online shopping.

According to data from JD Super, purchases by young people in homeware categories have seen immense growth. Sales of paper towels to these consumers, for example, has doubled compared with last year. Many young people have also returned to their family homes in China's lower-tier cities, driving penetration of brand, quality and authentic products beyond the major cities.

Product categories more closely related to the pandemic have recorded substantial increases; transaction volumes of disposable cleaning products have increased 34-fold while purchases of sterilization products have increased 340% YoY. This could indicate an increased awareness among this group of the need to protect their family and might be part of young consumers becoming more mature post-pandemic.

Key points:

- COVID-19 restrictions are contributing to a rise in young consumers doing the family shopping
- Young consumers in lower-tier cities are particularly responsible for the emergence of this trend, and could represent a new opportunity for brands to grow their market

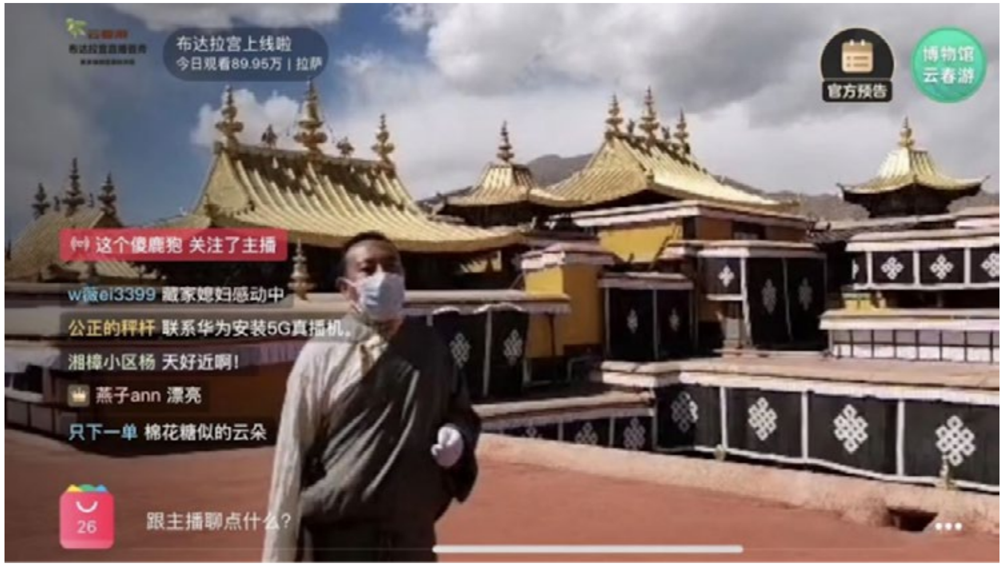
Digital channels key to recovery of the tourism industry

Tourism has been one of the industries hit the hardest by the restrictions put in place to curb the spread of COVID-19. Even as restrictions are eased, several factors are still affecting the recovery of tourism businesses. Many consumers are facing financial difficulties, or uncertainty at least, and travel is likely one of the first luxuries to be cut from many a personal budget at this time. The appeal of joining groups of strangers in popular tourist hot spots has most certainly taken a hit, despite restaurants, shopping malls and scenic sites in China all requiring visitors to wear masks and practice social distancing. Older travellers, a key demographic in the travel market, are also more reluctant to engage in non-essential out-of-home activities due to the risk of COVID-19.

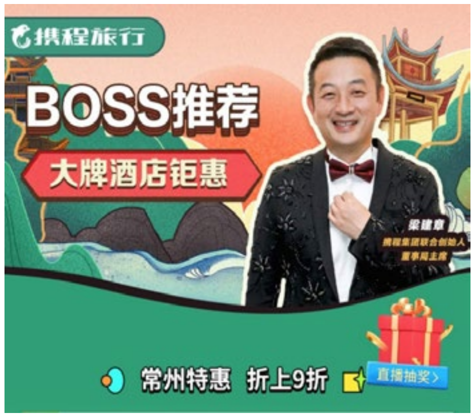
Digital/virtual travel has however presented a solution to both consumer needs and business challenges. In March, Ctrip's Liang Jianzhang hosted a live stream from within the Atlantis Hotel via Douyin – China's version of TikTok. The luxurious underwater hotel room chosen as location for the stream might be well beyond the reach of most Chinese consumers – but it made for a perfect backdrop for the chairman to announce the company's latest offers. Within an hour Ctrip had recorded 10 million sales.

Online tours have become a daily pastime in China with curator-led live streams being used as both marketing tool and product. Allowing potential customers to "experience"

Photo by Ling Tang on Unsplash



a destination through VR or live stream has become almost expected and is proving very effective in the presale of travel packages. Online travel agent eLong has begun embracing digital channels in this fashion, employing VR and high-definition video to offer potential customers a "video browsing experience from home".



With consumers desiring more transparency about the hygiene measures put in place at destinations, these digital channels can also be used for education - to allay any fears consumers might have. As shown by the success of e-commerce live streaming, understanding and implementing this channel is proving to be lucrative and will certainly help the recovery of the tourism industry.

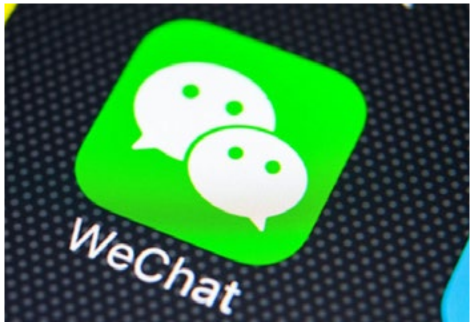
Key points:

- Innovative use of live streaming and VR is helping the tourism industry recover
- Whether for live streaming e-commerce, digital experiences or informational content – video is proving to be a powerful driver for growth

Mini-programs turning into the true killer app for platforms

WeChat launched mini-programs in January 2017, allowing businesses to create small, bespoke apps for any additional functionality not directly provided by the platform. These apps live within WeChat meaning consumers can access mini-programs without having to download another app or visit an external website, saving time and device memory.

In turn, by empowering businesses to create apps to address the unique needs of their customers, WeChat can focus on improving the general quality of interaction across the whole platform rather than trying to identify and develop these (potentially niche) features themselves.



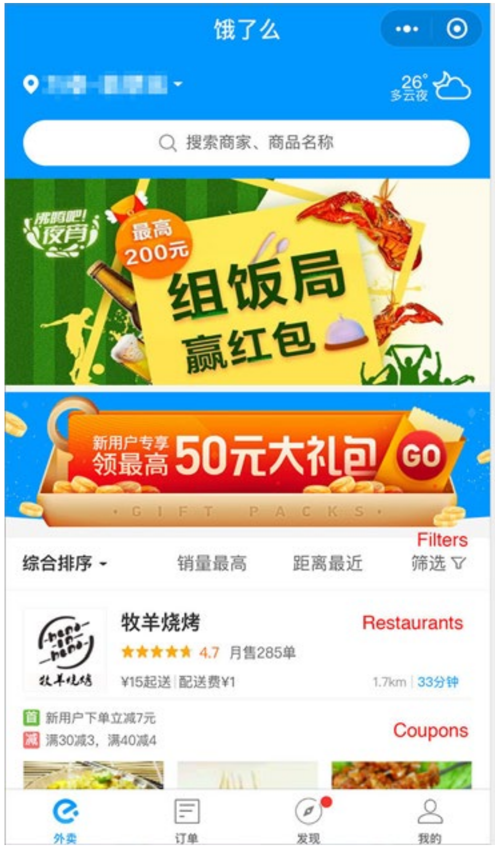
The launch of mini-programs represented a major step towards WeChat becoming an operating system in its own right, keeping the user within the eco-system indefinitely – arguably the goal of any super app. Since then several other super apps have launched mini-program functionality, including QQ, Baidu, Meituan, Alipay, Taobao, Jinry Toutiao and Douyin.

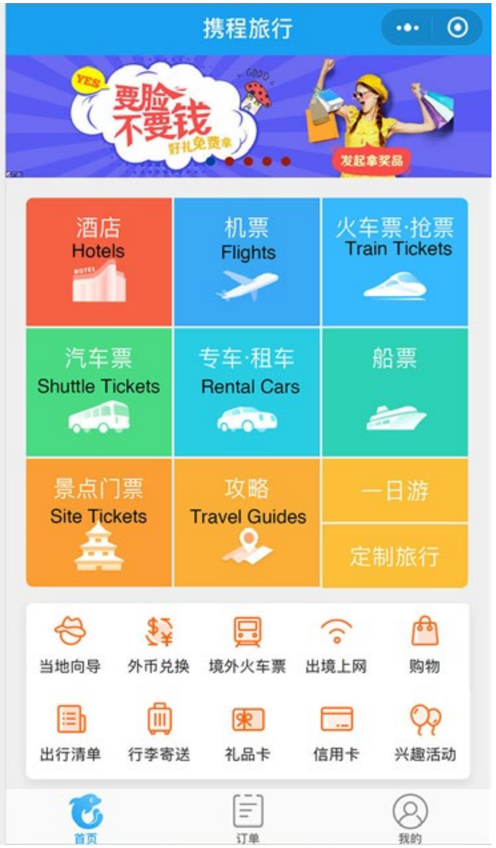
The first 6 months of 2020 has seen mini-programs continue to be a major growth driver. At the start of the year, Tencent announced that its users had spent US$115 billion through mini-programs in 2019, an increase of 160% from the previous year, and the latest figures show Monthly Active Users for mini-programs up almost 12% for June YoY.

On WeChat, the most popular category of mini-programs currently is Lifestyle services, video, shopping, tools and transportation. As expected though, users of healthcare services increased a staggering 841% YoY, with education, car-hailing and rental services being double that of June 2019.

The further development and rise in popularity of mini-programs could play not only a big role in the super app battle for market share, but also in that of mobile phone manufacturers. Samsung's latest handset models give Chinese users direct access to mini-programs without having to launch WeChat, with 'Most Recent' and 'Favourite' mini-programs being accessible with a right or left swipe from the phone's home screen.

Were mini-programs to be successful in





promoting super apps like WeChat to the position of an operating system, users would see very little difference between iOS and Android with WeChat being essentially the same on both. Usability features that support these super apps could become the new differentiators between handsets as users see less value in brand loyalty.

Key points:

- Mini-programs allow business users of a super app to create custom features to address the needs of their customers themselves, without the need for the super app's developers
- This system could see super apps become de facto operating systems, with major repercussions for handset manufacturers