

# DIGITAL CHINA 2018

## Opening remarks

### **“Even a pig can fly if it stands at the center of a whirlwind.”**

When being interviewed by Wall Street Journal about the success of Xiaomi, the founder and CEO Lei Jun summarised the astonishing development of China in a very telling way.

Xiaomi is one of many examples of how Chinese technology companies have in a short time gone from copying to become the new innovators on the global stage. Founded in 2010, it has grown from being a pretty standard Android software to a 45 billion USD company with an ecosystem of smartphones, IoT and one of the largest consumer brands among the largest Internet population in the world.

China has gone through transformation at a scale we’ve never seen in human history where almost everything has happened at once; cultural, financial and technological leapfrogging simultaneously.

Over the last 20 years we have been accustomed to a world where most of the innovation and inspiration comes from Silicon Valley, something that is rapidly changing with the emergence of innovation unlocked by the huge consumption power in China.

It is more important than ever to understand what’s going on in the East, not only do the consumers there actually represent what the new global mainstream customer is; but the financial and technological power is putting China and Asia on a clear track to surpass Silicon Valley and the United States.



Tom Xiong

### **About the author**

Tom Xiong is a Swedish-Chinese serial entrepreneur currently the founder/CEO of Move Shanghai, a leading digital health/fitness platform in China and co-founder of The Digital Dragon, an influential podcast about technology and innovation in China. Tom has been running digital companies in Europe, US and Asia as well as been senior advisor for multinational media and technology companies.

### **About VDZ**

VDZ (Association of German Magazine Publishers) represents the common interests of more than 500 German Consumer and B2B publishers, with 14.5 billion in revenues and 60,000 employees. With more than 9,000 journalists, 6,500 magazine titles, thousands of websites and mobile offerings, plus a fast growing conference and corporate publishing business, Germany’s magazine media sector represents one of the strongest international publishing markets across all platforms.

VDZ's 500+ members represent around 80 per cent of the industry turnover and all media channels. The VDZ is composed of five federal state associations and the three professional associations for consumer magazines, B2B and confessional press.

In times of disruptive change VDZ supports its members on all relevant regulatory fields with the aim to ensure the free and independent press driven by entrepreneurs will stay competitive and relevant in the future. Well-informed lawmaking, minimal invasive regulation and sound industry self-regulation supports the pluralism and independence of journalism and the free press in Germany and Europe.

# CONTENT

- Introduction
- China Technology: Macro
- Messaging: Is China the future?
- Advertising & Content market in China
- Mobile payments: Cashless society is here!
- E-commerce: The world's largest e-commerce market



## Introduction

CHINA DIGITAL REPORT PAGE: 1

China as a country for global innovation and digitalisation has rapidly increased in importance the last years. With Internet companies now almost the same size of American counterparts, a huge home market and great global ambitions, it is more important than ever for us to understand the technology and innovation coming from China.

### The power of 1.3 billion consumers

With the world's largest population, a fast-growing middle-class and increasing purchasing power - just by being "big in China" automatically makes any company one of the world's largest.

### Mega-cities unlike anywhere else

With over 100 cities with more than 1 million in population, expected to double by 2025, and megacities such as Beijing and Shanghai with more than 20 million residents, China is experiencing new unique challenges that come with densely populated areas. This feeds innovation in never seen scale before.

### No old tech legacy

In the late 90's and early 00's almost no-one had Internet nor computer in China. When smartphones came, it became the first and only access to the Internet, building a entirely new generation of consumers without any old habits resulting in much higher adoption rate of new services such as mobile payments, messaging and e-commerce.

**30.3%**  
of GDP growth

Almost a third of the GDP growth in China is driven by digital services and products.

**50%**  
of the world's e-  
commerce consumers

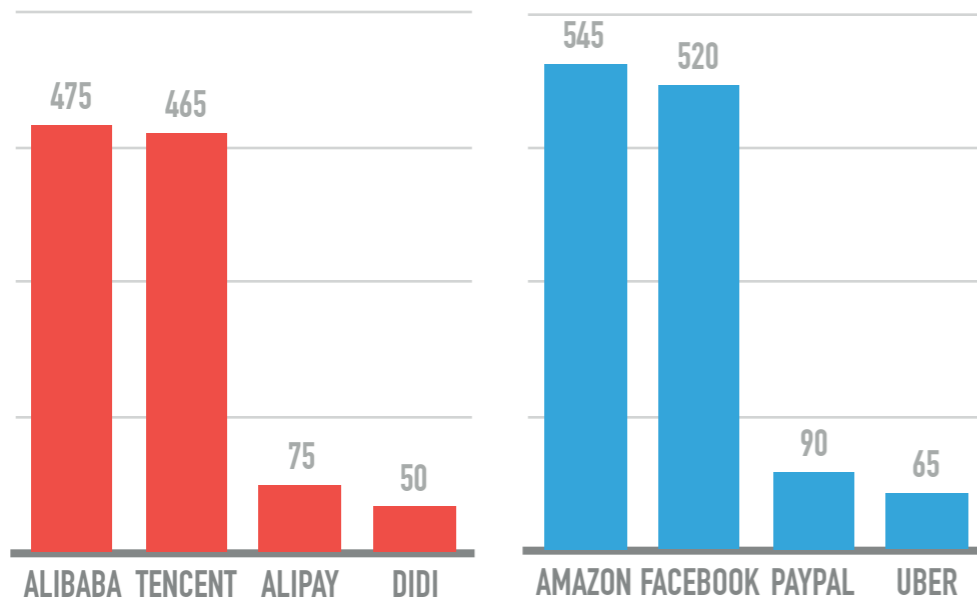
Chinese consumers stand for 50% of the global e-commerce market and rapidly moving into m-commerce. During Single's Day in 2017, the largest shopping day of the year, 90% of the 25 billion USD sales at Alibaba was through mobile devices.

**1/5**  
access Internet  
only through smartphones

With no old legacy of PC usage, very well built out 4G networks and a price sensitive target group, smartphones is the primary choice for majority of consumers.

## China Tech: Macro

### Chinese Internet Giants almost on par with American equivalents



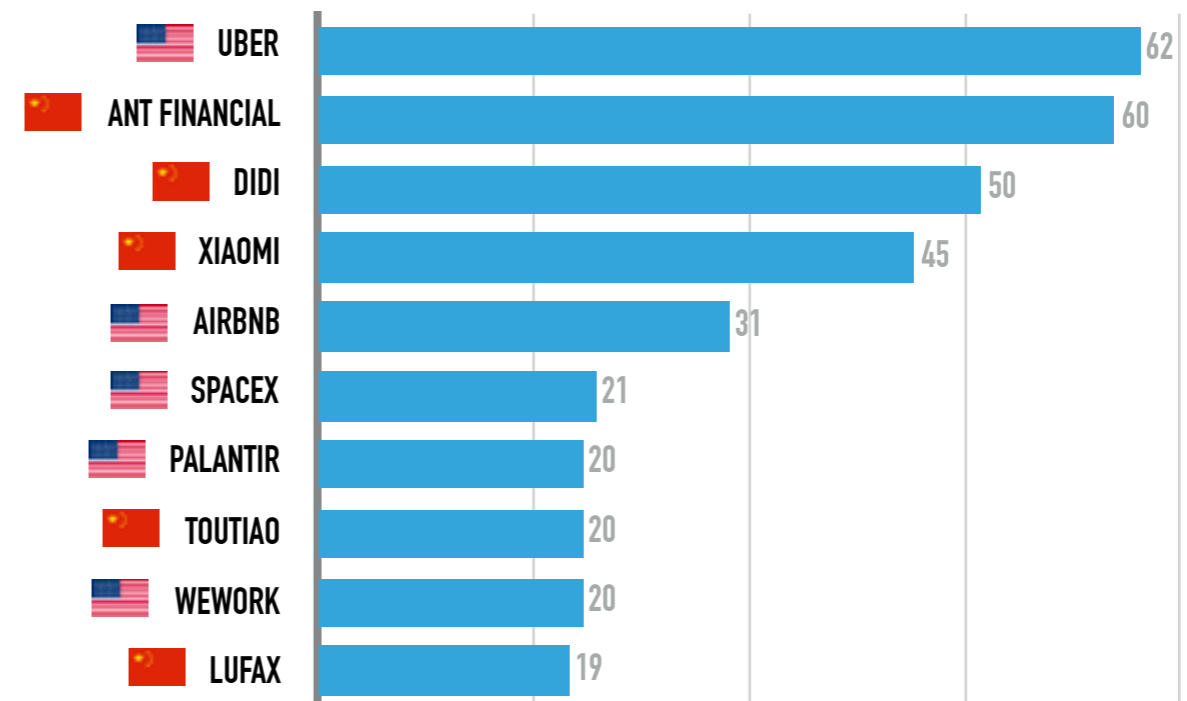
Alibaba (e-commerce), Tencent (social), Ant Financial (payments) and Didi (ridesharing) are from product perspective very different to the American equivalents - but their market positions in their home markets are similar. The main difference being that while the American Internet giants already have expanded globally, the Chinese companies have achieved a similar size by just cracking one single market in the world - China.

With the China market getting more mature this is however on its way to change, with rapidly increasing investments outside China, both in Asia, Europe and the US from the Chinese technology giants.

### 1100% growth of VC-funding for tech companies in Asia since 2013

Between 2013 and 2017, the Venture Capital backing Asian technology companies has grown from 4.5 billion USD to a projected 56.44 billion USD. In Q1 2017, the Chinese technology sector received 91% of all Venture Capital investments in Asia.

Looking at the top 10 most valuable private tech companies in the world, "Unicorns", Chinese tech companies hold 50% of the top 10 positions and stands for 55% of the value, a whopping 194 billion USD.



## Messaging: the case of WeChat

Social Media has been changing very fast in the West, starting off with Facebook and now seeing more and more users switching over to mobile-only services such as Whatsapp, Snapchat, Instagram and Messenger.

At the same time, development has gone even faster in China, where WeChat has proven how powerful the messaging platform could be for an Internet company wanting to control the entire digital ecosystem.

Facebook has since 2016 been rolling out new product updates, all very similar to what already exists in China with WeChat.

So by studying WeChat we can estimate what will happen when one of the most powerful companies in the West, Facebook, will do over the next few years.



**WeChat**

**980M**

**active users**

**93%**

**uses WeChat Pay  
in Tier-1&2 cities**

**35%**

**of all time-spent  
mobile**

**3.5M**

**active Official Accounts  
(equivalent to FB page)**

**Tencent 腾讯**

## Tencent, the company behind WeChat

- 504 billion USD in market cap.
- The largest social platform in the world after Facebook.
- The largest player in mobile/PC games in the world, owning a part of most top game brands.
- Most active investor in Asia and has backed 15 unicorns in China alone.



**QQ**



**WeChat**



**QQ 空间**  
QZONE.COM

**QZone**

With between 600 to 900 million active users on each of the social platforms above, Tencent is undoubtedly the Social Media King of China. Through these services Tencent has built out their ecosystem including everything from QQ Music (equivalent of Spotify in China) to mobile payments, digital services and much more.

Capitalizing on a young target group and the almost endless need for entertainment, Tencent has become a shareholder in most major gaming companies such as Activision Blizzard and Supercell to mention a few, making Tencent the largest gaming company in the world.

## Messaging: the case of WeChat

### Radical change for brands

There is almost no doubt that the messaging window will become the primary window of communication for all smartphone users, even in the West. Only Facebook Messenger has 1.3 billion monthly active users.

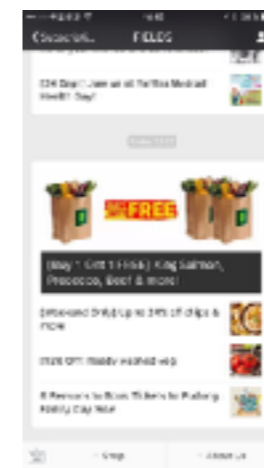
But when it comes leveraging the messaging services as a tool to drive advertising, e-commerce and more, we only need to study China to get a glance into the future.

One of the key lessons learned by multinational brands in China is the huge difference in how the consumer will and can perceive a brand. From the image-heavy “traditional” Social Media to the text-heavy messaging window.



### Fully integrated everything

The messaging window can be a strong tool to integrate all communication with a brand's customers, as proven in China by WeChat. One window for everything, from content marketing to customer service to e-commerce.

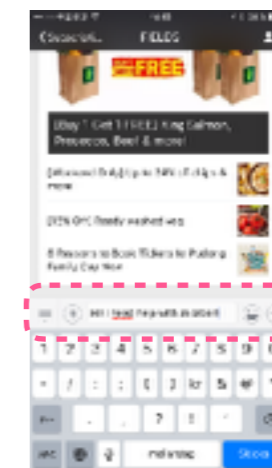


Directly access content pushed by the brand.

Both branding & sales-driven content

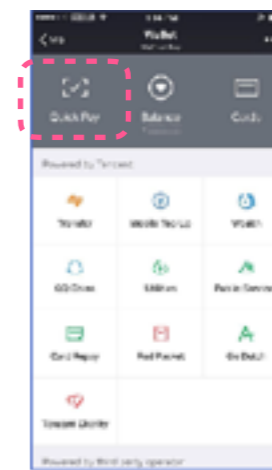


Integrated e-commerce solutions.



Tap to write to any brand.

Directly integrated with customer service.



One tap to pay, never leaving the WeChat app.

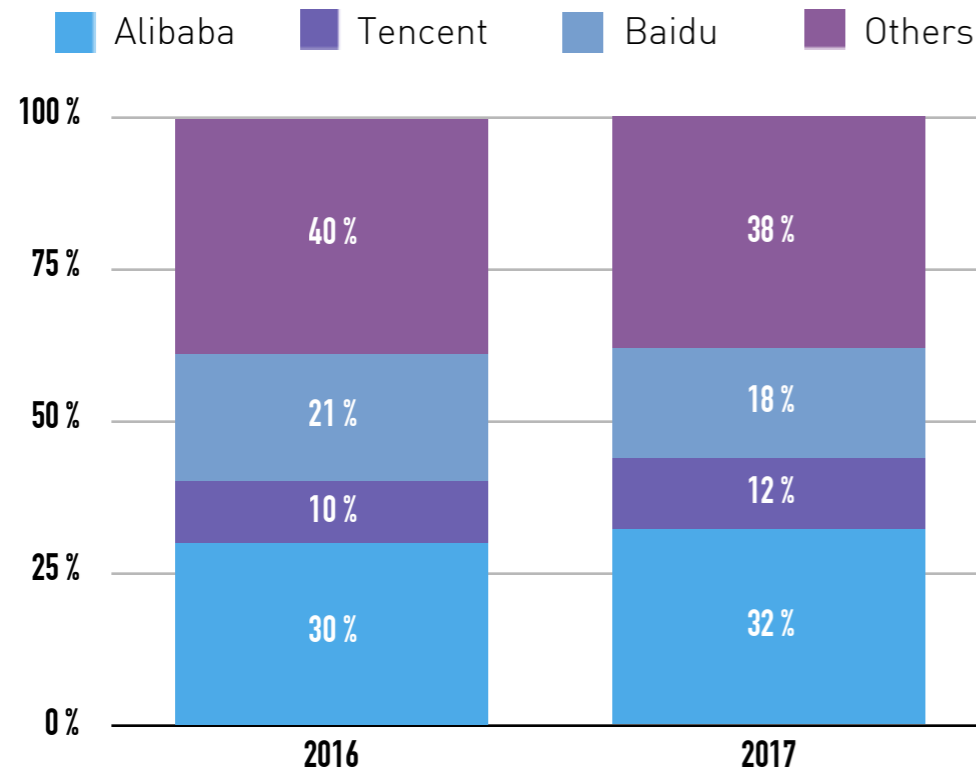
## Advertising Market in China

CHINA DIGITAL REPORT PAGE: 5

### Controlled by the BAT

Similar to in the West, the digital advertising market in China is controlled by very few Internet companies thanks to the unique ecosystem built up.

#### Share of Digital Ad Spend



**57%**  
is digital ad spend

More than half of all advertising spend in China is on digital channels.

**76%**  
is mobile ad spend

4 out of 5 RMB spend on digital advertising is spent in mobile advertising.

### Messaging-only changes advertising

Native Advertising is represented in many different ways, all fully integrated with the main way to read content in China: WeChat.

The spend in native advertising directly placed in the content of influencers who are outcompeting normal brands in terms of content engagement is at very high levels in China.



# The Future of Publishing?

## The Case of Toutiao

China's largest news app Toutiao has over 120 million daily active users with an average time spent in the app of 74 minutes, almost 50% more than the average time spent for Facebook users.

Scratching the surface Toutiao looks like any content aggregation platform, delivering short summaries of content from hundreds of thousands of sources.

The innovation and uniqueness lies in how Toutiao uses the data to personalise the “newsfeed” for each user - enabling them to engage an average user more than twice as much as Snapchat.



Source: YCombinator

## Algorithm-based information collection

By heavily investing in natural language processing, contextual image recognition Toutiao has managed to build world-leading technology in understanding the nitty gritty of any type of content - news articles, Social Media comments or even memes.

## Extensive user activity logging

Toutiao measures much more than article reads and instead studies how users interact with the app in terms of how fast they swipe, considering the time of day, any type of interaction with the content and much more. By combining this kind of “deep” user activity data and the unique data set about the actual content Toutiao have been able to really understand what kind of content that drives engagement for every single user.

## Automated “news bots”

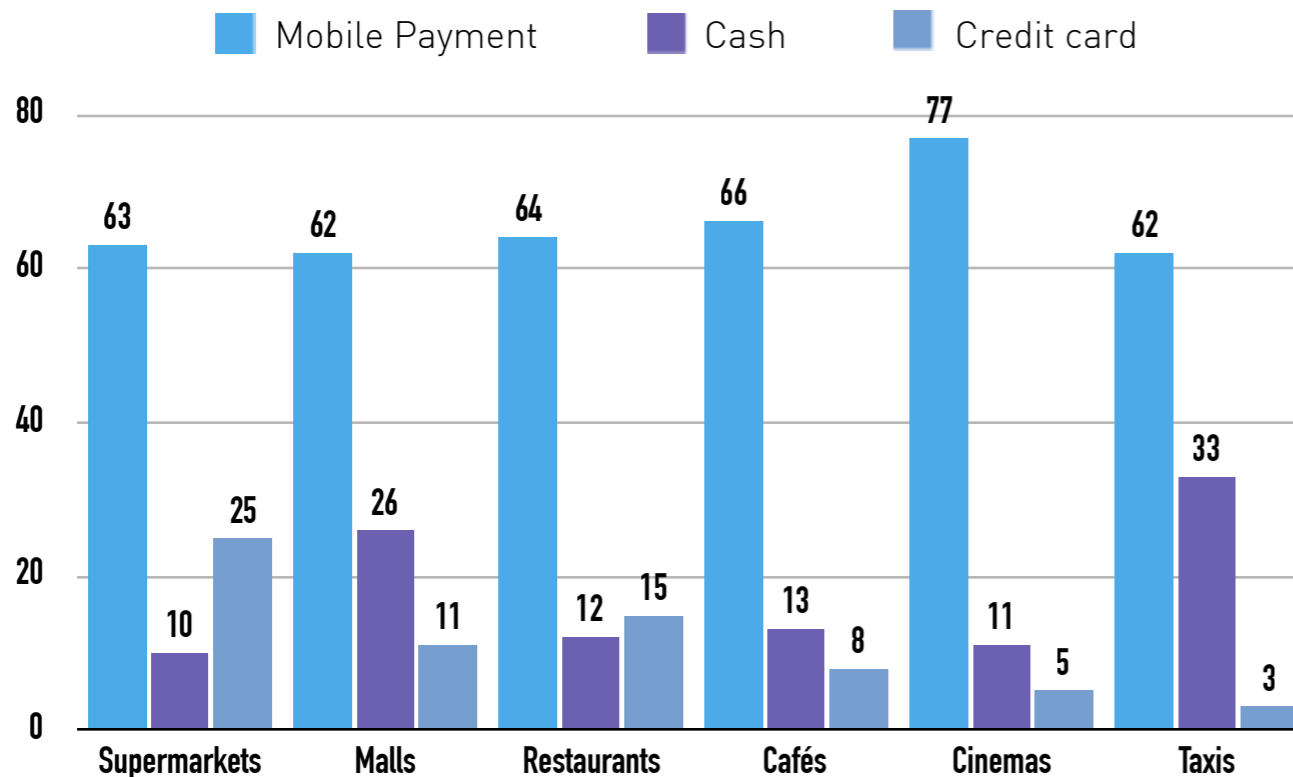
During the 2016 Olympics Toutiao demonstrated a new AI based news bot - instead of just delivering summaries and links to content about the Olympics, the news bot actually read through all the content, translated it and personalised it as a short text to the user. All this automated in record time, beating any human writer in terms of speed.

## Mobile Payments is the natural way

- Low or non-existing enrollment costs for vendors
- Integrated with most used mobile services (WeChat and Alibaba)
- Integrated in the consumer's most important device - the smartphone
- Faster to use than credit cards or cash



### Usage Penetration (%) of payment methods in China



**5.5 trillion USD**

transacted 2016 through mobile payments,  
50 times higher than the US



WeChat Pay

37% market share



54.7% market share

## Mobile Payments

### Friction-free payments opening up new business models

When user adoption around mobile payments is high and it is effortless to do any payment, small as large, we see entirely new business models opening up. These business models have all been tried in the West but with mixed results, mainly due to the friction of credit card payments being too slow for the user.



#### Bike-sharing

Instead of forcing users to get a specific card, top it up with money and only access bikes they can rent at specific locations around town, as in Europe and US, China has lately got an entirely new model.

Bikes are freely placed everywhere on the streets, as a user you only need to scan the QR code of the bike to get started and pay per half hour through mobile payments.

Mobike, as shown on the photo has managed to grow from 0 to over 10 million users in less than 2 years.



### Paying for content

When friction to pay is so small, the user does not mind paying very small amounts. That has created new innovative ways to do micro transactions and charge users for content in different ways.

WeChat has launched a "tipping" service that enables readers of articles to "tip" after reading. Publishers have also experimented with charging small amounts per page for articles and books, instead of charging up-front, before getting the reader engaged and interested.

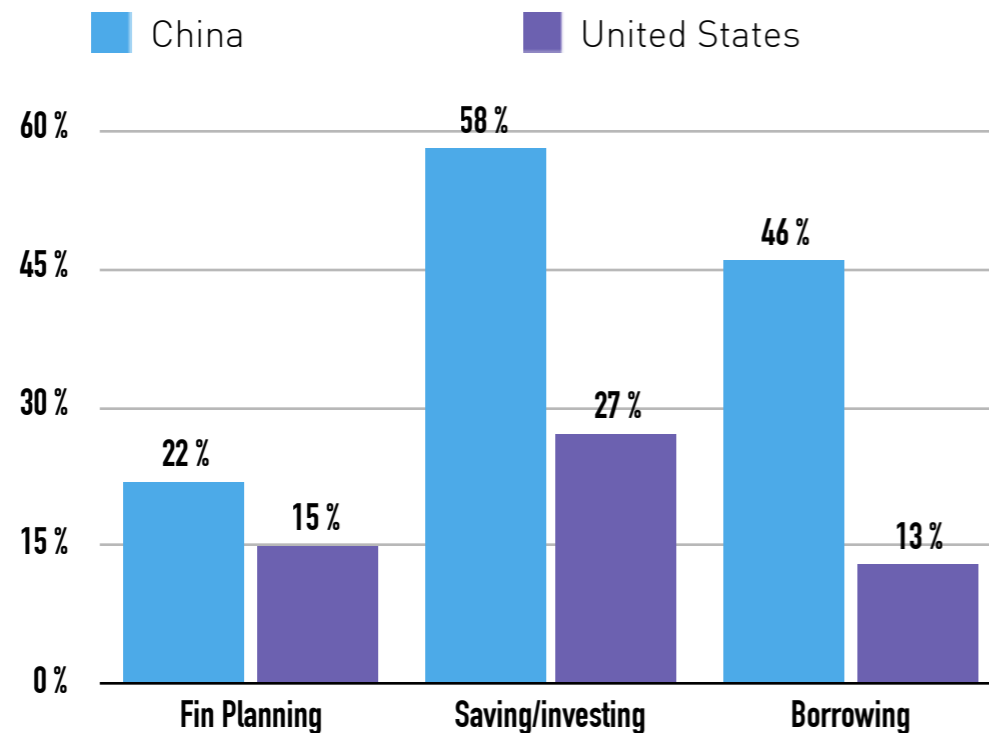
## Mobile Payments

What happens when you get hundreds of millions used to trusting smartphones and digital payment solutions?

When that bridge is crossed, convincing the consumers to use digital services for the other needs that usually have been monopolised by traditional banks this less of a challenge.

The Financial Technology sector with new startups disrupting the traditional finance industry is booming in China, mainly driven by the fast adoption rate from consumers.

### Adoption rate of FinTech services



One of the world's largest FinTech companies, valued at 60 billion USD operating Alipay and a wide array of financial services including B2B and B2C lending, stock investments and more.



China's second largest FinTech company valued at 19 billion USD. An online financial marketplace and China's second largest P2P lender.



China's first online-only and private bank with Tencent as its largest shareholder.



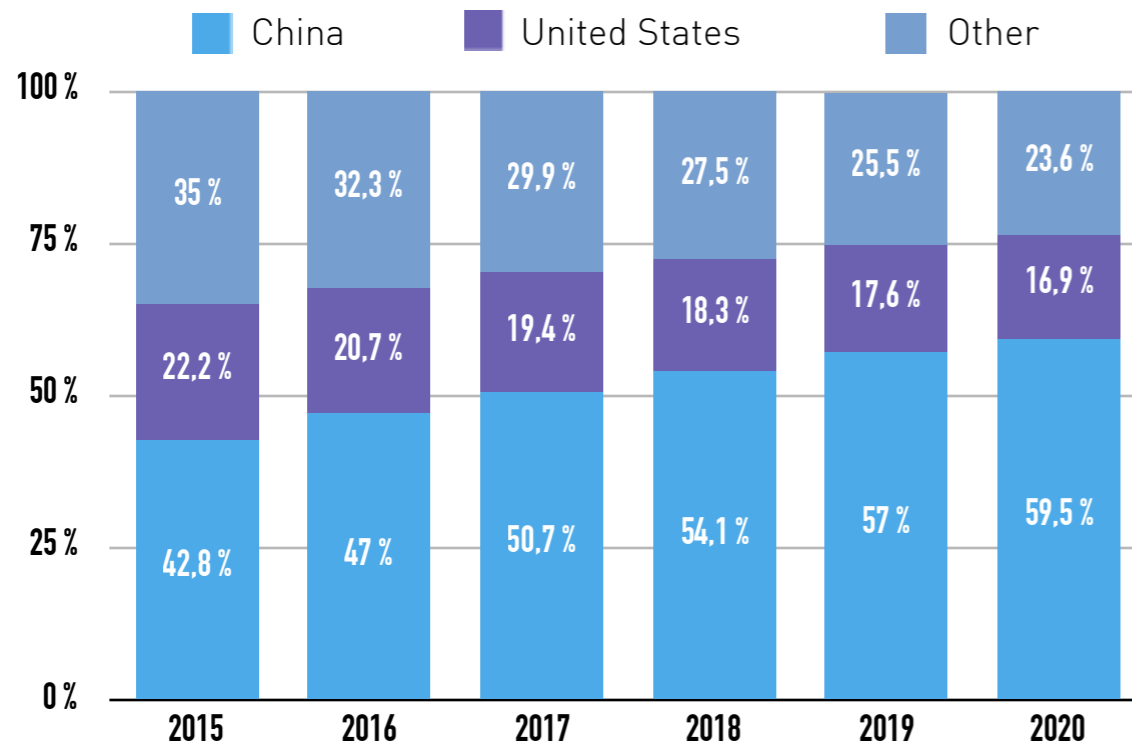
Valued at 10 billion USD, ZhongAn Insurance was the first online insurance provider launched as a joint-venture between Alibaba, Tencent and PingAn.

## China: the world's leading e-commerce market

Thanks to fast consumer adoption of technology trends, e-commerce is in fact the standard way to purchase products in China and now rapidly moving to become mobile-first.

According to survey done by PwC 42% of respondents actually prefer to order groceries via their mobile phone, compared to a global average of 10%. And only 28% prefer to actually purchase their groceries in-store.

**Share of Global E-commerce**



The best example of the fast growth of e-commerce in China is Alibaba that operates a number of different e-commerce marketplaces such as Taobao and Tmall.

By starting from "scratch" with very little legacy from traditional retail, Alibaba have managed to build out an entire ecosystem with the end result now being one of the largest companies in the world valued more than 400 billion USD.

- Marketplaces: enabling any vendor to sell anything, without the need by Alibaba to build their own inventory.
- Payment solutions: Increasing conversions online by reducing the friction for consumers while building key data for retargeting.
- Distribution: Cloud services enabling freight companies to operate at higher efficiency while improving the overall e-commerce experience for all consumers and leading them back to Alibaba.
- Big Data analysis: By leveraging the unique data about each consumer and business, Alibaba can leverage it to optimize their business furthermore and create a dependency for any brand selling products in China.
- Financial services: If Alibaba knows who your customers are, how much they buy with you and your competitors and your financial performance - that makes their subsidiary Ant Financial the best positioned to calculate risks and issue efficient small-business loans for you to grow your and Alibaba's business.

## E-commerce

### Single's Day: the largest shopping holiday of the world

Originally started by students as a fun time to celebrate being single on Nov 11 each year, Alibaba has transformed that day to become the largest shopping day in the world, by far surpassing Black Friday and Cyber Monday in the United States.

**25.3 billion**  
billion USD (GMV)  
in 24 hours

**90%**  
of orders were  
from mobile

**39%**  
higher sales  
compared to 2016

**3,5**  
times larger than  
Black Friday, Cyber Monday

**1,5**  
billion transactions  
processed through Alipay

**140,000**  
brands participated  
on Tmall during 11/11



### m-Commerce

During Single's day, China being a mobile-first country was proven once again with 90% of orders being through mobile generating a total of 22,8 billion USD during one single day. According to eMarketer 70% of all e-commerce in China and India will be from mobiles, compared to 30% in the United States.

### Owning a shopping holiday is great for business

By being initiator behind the Single's Day, Alibaba have built an unique position to be the largest beneficiary through:

- Discounts opening up new target groups: Alibaba got 500 million active buyers. But there are 1,3 billion in China. The key to unlocking this (for now) less affluent target group is by attracting them with low-cost options to famous brands.
- Forced loyalty from brands: Single's day account for a major part of each year's sales for many brands. But Alibaba selects which brands that are getting the most promotion - ultimately making brands even more dependant on Alibaba.



# Digital China Tour 2018

## Shanghai | 10 - 13 June 2018

Experience first-hand an insider's view of technology and media companies at the forefront of innovation and trends.

### What topics will be covered?

The tour will give insights and context to innovative Chinese media.

- Digital Publishing Trends
- Data Management
- Innovative Data Tools
- Ad-Technology
- Cooperation Platforms
- Content Creation
- Paid Content/Services
- Social Networks/Communities
- Online Advertising
- E-Commerce

China –  
A leading  
digital  
innovator

Future-oriented  
digital  
companies

Insight into a  
fast-growing and  
innovative market

### Who will we meet?

- Local industry leaders
- Meet face-to-face with top management

 **Alibaba Group**  
阿里巴巴集团

**Tencent 腾讯**



**SMG**  
上海东方传媒集团有限公司  
SHANGHAI MEDIA GROUP

### Contact & registration:

Jennifer Panse

[j.panse@vdz-akademie.de](mailto:j.panse@vdz-akademie.de)

+49 30 72 62 98 113



Verband Deutscher  
Zeitschriftenverleger

## Report Author

---

Tom Xiong

Founder & CEO Move Shanghai  
Co-founder The Digital Dragon

E-mail: [tom.xiong@moveshanghai.com](mailto:tom.xiong@moveshanghai.com)  
LinkedIn: <https://linkedin.com/in/shuotomxiong>

## IMPRESSUM

---

### Publisher

VDZ Verband Deutscher Zeitschriftenverleger e.V.  
Markgrafenstr. 15, 10969 Berlin

### Responsible

Alexander von Reibnitz

## Sources

---

Ad Age:

<http://adage.com/article/digital/57-china-s-ad-spending-internet-year/309046/>

Adobe:

<https://blogs.adobe.com/digitaldialogue/digital-marketing/asia-pacific-tops-world-growth-smartphone-traffic-internet/>

Alizila:

<http://www.alizila.com/11-11-gmv-shatters-record-new-retail-shows-promise/>

CB Insights:

[https://www.cbinsights.com/reports/CB-Insights\\_Asia-Tech-Investment-Report.pdf](https://www.cbinsights.com/reports/CB-Insights_Asia-Tech-Investment-Report.pdf)

China Internet Watch:

<https://www.chinainternetwatch.com/22153/mobile-payment-usage-2017/>

Chozan:

<https://chozan.co/2017/04/27/whats-new-recent-wechat-updates/>

DBS Insights:

<https://www.dbsinsights.com/china/chinas-fintechs-disrupt-world>

KPMG:

<https://assets.kpmg.com/content/dam/kpmg/cn/pdf/en/2016/11/china-s-connected-consumer-2016.pdf>

Lend Academy:

<https://www.lendacademy.com/largest-companies-chinese-fintech/>

PWC:

<https://www.pwccn.com/en/retail-and-consumer/publications/total-retail-2017-china/total-retail-survey-2017-china-cut.pdf>

South China Morning Post:

<http://www.scmp.com/tech/china-tech/article/2076802/alibaba-baidu-tencent-dominate-chinas-red-hot-digital-advertising>

<http://www.scmp.com/tech/china-tech/article/2080837/chinas-mobike-takes-ofo-singapore-bike-sharing-competition-heats>

Tech in Asia:

<https://www.techinasia.com/talk/chinese-smartphone-market-new-brand>

The Guardian:

<https://www.theguardian.com/cities/2017/mar/20/china-100-cities-populations-bigger-liverpool>

Yahoo Finance:

<https://finance.yahoo.com/quote/BABA/>

Y Combinator:

<https://blog.ycombinator.com/the-hidden-forces-behind-toutiao-chinas-content-king/>