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Alipay's ecommerce solution for luxury brand expansion in China

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By A LUXURY DAILY COLUMNIST

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Luxury and premium brands that have entered the Chinese market have done so by establishing a physical presence in China. Observers of economic trends have periodically published their insights that support the aggressive pace of Chinese urbanization and, consequently, the increased number of opportunities for brands to get established there.

For example, McKinsey's July 2014 report, "[The glittering power of cities for luxury growth](#)," brings attention to China's urbanization happening in a "scale 100 times that seen in 19th-century Britain and at ten times the speed."

Open sesame

The report continues with metrics on growth-contributing cities and correlates high urban concentration of luxury brands with an overall growth in the luxury sector.

While McKinsey's report is looking at trends and registers predictions for as far out as

2025, Western brands should consider a parallel and even more powerful than urbanization – exclusively Chinese – phenomenon, namely infrastructure development for ecommerce as well as its implications on brands' entry strategies into the Chinese market.

Mobile technology often associated with large cities has become omnipresent in rural Chinese areas thanks to the work done by China's Alibaba Group, an Internet-based group of ecommerce businesses that includes business-to-business online Web portals, online retail and payment services, a shopping search engine and data-centric cloud computing services.

Mobile commerce is thriving in remote locations that account for the greatest mobile penetration in all of China.

In rural areas, where stores carry only a few items, mobile commerce has allowed the locals to participate in the global markets, educate themselves on retail products and prices, and shop.

It turns out that the Chinese, both in rural and urban areas, empowered by China's steadily solidified infrastructure, prefer conducting all commercial transactions online or on their mobile phone.

To cater to the needs of the modern Chinese consumer, Alibaba has launched a series of consumer services under the name of Alipay, including Alipay Wallet, which have trained the Chinese in online and mobile shopping without the need of credit cards, with speed and efficiency.

In other words, what Alibaba has achieved so far is to build up the confidence of the Chinese in developing their individual consumer profile and to solidify this relationship with establishing trust between the consumer and Alipay services. Alipay has established a large network of regular online shoppers.

Pay off

Considering these facts, an unprecedented opportunity has revealed itself for Western brands to reach Chinese consumers who are tech-savvy, enthusiastic online or mobile shoppers, Western brand-minded and whose needs remain largely unmet.

Furthermore, this is a unique opportunity for luxury brands whose products Chinese consumers acquire when they travel abroad or over the Internet. Internet penetration in China reached 632 million users in June.

However, global shopping has not been smooth for the Chinese consumer who is facing two major challenges: first is a lack of trust in unfamiliar international retailers and next are payment issues due to the difficulty of foreign currency payment.

Additionally, international credit cards are not common in China, Renminbi (RMB) conversion to foreign currency meets a ceiling each year, and the option of establishing a bank account abroad is often impossible for most Chinese.

At the same time, Western retailers do not necessarily accept China Union Pay, China's prevailing credit card platform.

When Chinese interact with Western retailers, they often complain about translation and shipping issues, miscalculation of prices and fees and inability to pay in RMB.

Alipay, a product established in China and designed to respond to the demographic particularities of the Chinese consumer is positioning itself as the only product that can bridge East and West to make online shopping easy and enjoyable.

Also, Alipay provides a new opportunity to Western retailers to increase their presence in the Chinese market without having to physically move there.

What Alipay promises Western luxury brands is a direct connection with China's affluent and worldly middle class via the established Alipay network. It empowers brands to retain control over the customer experience while taking care of payment and delivery.

Finally, it alleviates the need for brands to establish a physical presence in the market, which while important in establishing and growing brand equity in China, it is also very expensive, legally cumbersome and of limited reach.

The Alipay technology solution integrates China's dominant online payment platform into any corporate Web site and taps into inventory at the brand's original location.

Alipay allows Western luxury brands to capitalize on China's ecommerce market that has a unique calendar (Haito Jie, a mid-year sales event on 8/8; Singles' Day (11/11, which is the most important date for online sales, especially applicable to long-desired, luxury purchases); Thanksgiving and Christmas, popular period for discount promotions; and Spring Clearance (March for clearance sales).

China clicks

In conclusion, while urbanization is correctly noted as a phenomenon that will completely transform economic growth in emerging markets, Western retailers and especially luxury brands need to pay attention to the impressive growth of ecommerce in China and, along with it, to the various tools developed to facilitate the needs of the individual Chinese consumer.

Alibaba's Alipay solution seems to be well positioned in leading Western brands to a profitable online presence in the Chinese market.

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