

CAN BRANDS CONTROL THEIR ONLINE DESTINY IN CHINA?

On the country's major e-commerce platforms, consumer brands gain new revenue streams but struggle for prominence. New opportunities could raise their profile.

by Lambert Bu

Consumer brands have benefited from strong revenue growth on China's dominant online marketplaces, such as Tmall and JD.com. However, these powerful volume-driven mass platforms, which accounted for 80 percent of China's online sales in 2014 (exhibit), give consumer brands little opportunity to control traffic, product searches, or access to consumer data. In the shadow of these mass platforms are brand-owned sites, along with China's equivalent of US retail ones offering brands greater sway. These sites' share of e-commerce, while constrained, has inched upward. In the United States, by contrast, though platforms such as Amazon Marketplace and eBay continue to increase their share, brand-owned and more brand-friendly online retail (including those sites with limited control) account for about 70 percent of all e-commerce.

The picture is changing, however. A growing population of relatively prosperous, more brand-conscious Chinese—more than half of all urban households by 2020—offers brands an

opportunity for greater control of their destiny.¹ To take advantage of it, they'll need to invest more in their own sites and to profit from structural changes at the dominant e-commerce platforms, which are becoming more brand friendly to serve the new Chinese buyers. These platform giants are placing greater emphasis on high-end products and offerings, for which brand authenticity matters; enforcing greater price discipline by avoiding ferocious discounting; and emphasizing best-in-class delivery and customer service. Moreover, they are also showing more openness to sharing selected consumer insights with leading brands. If those brands invest to shape consumer behavior and to increase traffic on their own sites or on others where they have more control, as Apple, Nike, and smartphone maker Xiaomi have done, they should be able to boost their online sales. 

¹ See Max Magni and Felix Poh, "Winning the battle for China's new middle class," *McKinsey Quarterly*, June 2013, mckinsey.com.

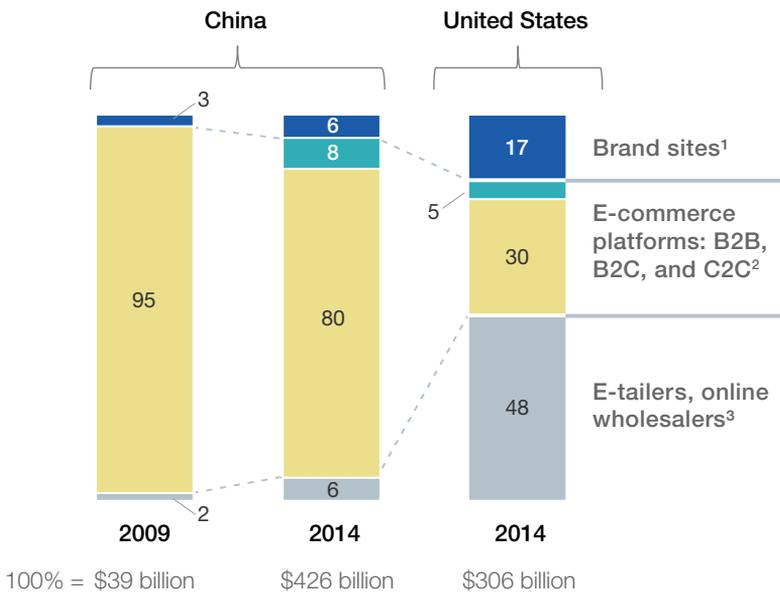
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Exhibit

Although dominance of big e-commerce platforms in China has slightly diminished, it remains dramatically greater than it is in the United States.

Share of online retail-sales value by degree of brand control, %

■ Full ■ High ■ Limited ■ None



¹For example, in China: Apple, Nike, Xiaomi; in the United States: Apple, Gap, Nike.

²Examples of e-commerce sites with high levels of brand control in China: brand stores on JD.com, Taobao; and in the United States: brand stores on Amazon. Examples of those sites with no control in China: dealer stores on JD.com, Tmall; and in the United States: Amazon Marketplace, eBay.

³For example, in China: JD.com e-tail, Suning; in the United States: Amazon, Walmart.