

# Find your perfect tech transformation partner in a changing China

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Every November 11, Chinese people come together to celebrate the single life and the benefits of going it alone. Known as Singles Day, the event has evolved into the biggest single day of e-commerce in the world.

Last year, the day saw USD\$17.8 billion of gross merchandise volume - or sales - up 32 per cent from 2015. Those figures make the numbers generated in other more famous shopping extravaganzas, such as Black Friday (\$2.74 billion) and Cyber Monday (\$3.07 billion) in the States, look somewhat measly.

To put the scale of Singles Day – or Double 11 as it’s known – into context, the online sales for that 24-hour period in China outstrip the entire e-commerce spend of Brazil for an entire year.

And, while Singles Day cannot be considered normal for every business day, it underlines the enormity of the opportunity available in China for all organisations.

## The opportunity inherent in the rise of China's middle class

These gravity-defying numbers are largely being driven by the boom in the Chinese middle class.

There are estimated to be around 225 million households comprising the Chinese middle class currently, though that number is unlikely to hold still for long. McKinsey has predicted more than three quarters of urban consumers will be considered middle class in the next five years.

And though China's population as a whole is ageing, the middle class is getting younger. That is important because of the impact it has on doing business; new ways of reaching consumers have to be explored.

Chinese smartphone penetration currently sits at around 800 million people, of which 430 million are active on the biggest local platform, Tmall. Increasing mobility has led retail away from bricks and mortar stores, and even the desktop. More than 80 per cent of Singles Day sales last year were completed on mobile.

And more innovation is coming. For the first time in 2016, Chinese shoppers could use virtual reality to browse potential 11/11 deals in department stores like Macy's from the comfort of their homes.

So, what is the opportunity for Australian businesses specifically? In short, it's significant.

China's e-commerce market is forecast to be worth \$840 billion by 2021 and much of that trade is coming from international sources. In fact, more than a quarter (27%) of last year's Singles Day purchases were made from brands headquartered outside China.

While there are no official trade statistics on exports to China, Australian products and services are estimated by Austrade to be behind only the United States, Japan and Korea in terms of popularity.

The time is ripe for Australian companies to thrive in China.



## On the front lines of digital transformation

But Australian companies should be aware that doing business in China is a different prospect to domestic trade. The demographic developments that have driven growth are being mirrored by changes across China's business landscape. The country's rapid industrialisation and infrastructure investment have created a market that's changing before our eyes.

Digital transformation is at the heart of these changes. It has the potential to drive China's productivity toward annual growth of 6.5 per cent over the next 15 years, yet only 57 per cent of Chinese firms polled in a McKinsey study believe they are prepared for the changes such technological change will bring. This provides an enormous opportunity for Australian businesses with the requisite expertise and experience.

Telstra's recent study into [Asian digital transformation](#) provides key insights for Australian businesses looking to reach new markets such as China:

- Large developing countries with big populations like China are behind the regional and global leaders when it comes to factors such as digital infrastructure and e-services. These countries are connecting more people to the Internet than anywhere else and boast world-class services in major cities, but emerging markets face challenges at a regional level.

- China ranked 7th in the first Asian Digital Transformation Index, ahead of countries like India, Indonesia and the Philippines, but trailing more developed Asian nations like Singapore and South Korea. China ranks consistently across the three pillars the Index is measured against - digital infrastructure, human capital and industry connectivity.
- A large number of Chinese organisations are actively pursuing digitisation. More than eight in 10 respondents (85%) say that the digital transformation efforts they have undertaken have already proven their value already and more. More than nine in 10 (93%) say digitisation has led them to change the way they do business in one way or another.
- China's ICT infrastructure has benefitted from considerable policy attention and investment in recent years, but gaps remain at a national level, particularly in fixed broadband networks.
- As elsewhere in Asia, Chinese universities and institutes produce a large number of skilled engineers, software programmers and other technical specialists. However, talent with advanced digital skills is not as widely available, though that situation is not exclusive to China.

E-commerce is often seen as a means to take advantage of this digital transformation. Nick Coyle, CEO of AustCham Beijing, believes a measured strategy is the most effective. "There are a range of attractive options for e-commerce in China, so the best advice is to not put all of your eggs in one basket."

"E-commerce as a route to market is effective, but it can be costly and requires a clear, strong value proposition for your product. A measured e-commerce approach which identifies unique differentiators, and then tests in smaller online stores before attempting the giants – like Tmall or JD – is the best strategy. And don't forget there is a growing focus on traditional bricks-and-mortar retail in China currently!"

This is where the lessons of Singles Day fail us somewhat. Because in China, whether you're selling online, on mobile, or in a store, it is definitely recommended to work in partnership rather than alone.

## Finding the perfect partner to thrive in China

While the idea of Singles Day revels in the concept of individuality, Australian organisations doing business in China are increasingly investing in partnerships.

A recent ANZ report notes that of the 57 per cent of Australian businesses expanding in Asia who were specifically targeting China, almost six in 10 were actively considering joint ventures.

Similarly, our own [research](#) has also show that digital partnerships – alliances between two or three players, cross-industry networks or loosely organised ecosystems based on a dominant technology platform – are an increasingly important way to reach new markets in China. In fact, almost three quarters of respondents believe going it alone will soon become a thing of the past.

Chinese companies agree, with significant numbers working together as active participants in digital partnerships. More than half (55%) of companies say they have five or more digital partners, and similarly large numbers report having developed new business ideas with their help in the past two years. More than 60% say their firms benefit from involvement in open innovation communities.

As Telstra's Greater China CEO Ruey-Bin Kao [notes](#), creating digital partnerships are essential to serving the booming middle-class in China. By setting expectations with digital partners, building trust over time and investing to create value in a win-win relationship, digital partnerships not only create mutual economic benefit but also contribute toward new, innovative ideas and reduce time to market.

However, such collaboration does not yet run deep in China. Eight in 10 respondents believe that their organisation needs to become better at leveraging digital partnerships.

Australian businesses are in the optimal position to take advantage of this desire and reap the benefits such partnerships can bring.



## Practising what we preach



For example, take [our own experience](#) in China.

Telstra entered the Chinese market more than 28 years ago in 1989, and has since expanded to comprise nearly 200 employees in 12 offices across the country. In China, we provide data centre services in Beijing, Shanghai, Tianjin, Chongqing, and Shenzhen with 32 in-country points of presence through our subsidiary Telstra PBS.

Being the first and largest foreign-invested value-added telecom (VAT) service JV with IPVPN, IDC, Internet Access and ICP licenses in China, we can truly provide world-class quality and services and couple it with unique local know-how.

Today, we collaborate with Chinese carriers and local service providers to provide enterprise and carrier customers with network, cloud and connectivity services.

By investing in such relationships and taking heed of the changing digital dynamics at play, Australian organisations can put themselves in the best possible position to find the perfect partner to thrive in the Chinese market.