



wherever people pay

# China Reach 1 billion shoppers

A guide to payments in the world's  
largest ecommerce market



## INTRODUCTION

There are many things to consider when planning international expansion: new websites, local offices and marketing initiatives, to name but a few. Often last on the list is payments. However, in many cases entering a new market can be as simple as supporting the payment methods known and trusted by local customers.

Many believe that international credit cards are the preferred method of payment on a global scale, but this is not the case. In China local payment methods reign supreme and, without supporting methods like UnionPay, Alipay and WeChat Pay, merchants will only reach a tiny proportion of their potential new customers. And the potential is huge; China now sits at number two on the list of the world's largest economies.

Nevertheless there are a number of aspects international merchants should keep in mind as they enter this unique market. This report will walk you through some of the key opportunities (and challenges), examine the market's major payment methods and offer practical advice based on extensive on-the-ground experience.



## THE ECOMMERCE JUGGERNAUT

In the early hours of Wednesday 11th November 2015, 1.7 million workers and 400,000 vehicles sat in readiness, prepared to dispatch the 760 million parcels expected to be ordered from China's e-commerce giant Alibaba during the fever of the Singles' Day sale.

Singles' Day is an online sale that Alibaba threw its considerable weight behind in 2009. Since then it has experienced meteoric growth and 2015 was no exception. Within the first 8 minutes Alibaba cleared its first \$1 billion and by midday the spending had already matched the 2014 figure of \$9.3 billion. By close of business Alibaba had sold a staggering \$14.3 billion worth of products – topping the previous year's record by 60%.

Compare this with Cyber Monday, which triumphantly announced a record high of \$3bn in 2015, and you have some idea of just how big the Chinese ecommerce juggernaut is.

And, despite reports that overall economic growth is slowing, China's ecommerce market is alive and well, surpassing the US back in 2015 and forecasted to reach \$1 trillion in 2020.



## A SNAPSHOT OF THE CHINESE ONLINE SHOPPER

Although it still has a long way to go, China's internet penetration is increasing, reaching nearly 700 million people in January 2016 – more than half the Chinese population. And the good news for merchants is that these people are shopping. In Tier 1 cities, like Beijing and Shanghai, 81% of the population shops online (with 72% in Tier 2 cities). China Internet Watch breaks these shoppers into six types :

**Frequent women shoppers** they shop online regularly, usually for clothes, skincare and mother/baby products.

**Quality conscious men shoppers** they tend to spend more than women and buy tech products. Price and credit are a concern for them.

**Young shoppers** they buy skincare products, which they find online through searching for keywords or via social media.

**Middle-age shoppers** they buy clothes and small household appliances, usually from home using web browsers.

**High-income shoppers** they shop frequently online, buying household appliances, jewelry and furniture, often via social media links.

**Practical shoppers** they buy clothes, shoes and telecom products online, and use fewer shopping apps.

Looking at cross-border shopping in particular, iResearch reports that the average shopper is male (65% compared to 35% female), aged between 26 and 40 and living in Southeast China. He has a bachelor degree and earns a monthly income of \$1,656.13.

## LUCRATIVE LUXURY

There is no doubt about it, the affluent Chinese shopper has a huge enthusiasm for international luxury brands. A report from Beijing-based Fortune Character Group claimed that Chinese shoppers bought nearly half the world's luxury products in 2015.

And despite reports that the Chinese luxury market is declining, it remains alive and well for fashion, jewelry and cosmetics, with Burberry announcing that Chinese sales had bounced back in 2016. Furthermore, luxury cross-border ecommerce is taking off, accounting for 12% of Chinese luxury goods spend - something that luxury online retailers such as FarFetch are capitalizing on.

## GETTING SOCIAL

In terms of integrating payments into the social ecosystem, China is way ahead of the curve. Tencent's WeChat has successfully embedded itself into the daily lives of 760 million users who use the app to liaise with colleagues, chat to friends, interact with brands and make purchases. So far half of WeChat's users have been persuaded to share their payment details with the platform, and about one third are making purchases regularly. As more brands jump onboard, we can expect this to escalate.

For merchants looking to attract the Chinese shopper, it is crucial to understand that social is central. According to Mckinsey, two-thirds



of China's consumers cite recommendations from friends and family as a critical factor when deciding to buy, compared to only one-third in the U.S.

### **ORDERS ACROSS BORDERS**

Increasingly shoppers are looking beyond their own borders to buy goods. A recent report by eMarketer predicts that by the end of 2016 more than 15% of the population will make cross-border purchases, amounting to \$85.76 billion. And by 2020 it predicts a quarter of the population will be shopping from foreign merchants.

Government legislation and local infrastructure are also supporting this cross-border boom. In January 2016 China launched a new initiative, establishing cross-border ecommerce zones in 12 Chinese cities. In addition, ecommerce players are working to speed up the clearance of goods through customs, and new distribution channels are being built to handle the growing demand.

### **MOBILE MOMENTUM**

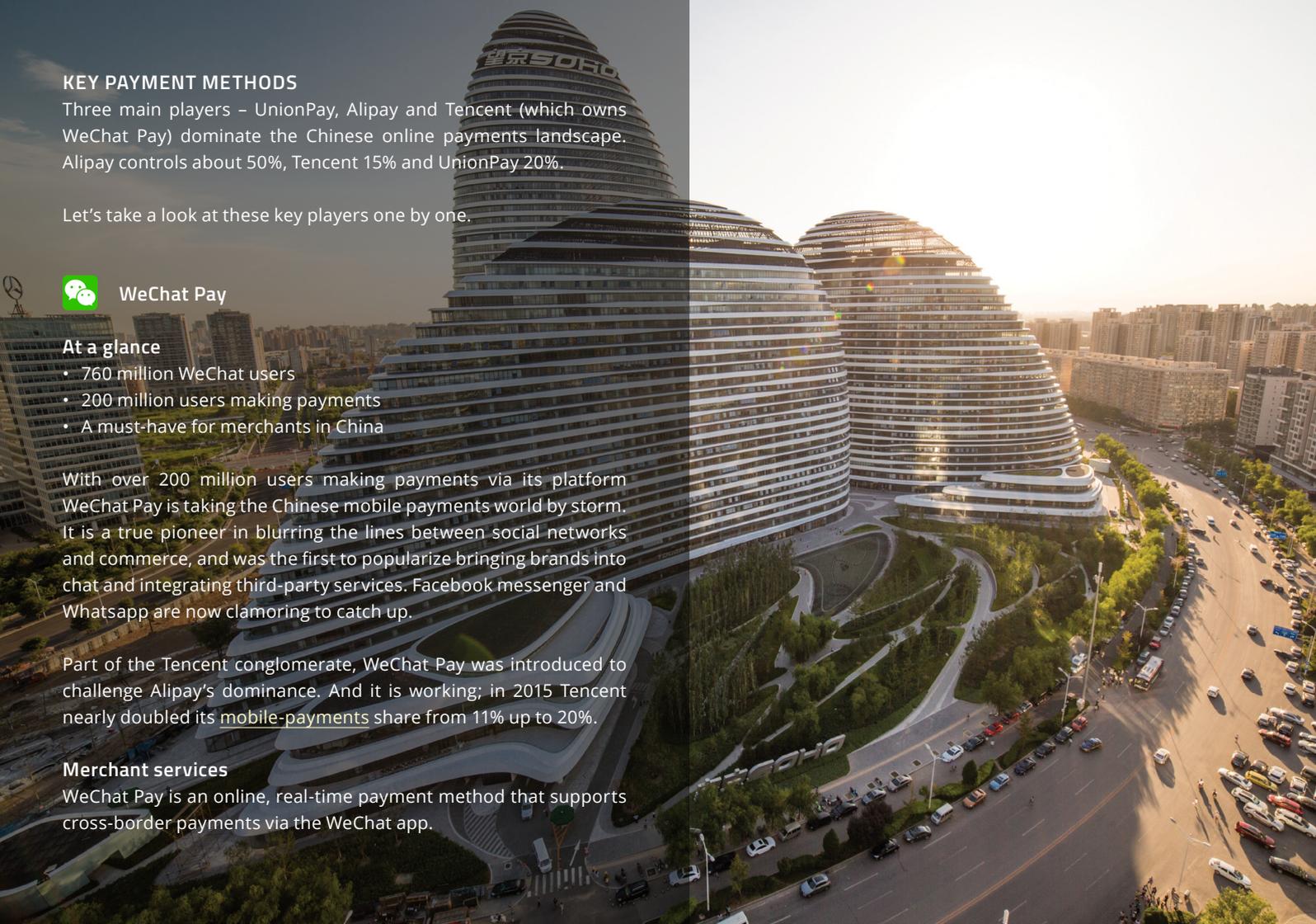
China is online, China is shopping overseas and China is mobile. It is the largest smartphone user base in the world, hitting 560 million, and expected to climb to almost 600 million by 2018.

And it seems that mobile shopping is a popular pastime. In 2015 mobile transactions more than doubled, climbing to \$235 billion and pushing China ahead of the U.S. eMarketer even goes so far as to predict that mobile shoppers in China will spend nearly \$1.5 trillion by 2019, accounting for nearly a quarter of the country's entire retail market.

Leading the charge in the country's mobile payments adoption are Millennials, aged between 21 and 39. They are using their smartphones to pay for bills, buy goods and services both on and offline and pay money to friends and family.

Although WeChat Pay is advancing in leaps and bounds, Alipay's eWallet still retains its lead, with approximately half of the mobile payments market. But the battle is far from over. During Chinese New Year, the two companies went head-to-head to in what is known as the 'annual red envelope wars' using discounts and subsidies to win market share. In this arena WeChat retains the advantage, processing 8 billion red envelopes in 2016.





## KEY PAYMENT METHODS

Three main players – UnionPay, Alipay and Tencent (which owns WeChat Pay) dominate the Chinese online payments landscape. Alipay controls about 50%, Tencent 15% and UnionPay 20%.

Let's take a look at these key players one by one.



### WeChat Pay

#### At a glance

- 760 million WeChat users
- 200 million users making payments
- A must-have for merchants in China

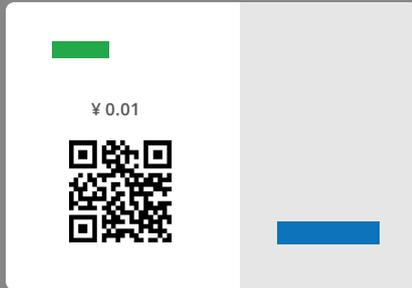
With over 200 million users making payments via its platform WeChat Pay is taking the Chinese mobile payments world by storm. It is a true pioneer in blurring the lines between social networks and commerce, and was the first to popularize bringing brands into chat and integrating third-party services. Facebook messenger and Whatsapp are now clamoring to catch up.

Part of the Tencent conglomerate, WeChat Pay was introduced to challenge Alipay's dominance. And it is working; in 2015 Tencent nearly doubled its mobile-payments share from 11% up to 20%.

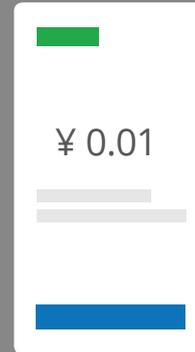
#### Merchant services

WeChat Pay is an online, real-time payment method that supports cross-border payments via the WeChat app.

## HOW IT WORKS FROM PC TO MOBILE



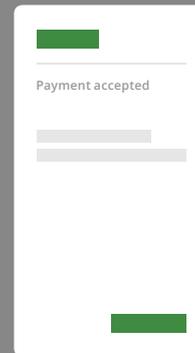
1. A QR code is automatically displayed to the shopper.



2. The shopper opens WeChat and scans the QR code, following which the transaction details are displayed.

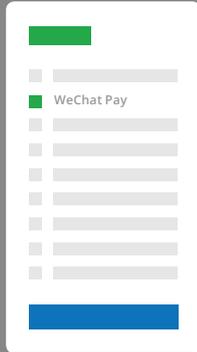


3. The shopper enters their PIN to confirm payment.

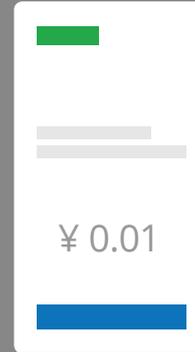


4. The payment is complete.

## HOW IT WORKS IN-APP



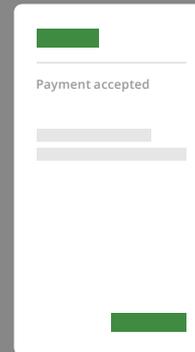
1. The shopper chooses WeChat Pay from the list of payment methods.



2. The WeChat app automatically opens and the transaction details are displayed.



3. The shopper confirms the payment with their PIN.



4. The payment is complete.

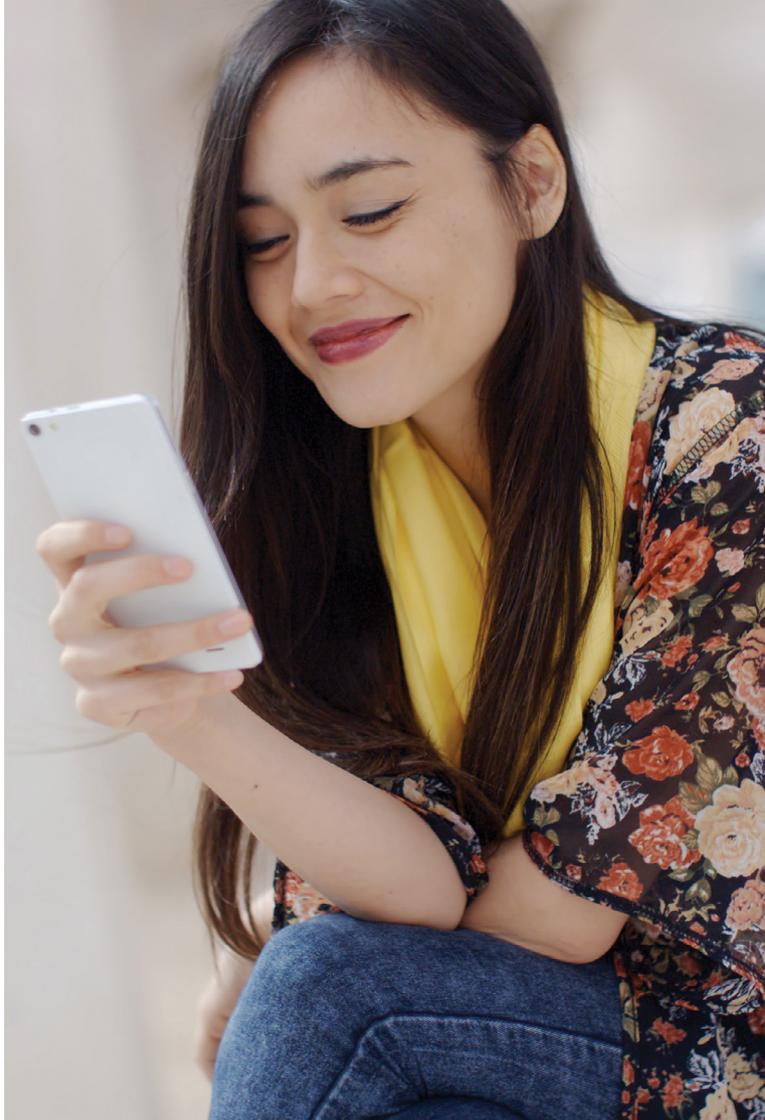
## WHAT ADYEN OFFERS

Adyen will be the first international company to offer a full-service WeChat Pay for cross-border payments, without the need of a local entity.\*

Below are the detailed functionalities offered by the Adyen WeChat Pay integration:

- No local entity is required.
- Two seamless integration flows:
  - an API integration where the QR code is displayed on the merchant website.
  - an in-app integration where the WeChat app is detected on the shopper's device and opened automatically.
- WeChat Pay is linked to multiple funding sources, maximizing the chance that shoppers have sufficient funds to make the purchase.
- Refunds/partial refunds are available.
- No chargebacks.
- Nine processing currencies, including CNY, USD, EUR, GBP, JPY, AUD, CAD, NZD, HKD.
- Eight settlement currencies, including USD, EUR, GBP, JPY, AUD, CAD, NZD, HKD.
- Full reporting and reconciliation.

\*WeChat Pay will be available via Adyen in Q4 of 2016





UnionPay

### At a glance

- 3.5 billion cards in circulation
- 9 billion worth of transactions

UnionPay is the largest scheme in the world. It accounts for over half the global credit and debit cards in circulation and exceeded 260 million users in 2015, when it processed nearly \$9 billion worth of transactions. It is also rapidly extending its issuing footprint overseas, claiming 77% of the market share across the APAC region.

UnionPay is the only interbank network in the market (excluding Hong Kong and Macau), linking the ATMs of fourteen major banks and many smaller banks throughout Mainland China. Owned by the central bank, it has a monopoly on processing CNY-denominated transactions using debit and credit cards in China.

### Merchant services

UnionPay facilitates both domestic and cross-border transactions for any card it issues. It offers two key integrations for merchants, SecurePay and ExpressPay.





### **SecurePay**

SecurePay is the authenticated version of UPOP (UnionPay Online Payments). It has a fully authenticated redirect that grants users the ability to pay by any of several underlying payment methods, the most important of which is UnionPay-issued debit cards. Because it is a fully secure online payment method, there is no possibility of chargebacks.

UnionPay has recently launched a merchant-hosted version of their SecurePay solution, which removes the need for shoppers to be redirected and enables recurring payments for debit cards. Initial authentication works via SMS and a payment token is generated for subsequent transactions.

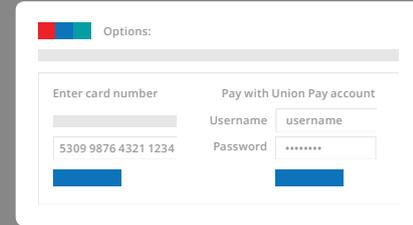
### **ExpressPay**

ExpressPay is suited to recurring payments. For merchants that operate on a recurring payment model, it is worth noting that China is one of the few Asian countries to offer recurring payments for non-Visa/Mastercard transactions.

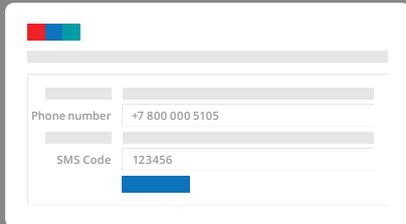
## HOW IT WORKS ON DESKTOP



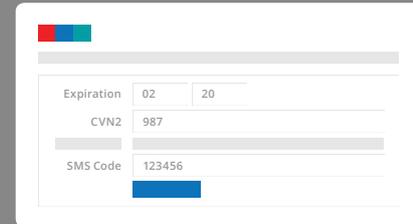
1. The shopper chooses UnionPay from the list of available payment methods.



2a. With SecurePay, the shopper is redirected to the UnionPay payment page to enter their credentials.



2b. With merchant-hosted SecurePay, the shopper enters their phone and debit card numbers, and receives an SMS to authenticate the transaction.



2c. With ExpressPay, the shopper enters their credit card details.

## WHAT ADYEN OFFERS

Adyen offers integrations for both SecurePay and ExpressPay. With SecurePay, Adyen gives users the ability to pay by one of several underlying payment methods, including UnionPay-issued debit cards. With ExpressPay, Adyen supports frictionless recurring payments for credit cards, which includes an optimized customer experience, in which shoppers are not redirected away from the merchant's site.

Adyen also processes UnionPay at the point of sale across Europe and the U.S., so merchants can accept payments from Chinese tourists in store from the same payment terminal as international cards such as Visa/Mastercard. Below are the detailed features offered by the Adyen integration:

### SecurePay

- Debit, credit, and prepaid cards, and e-bank supported.
- Page redirect (or merchant-hosted for recurring via debit cards).
- No chargebacks.
- Refunds/partial refunds are available.
- 108 processing currencies.
- 10 settlement currencies – CNH, USD, EUR, GBP, JPY, CAD, AUD, CHF, SGD, HKD.

### ExpressPay

- UnionPay credit cards.
- Shopper remains on merchant page.
- One-click/Recurring payments.
- Refunds/partial refunds are available.
- 108 processing currencies.
- 10 settlement currencies – CMH, USD, EUR, GBP, JPY, CAD, AUD, CHF, SGD, HKD.



Alipay  
支付宝

### At a glance

- 400 million users
- \$500 billion in transactions
- Connects more than 460,000 Chinese businesses

With around 50% payments market share, Alipay is by far the largest payment option in China. It is a third-party online payment platform that provides an escrow payment service to reduce transaction risk for shoppers, and partners with more than 65 financial institutions, including Visa and Mastercard. As it is owned by e-commerce conglomerate Alibaba, Alipay provides payment services for major Alibaba ecommerce platforms such as Taobao and Tmall.

Alipay's primary product is an eWallet, and a driving force behind mobile payments for Chinese shoppers. With Alipay, shoppers can choose to pay via their eWallet, credit or debit card, or even a Red Envelope during Chinese New Year.

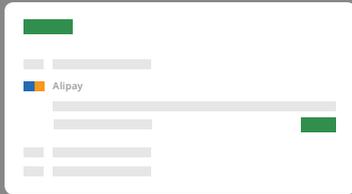
### Merchant services

Alipay's Cross-Border E-Payment Service allows buyers to pay for goods sold on international partner merchant websites using RMB. There is no need to set up a local entity or bank account, and the service provides international merchants with access to the Chinese market at a low cost.

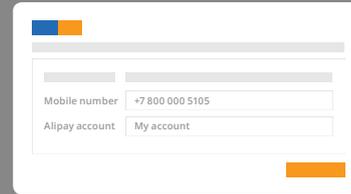


## HOW IT WORKS ON DESKTOP/MOBILE

Below is an example initial Alipay payment flow. Subsequent transactions can be made with one-click.



1. The shopper selects Alipay.



2a. The shopper can either log directly in to Alipay, or



2b. the shopper can scan the QR code from their Alipay app.

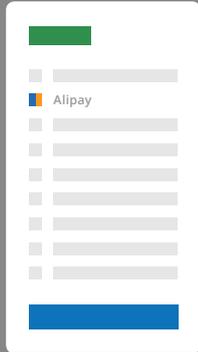


3. The shopper enters their PIN to confirm payment.

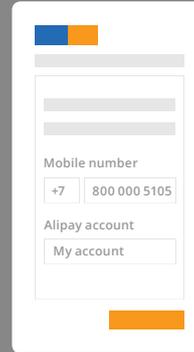


4. The payment is complete.

## HOW IT WORKS ON MOBILE



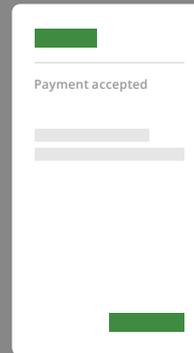
1. The shopper selects Alipay.



2. The shopper logs in either with an email address or phone number.



3. The shopper enters their PIN to confirm payment.



4. The payment is complete.

## WHAT ADYEN OFFERS

Adyen offers a full end-to-end Alipay service, ideal for merchants without a local entity. For merchants operating with a local entity Adyen can act as a gateway.

For subscription merchants, Adyen supports recurring Alipay transactions.\* Below are the detailed functionalities offered by the Adyen Alipay integration:

- No local entity is required.
- Two seamless integration flows:
  - a responsive flow where the shopper can either scan the QR code or log in with their Alipay credentials.
  - a mobile-optimized flow.
- Alipay is linked to multiple funding sources, maximizing the chance that shoppers have sufficient funds to make the purchase.
- Refunds/partial refunds are available.
- No chargebacks.
- Twelve processing currencies, including CNY, USD, EUR, GBP, JPY, AUD, CAD, NZD, HKD, SGD, DHB, KRW.
- Eleven settlement currencies, including USD, EUR, GBP, JPY, AUD, CAD, NZD, HKD, SGD, THB, KRW.
- Full reporting and reconciliation.

\* Adyen's support of Alipay recurring is reviewed on a case-by-case basis.



## **CREDIT CARDS AND OTHER PAYMENT OPTIONS**

Traditionally, Chinese consumers have a conservative attitude to saving and prefer not to use credit if it can be avoided. Despite this, China is among the world's fastest-growing credit card markets, with all cards branded UnionPay (the vast majority are single-branded as UnionPay, with a minority co-branded with Visa/Mastercard). Mastercard has predicted that China will overtake the US as the largest market for cards by 2020, by which time it is expected to have 900 million cards in circulation.

## **POINT OF SALE PAYMENTS**

UnionPay, Alipay and WeChat Pay can also be used for point of sale payments. This means that bricks and mortar merchants can easily accept payments from Chinese tourists. For Alipay and WeChat Pay shoppers can pay by scanning a QR Code and paying in-app, to accept UnionPay merchants need to ensure their payments partner is able to provide the right hardware and configuration.

## **RECOMMENDED PAYMENT STRATEGY**

For businesses to reach the majority of Chinese consumers, it is advised to support WeChat Pay, Alipay and UnionPay. This is due to the following reasons:

- The emergence of social commerce signifies huge opportunities for merchants. And WeChat Pay, with its wide coverage and rapid growth is a must-have.
- Alipay is the largest single payment platform in the market, with around 50% share and a bigger slice of the fast growing mobile pie.

- As the largest issuer in the world, UnionPay is unquestionably a vital part of the payments mix.

Merchants should also note that due to the growing number of cross-border enabled UnionPay credit cards, and cross-border payment options for Alipay and WeChat Pay, it is quite possible to achieve a good volume of transactions simply by offering cross-border payment options.



## REACH 1 BILLION POTENTIAL SHOPPERS WITH ADYEN

Adyen continues to build on its long-term partnerships with local key players including UnionPay, Alipay, and Tencent. In Asia Pacific, Adyen is headquartered in Singapore, with local staff who have extensive knowledge of payment methods, regulatory environments, and best practices across all key markets in the region. As a result, Adyen is able to stay abreast with the constantly evolving Chinese market, establishing cross-border agreements to benefit its merchants, and ensuring its manuals carry the latest information.

Further, with its single platform to accept payments from anywhere in the world, Adyen helps businesses quickly rollout into new markets and scale internationally. And as ecommerce continues to boom in China, Adyen is helping some of the world's smartest companies to drive frictionless sales with new customers across the country.

Benefits of working with Adyen include:

- One integration that connects global online and in-app payments to point of sale payments across Europe and the U.S. making the Adyen platform a true omnichannel solution.
- An unrivaled ability to process over 250 local payment methods and 150+ transaction currencies, making it the ideal partner for international expansion.
- Rich data insights that contribute to ongoing payment optimization.
- Support of the full payment chain. This includes gateway, processor, risk management and acquiring. This means that with one contract and one integration, merchants have can consolidate their entire payments operation – on a global scale.
- Data driven tools like the optimization suite RevenueAccelerate and risk management solution RevenueProtect, which work in the background to drive conversion rates and increase revenue.

## KEY TAKEAWAYS

For international merchants in the Chinese market it is advised to keep the following points in mind:

- Merchants should ensure their payments partner has the technology and expertise to keep them of the curve.

- International merchants without a local entity or joint venture can reach a significant percentage of online Chinese shoppers due to cross-border payment options offered key players such as UnionPay, Alipay, and Tencent.
- Merchants should offer a combination of UnionPay, Alipay and WeChat Pay in order to reach as many shoppers as possible and optimize costs.
- Because an increasing number of Chinese shoppers access are shopping with their smartphones, putting a mobile-optimized experience at the heart of an ecommerce strategy is strongly advised.

## Want to speak to a local payments expert?

We would love to set up a call to discuss further how we can help accelerate your expansion into China. Call our APAC headquarters on +65 3158 5188 or email [asia@adyen.com](mailto:asia@adyen.com).

An aerial photograph of a city skyline at sunset. The sky is a mix of orange, yellow, and blue. In the foreground, a body of water is visible with a small boat. The city is densely packed with buildings, and a prominent skyscraper stands out in the center-right. The background shows rolling hills or mountains under a hazy sky.

## ABOUT ADYEN

Adyen is a technology company that provides businesses with a single solution to accept payments anywhere in the world. The only provider of a modern end-to-end infrastructure connecting merchants directly to Visa, Mastercard, and 250 other payment methods globally, Adyen delivers frictionless payments across online, mobile, and in-store. Headquartered in Amsterdam and San Francisco, with offices across North America, South America, Europe, Asia and Australia, Adyen serves more than 4,500 businesses, including 7 of the 10 largest U.S. Internet companies.



wherever people pay

## Companies growing with us



Booking.com



NETFLIX



UBER



BJÖRN BORG



RIVER ISLAND



MANGO



SUITSUPPLY