

Payments Guide

Seizing the golden opportunity in China

3 payments insights you need to know about the world's largest ecommerce market

adyen

An opportunity like never before

By 2020, China's ecommerce market will reach US\$1.7 trillion.

When the online shoppers from just two Chinese holidays — Golden Week and Singles' Day — number in the billions, there's no question that China's ecommerce activity has far surpassed that of other economic powerhouses like the US and UK. In fact, China's ecommerce market is forecasted to reach US\$1.7 trillion by 2020¹ — and it's well on its way to hitting that target.

Sales volumes over hallmark holidays such as Chinese New Year (late January to early February) and Singles' Day (November 11) hit record highs year on year. Since its inception in 2009, Alibaba's Singles Day has become a shopping festival and an institution of sorts. In its 2016 edition, orders were pouring in at 175,000 per second.²

Reach shoppers in China and beyond

Many believe that international credit cards are the preferred payment method worldwide and that providing such options is enough to gain Chinese business. But, this is not the case. Chinese shoppers associate foreign card networks with additional fees, one reason why card schemes like UnionPay are popular.

It may be obvious that for businesses to flourish in the market, they should consider supporting payment methods shoppers are familiar with such as Alipay and WeChat Pay. Yet, paying attention to shoppers within the country is not enough — especially when Chinese tourists are the world's top spenders.

3 things you need to know

This report highlights 3 insights including challenges, opportunities and actions to consider when courting the 1 billion shoppers in China and beyond. They are:

- [1. The rise of luxury shopping within China](#)
- [2. Earning the Chinese dollar outside China](#)
- [3. The growing importance of unified commerce](#)

Also, learn about the key Chinese payment methods and how Adyen helps you seize this golden opportunity.



Insight #1

The rise of luxury shopping within China

In 2017, 47% of the world's retail commerce volume is expected to come from China.

Influencing factors within

Shrewd Chinese shoppers, suspicious of the authenticity of luxury goods within China, have turned to shopping while travelling or using marketplaces and *daigou* (courier services that buy on the shopper's behalf). However, clampdowns on fake goods have limited unauthorized sales from such channels and led to an increase in domestic purchases.

Goldman Sachs also reports greater spending by consumers who are increasingly shopping online, plus omnichannel shopping that bring large ecommerce platforms and brick-and-mortar retailers together.¹ A rebound in retail volume is forecasted too, as a three-year anti-corruption campaign in China ends.³

These factors contribute to the 47% of world retail ecommerce volume that is expected to come from China in 2017.⁴

Global turns to China

Through to 2020, the global luxury market is expected to slow by an estimated 2 to 4 percent⁵— leading many brands to turn their attention to China where the lucrative ecommerce industry is worth US\$785 billion.⁶

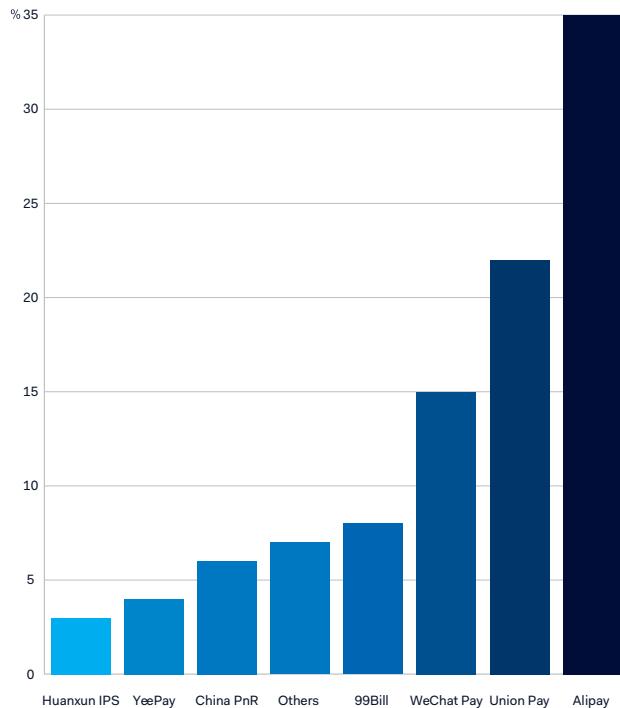
But while China presents huge opportunities, even one of the most successful online luxury sites, Farfetch, concluded entering China is no easy task.

“There are multiple factors working against foreign brands: local payments, user interfaces and customer behavior all have regional nuances that outsiders struggle to adapt to,” said José Neves, CEO and founder of Farfetch.⁵

Customized strategies for the market

Brands can't simply use strategies that worked elsewhere and expect them to apply in this market. China's media limitations — often referred to as "The Great Firewall of China" — render social media campaigns on Facebook and Instagram ineffective. As such, businesses look to social media like WeChat and Weibo.

Needless to say, payments strategies should also cater to the needs, wants and habits of Chinese shoppers.



Transaction volume in Q1, 2017

Source: An Overview of Popular Online Payment Methods in China, analysys.cn, August 2017

Most popular Chinese payment methods online

As you can see from the chart, the top 3 payment methods are Alipay, UnionPay and WeChat Pay — payment options businesses should keep in mind if they have or want to have online and mobile presence in China.

With 938 million monthly active users⁶, WeChat is the app for many Chinese users to play games, send money, order food, read the news, shop, book a doctor's appointment and, do just about anything. Considering over half of WeChat users spend at least 90 minutes per day on the app, it is an important platform for a payments strategy built around your users' habits.

Marketplaces such as JD.com and Alibaba's Tmall are great for businesses, as they come with the right payment methods built in. But brands that prefer greater control over their inventory and business may choose directly operated online stores — and the opportunity to convert with a streamlined payments strategy.

High shopper expectations

Local payment methods, endless aisles and many optimizations are all about making shopping more enjoyable. Thanks to the increasing Internet penetration and a population that is used to online shopping where same-day delivery is the norm, customer expectations are high.

Insight #2

Earning the Chinese dollar outside China

By 2025, Chinese tourists are expected to spend over US\$255 billion abroad, almost double that of the United States.



Strong global spending power

The spending power of Chinese consumers shouldn't be ignored outside of China, as Chinese shoppers account for nearly a third of global luxury purchases.⁷

For Chinese luxury consumers, shopping is on top of their itineraries. In 2016, Chinese travellers venturing abroad spent US\$261 billion on foreign travel, a 12% increase from 2015⁸, and a new record for global outbound tourist spending.

By 2025, Chinese tourists are expected to spend over US\$255 billion abroad, almost double that expected of the United States.⁹

Fu Er Dai (Rich Second Generation)

While the rise of the Chinese luxury shopper is nothing new, what's notable is that half of Chinese travellers are millennials, age 15 to 29, who are less price-sensitive and more willing to spend money on indulgences than previous generations. Because of their spending power, they've been called the Rich Second Generation.

Increasingly upwardly mobile, these millennials tend to make extensive plans of their trips before they ever leave the ground. To help your brand gain traction, make sure the brand discovery journey starts in China even if you don't have a physical store (yet). When they are abroad, it doesn't mean they aren't still connected to their favorite Chinese platforms and payment options.



The millennial Chinese luxury shopper

Popular luxury shopping destinations

United States, United Kingdom, France, Italy, Canada, Singapore, Thailand, Australia, Japan, South Korea, Hong Kong, Macau^{10,11}

Shopping list

Iconic monogram, limited edition must-haves, exclusive items worn by KOLs (key opinion leaders) and influencers as seen on social media¹²

Devices

Smartphone, laptop, desktop¹³

Apps

WeChat, QQ, Baidu, Taobao, UC Browser, AliPay¹⁴

Spending

US\$8,000 per trip (depending on destination and individual)¹⁵

Payment methods (online, mobile and in stores)

Alipay, WeChat Pay, China UnionPay, cash, pre-paid credit cards¹⁴

Reasons for shopping overseas¹⁶

- 76.2% Cheaper than China
- 70.6% Can't buy in China
- 65.9% Authenticity
- 6.7% Following the trend

Point of sale (POS) as a point of advantage

POS is an important platform if you're targeting Chinese travellers (or travellers from anywhere around the world, for that matter).

Brand experience doesn't end/start at the store; you should consider the benefits of offering payment methods where your shoppers are, such as the social networks they are on. Plus, make sure your payment strategy enables an endless aisle experience so you don't lose your customers to competition.

What Adyen's solution can offer global businesses

Providing shoppers' preferred payment methods makes shopping easier for them — and conversion simpler for you. Adyen supports Alipay, WeChat Pay and UnionPay allowing you to collect ecommerce, mobile and point of sale payments from these high-end shoppers seamlessly. Better yet, you can support all these payment methods with one integration. Managing everything is easy via the same backoffice.

Making shopping more enjoyable for shoppers

With built-in Dynamic Currency Conversion (DCC) and tax refunds, we help businesses take luxury shopping a notch higher by making it more pleasurable. After all, who likes queuing for VAT and other tax rebates when you have a flight to catch to your next shopping destination?



The growing importance of unified commerce

From brand discovery to purchase and after-sales service, you can make or break a relationship with the shopper.

A market with very high expectations

It's well known that the very competitive market in China and industry leaders like Alibaba & JD.com have set a very high bar for great shopping experiences. And it's not just luxury shoppers who have come to expect such elevated standards.

While companies view strategies and technologies in terms of platforms: mobile, online, social, and in-store, your customers don't differentiate them. To shoppers, it's simply an experience they enjoy or not.

From brand discovery to purchase and after-sales service, you can make or break a relationship with the shopper. It's the very basis of omnichannel shopping that promises a

smooth journey no matter where the shopper is. Yet, disconnected sales channels still cause friction within the shopping experience — which means drop-offs and lost income for brands — paving the way for unified commerce.

One example is how Chinese shoppers buy online from overseas websites, affectionately called *hai tao* or “scouring the seas”. Buying overseas via the Internet still presents Chinese shoppers with issues, including:

- Lack of trusted payment options
- Challenges with shipping and logistics
- Limited product selection

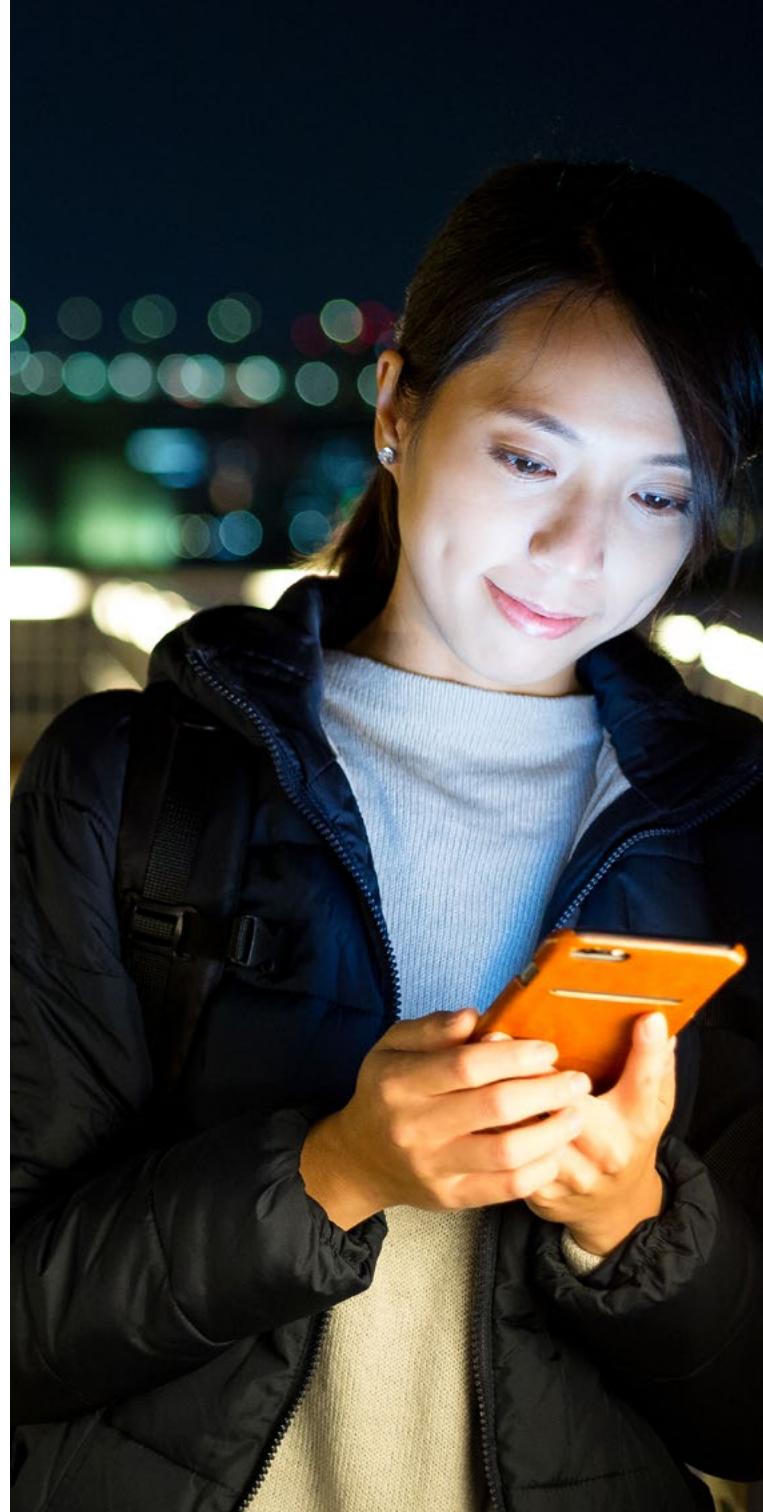
Unifying shopping and payments

Unified commerce aims to turn the shopping experience into one that's truly seamless and frictionless right through to the back-end technology. Instead of building the environment around the shopper, unified commerce sees the individual consumer as the point of sale, and central to sales.

By keeping the entire shopping experience within the brand environment, third party interactions along with confusion and frustrations are removed. Adyen's solution lets businesses offer various payment methods with one integration, making the move towards unified commerce smoother.

A unified solution with Adyen

By thinking payments first, you don't just create smoother shopper journeys but pave the way for greater conversions and revenue. Find out in the next section how you can simplify payment and seize the golden opportunity in China.



Alipay at a glance:

- 520 million users, as of August 2017
- Adopted by 80,000 retail stores worldwide
- Started as a financial wallet, looking to be a “lifestyle super app”

China's largest payment method

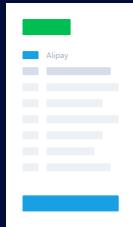
With around 50% payments market share, Alipay is the largest payment method in China. It is owned by ecommerce conglomerate Alibaba and provides payment services for major Alibaba ecommerce platforms such as Taobao and Tmall, as well as over 400,000 Chinese businesses.

Essentially it is a third-party online payment platform that provides an escrow payment service to reduce transaction risk for shoppers. Shoppers have the option to add multiple funding sources to their Alipay wallet.

A few easy steps to pay, no matter the channel

Not only is it simple for you to set up Alipay, shoppers can also enjoy a frictionless experience whether they are shopping online, on mobile or in store. Here's how a shopper pays with Alipay:

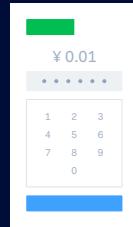
On mobile



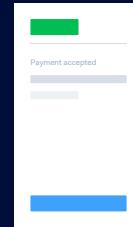
Selects Alipay
on mobile



Reviews
transaction



Enters
PIN



Completes
payment

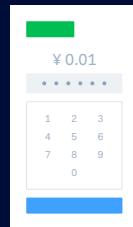
On the desktop



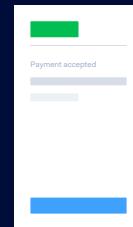
Gets QR code
on desktop
screen



Scans code
with mobile



Enters
PIN



Completes
payment

In store



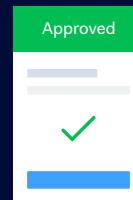
Selects Alipay
on POS



Scans code
with mobile



Confirms
payment



Completes
payment



No local entity required for merchants

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

Accept Alipay with Adyen's advantages

Supporting ecommerce, mobile and POS payments, Adyen's full service Alipay solution includes reconciliation, reporting and settlement services. Not only is it ideal if you don't have a local entity, but merchants operating with a local entity may also use Adyen as a gateway. Plus, Adyen supports recurring Alipay transactions for subscription businesses.

Supported channels

Online, mobile & point of sale

Local entity required

No

Payment currencies

AUD, CNY, CHF, EUR, GBP, HKD, JPY, SGD, USD

Settlement currencies (like-for-like)

AUD, CHF, EUR, GBP, HKD, JPY, SGD, USD

Refunds

Yes

Partial refunds

Yes

UnionPay at a glance:

- Over 6 billion cards issued worldwide
- Accepted in more than 125 markets
- One integration to support all UnionPay flows (POS, ExpressPay/SecurePlus, SecurePay/UPOP)

Largest card network in China and the world

UnionPay has a market share in China of over 90% and its APAC growth is forecasted to be 208% — fueled by UnionPay International. By offering UnionPay, your business can reach customers of the world's largest card network.

Plus, with Adyen offering all available integrations in POS and ecommerce, your business can enjoy maximum benefits no matter how shoppers pay.

UnionPay is the only interbank network in the market (excluding Hong Kong and Macau) linking ATMs of 14 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.

Seamless and frictionless, wherever people pay

Adyen's fully integrated Direct API solution lets your customers shop and pay easily online, on mobile and via POS terminals in stores. With over 6 billion UnionPay cards issued (85% debit and 15% credit cards), we understand that debit card payments continue to be a significant part of your payment strategy. Which is why we ensure customers paying via debit cards also enjoy a smooth shopping experience online.

Our UnionPay integration supports ExpressPay/SecurePlus and SecurePay/UPOP all in one single solution which makes payments, reconciliation and reporting easier.

Letting shoppers pay the way they want

At Adyen, it's not just about building a unified commerce solution but a solution that puts the shopper first. We take into consideration the various ways people shop, and a typical shopper journey could look like:



Buying at home

A shopper orders item at home on a desktop and saves his card details.



Shopping on mobile

He remembers he needs another item and adds it to his cart on his mobile app.



Purchases in store

He walks by the physical store and makes a payment with the same card.



Relationship with brand

From the shopper's card, all purchases and related loyalty rewards are linked.



Accepting UnionPay at point of sale

Chinese tourists spent 12% more on tourism abroad in 2016, reaching US\$261 billion, according to a report by United Nations World Tourism Organization (UNWTO).⁹ This immense growth means that China continues to lead international outbound tourism, and is well ahead of United States, Germany, United Kingdom and France in the list of the world's top five spenders.

What Adyen offers

Providing Chinese shoppers with familiar payment methods while they are overseas lets them shop like they are "at home".

Adyen processes UnionPay at the point of sale across Europe, the United States and Australia — some of the most popular destinations among Chinese travellers — so merchants in these countries can easily accept payment. This is important for Chinese shoppers who are extremely wary of foreign card networks associating them with additional fees if they were to pay via those networks.

Easier, more secure ecommerce payment with UnionPay

Unlike other schemes, authentication occurs entirely on the merchant website whether it's for credit or debit cards, with the shopper simply providing an SMS code. Without any confusing redirects, this facilitates payment and increases your conversion as well as income.

How a shopper pays with UnionPay on ecommerce



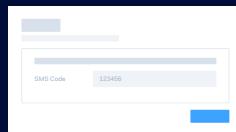
1. Selects UnionPay on merchant site



2. Enters card details on merchant site



3. Enters SMS code for authentication on merchant site



4. Completes payment

Adyen also supports SecurePay/ UPOP with our UnionPay integration

While you may be familiar with UPOP (UnionPay Online Payments), SecurePay/UPOP offers a fully authenticated redirect that lets shoppers pay with any of the several underlying cards — most importantly, UnionPay-issued debit cards.

What Adyen offers with UnionPay for ecommerce

Besides providing a seamless, frictionless journey for shoppers on the merchant page, Adyen's integration offers merchants the following benefits:

Direct integration for

All cards (debit, credit and prepaidcards)

Local entity required

No

Chargebacks

Only if transactions are not authenticated

Authentication

Dynamic authentication using Adyen RevenueProtect

Suitable for

Ecommerce (One-click/recurring payments) and POS

Processing currencie

All Adyen currencies

Settlement currencies (like-for-like)

AUD, CAD, CHF, EUR, GBP, HKD, JPY, SGD, USD and CNH (offshore yuan) + other currencies on demand

Refunds

Yes

Partial refunds

Yes

WeChat Pay at a glance:

- 938 million WeChat users worldwide
- 200 million WeChat Pay users ⁷
- Digital wallet and part of the social ecosystem of WeChat

Fast growing payment method

Just in 2014, AliPay accounted for more than 80% of mobile transaction value. However in the first quarter of 2017, AliPay took about 54% share while WeChat Pay took 40% ¹⁷ – merely 3 years after its introduction of digital 'red envelopes', a peer-to-peer payment over the WeChat app.

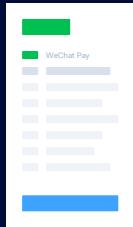
Easy payment no matter where shoppers are

Adyen supports payments that are initiated from within the WeChat app, either via the merchant official account or via the in-app web browser. This is especially helpful for global merchants in providing a seamless shopping and payment experience for WeChat users.

Responsive design for the best experience across devices

With our flexible integration and responsive design, shoppers can pay in-app or by scanning a QR code based on their devices. Here's how the shopper pays with WeChat Pay:

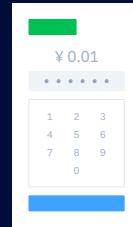
On mobile



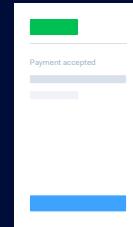
Selects
WeChat Pay



Reviews
transaction



Enters
PIN



Completes
payment

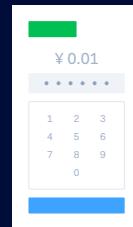
Inside the WeChat app



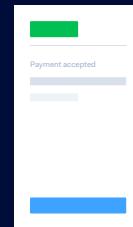
Shops inside
WeChat



Reviews
transaction



Enters
PIN



Completes
payment

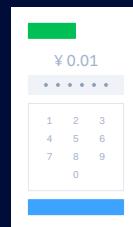
When shopping on desktop



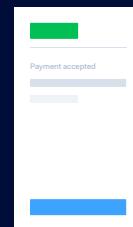
Scans QR
code on
desktop via
mobile



Reviews
transaction



Enters
PIN



Completes
payment

The next step in social commerce

WeChat Pay is generating a lot of interest from luxury retail and travel businesses, especially with today's Chinese shoppers who are upwardly and socially mobile.

Many of Adyen's luxury retailers, airlines and booking clients are already exploring WeChat Pay payment. Beyond luxury shopping, many other brands are also quickly adding WeChat Pay to their available payment methods.

WeChat Pay has become an integral part of some 938 million people. By processing these payments, we are closing the loop on an ecosystem that allows Chinese shoppers to chat, browse and buy, all in one place — making shopping as easy as chatting to your friends.

Accept WeChat Pay with Adyen's advantages

Adyen offers a full service integration to WeChat Pay, supporting all three flows with one integration, with no need for a local entity. This also includes reconciliation, reporting and settlement services.

Payment data can give you a lot of insights on your customers such as who they are, their behavior, needs and preferences. As Chinese live the 'mobile-first' philosophy, with more programs designed for mobile before desktop computers, you learn more about your customers with every interaction.

From offering loyalty rewards, cross-selling to upselling, you can always reach the right crowd in the best ways possible.

Supported channels

Online, mobile & point of sale

Local entity required

No

Payment currencies

AUD, CNY, EUR, GBP, HKD, JPY, SGD, USD, NZD

Settlement currencies (like-for-like)

AUD, CAD, EUR, GBP, HKD, JPY, USD, NZD

Refunds

Yes

Partial refunds

Yes

Seize the opportunity in China with Adyen

With Chinese spending growing at such staggering rates both within China and globally, businesses need to move quickly in making sure the right payment infrastructure and strategies are in place.

Adyen's solution connects global online and mobile payments to in-store payments across Europe, US and key markets in Asia, making our platform ideal for the world of unified commerce. We process key local payment methods (including the top Chinese payment methods Alipay, UnionPay and WeChat Pay) and over 150 transaction currencies — an advantage for business expanding globally.

A simple full payment chain solution

Supporting the full payment flow, including gateway, processing, risk management and acquiring in one platform, we remove the need for additional third parties. So you can process payments globally with just one contract, one integration and one set of reporting. This effectively simplifies and consolidates your entire payment operation on a global scale.

Using data driven tools like our optimization suite RevenueAccelerate and risk management solution RevenueProtect, we constantly look at ways to drive conversion rates and increase revenue for our merchants.

A partner that keeps you ahead of the curve

Adyen gives you what it takes not only to keep up with ever-evolving shopper expectations, but also the latest payment technology so you stay ahead of the competition. With the best experts in-house, we ensure prompt roll-outs so your shoppers get the best experience and you are always one step ahead.

Take your business to the next level now

Learn how you can take full advantage of Adyen's solution to accelerate your expansion into China. Or discuss with our payments experts on the best strategies for your business by contacting us at www.adyen.com.

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