

MARCO GERVASI



# EAST COMMERCE

**A JOURNEY THROUGH  
CHINA E-COMMERCE AND  
THE INTERNET OF THINGS**

FOREWORD BY JEFF XIONG  
FORMER CTO, TENCENT

WILEY

# **East-Commerce**

**A JOURNEY THROUGH CHINA E-COMMERCE  
AND THE INTERNET OF THINGS**

**Marco Gervasi**

**WILEY**

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## Foreword

It often takes an outside eye to help us more clearly see where we are, and where we could be going. But Marco Gervasi is no outsider. He is one of those rare individuals able to thrive within the borders of both East and West, linking together the realms of business and technology to extract a broader view of what is happening in global technology.

In December of 2014, I co-hosted the first *IDEAS Summit on the Internet of Things and Humans*, in Shenzhen, China. Marco and I were lucky enough to share a dinner table, and it was there that he described to me the book he was writing on China's e-commerce industry and the Internet of Things (IoT).

Marco had already interviewed an impressive array of thought and industry leaders across China and Asia. And so our conversation naturally led to many others, wherein I rapidly realized that what Marco was writing was a seminal analysis on China's technological development to date. By writing this foreword, not only do I want to emphasize that this is a must-read for business and technology leaders globally, I also want to echo his views—that it is in this current point in history that China is finally emerging as a global player in technology.

Over the past few decades, China's technological, and perhaps even industrial, development has been driven by models from the West. Having been the CTO of Tencent—now the world's fourth largest Internet company by revenue (2015)—for eight years, I have witnessed many changes in the market. In the early days we were not immune to the temptation of simple adaption from the West. At that point in time, speed was essential to establishing one's foothold in the market, and many companies favored “copying” over “creating.” However, the last few years in China have seen a dramatic change in how products are developed. As our country's corporations have matured, we have begun to look deeper at consumer needs, and have become adept at evolving existing business and technological models into new models that look nothing like their Western counterparts.

At Tencent, our QQ instant messaging service had long held the largest share of the instant messaging market. So, when we decided to launch WeChat in 2011, we decided to create something resolutely Chinese. We did this by building our design upon the unique social habits of Chinese users, which were primarily based on intimate social circles. Because of this insight into Chinese consumers, we managed to build WeChat into the largest mobile communication tool in China in a couple of years. Globally, it is now used by over 600 million users in many countries. In China, WeChat is used not only for interpersonal needs, but also as the de facto communication tool for doing business.

But why stop at a communication tool? WeChat strengthened its foothold by helping people to connect the digital world with the physical. It has become a platform for users to access all their lifestyle needs, allowing them to communicate with smart devices, purchase offline services and goods, send digital payments, and interact with companies and brands. But WeChat's current shift into a lifestyle platform is just one beacon of the emerging online-to-offline (O2O) and IoT revolution in China.

About one year ago, I departed from Tencent to launch my new fund, Seven Seas Ventures. The fund's mission and belief are that China's rapid and pervasive diffusion of technology (most notably its astounding smartphone penetration) over the past years will make China one of the most important growth beds for IoT in the next decade. This is why we are actively investing in high-tech startups with the potential for global technological disruption.

There are certain times in history where the cards of nations are shuffled significantly. Living in these times, we can sense that things are rapidly changing, possibilities flashing before us, but with no obvious landing point. Yet, at the same time, we know that when things settle down, the landscape of the world will look significantly different. At these turning points, attempts at making firm predictions are often difficult. However, in his book, Marco, armed with the collective knowledge of the leaders of China's tech industry, has allowed us a rare glimpse into how China will shape the global technological model, not only for the year to come, but also for the next decade. Certainly, I hope to play a role in this change, and I hope that this book may also inspire you too.

Jeff Xiong  
Founder of Seven Seas Ventures  
Former CTO of Tencent

## Preface

**W**hat would you do when you suddenly have an intuition? A gut feeling about something not visible yet, but that still makes sense to you. Normally you could have two reactions. You acknowledge your feeling, but you do not act upon it, or you'd try to see it through. I chose the second way.

When I sat down to write *East-Commerce* in 2014 I intended to tell the story of a quest and raise a very provocative question *What if China has developed a technological model so advanced that eventually will spread around the world?*

As chapters piled up, it dawned on me, back then, that publishers might dismiss my theory as premature. Alibaba was certainly making news, but a new technological model seemed like a far stretch. "Is there a story to tell?" They would ask me each time I pitched my book. When I approached the end of my writing I asked myself whether I had arrived at the stadium too early for the game. An *East-Commerce* was not evident yet, but I could not wait for publishers to acknowledge it. This is when I discovered Amazon self-publishing tool. By basically uploading my word files, in just a few hours, I could be visible on The Everything Store in the Kindle section. And this is how I proceeded.

When the e-book came out, I was not sure what would happen next. I had finally put, in black and white, the summary of a very long search where I interviewed over 200 people including more than 20 CEOs throughout 4 continents. So I decided to make a little experiment. I printed the book and went on a roadshow to present it at various conferences. This is when things started to get interesting.

As word came out that the first book on China e-commerce had been written, people were immediately interested for the most disparate reasons. It is always fascinating to see how differently individuals can use the same piece of information. Investors reached out for insights on who would be the best horses to bet on. International businesses contacted me to learn more about the innovative business models described in my book. Finally, Chinese companies

asked me where East-Commerce is heading *Will it take over America and Europe too?* From what I was seeing, I had arrived at the stadium at the right time!

Meanwhile, something else was happening. The powerful technological forces detailed in my book certainly did not stop when it first came out. On each leg of my roadshow, people wanted to know more. To answer their questions I constantly monitored Chinese e-commerce developments. I also came in touch with many more companies, Chinese and International, and spent a great deal of time understanding how they operate. Hence, I was inevitably already updating the book in my mind. This is why I decided, together with my newly acquired publisher, that writing an updated and expanded version of *East-Commerce* would make a great deal of sense.

In this new edition I have expanded several sections. For example, O2O (online-to-offline) has seen an incredible explosion in 2015 and talking to Baidu, at the forefront of this sector, gave me a privileged access to what is happening. This is when I have learnt that O2O is pushing a macro shift in the economy between a consumption-based growth in favor of services lead growth. In fact, services in 2015 have accounted for more than 50% of China's GDP.

Getting in touch with retail companies and new e-commerce platforms helped me craft a new chapter on how a well-known fashion brand has conquered China's e-commerce market. But this is not all. Something quite unique is happening. Until 2014 BAT-X, China's biggest platforms, were competing against each other in many different services from group buying to taxi hailing apps. Lately, we are seeing platforms striking alliances among themselves. They are starting to realize that peace and cooperation bring better results when exploring uncharted territories.

East-Commerce is also going full steam. Chinese Internet and e-commerce platforms are now investing abroad at a growing speed. In the Indian market, Alibaba has made important moves, successfully replicating its Chinese model. In the African market, Tencent is making a great leap forward so as Baidu and Xiaomi in other emerging economies. The intuition, the gut feeling, is now fully visible.

But there is an important issue I shall address here. In this book I will often mention that while some things are constantly evolving in China, others remain unchanged. Since the technology world moves at an exponential speed, the companies mentioned here will

inevitably evolve, consolidate or even disappear. While I follow these changes in my blog, the scope of this book isn't to be up to date on who's who and what they are up to. It is not either to predict which companies will come out ahead and which will wind down in flames. It is to explain the underlying principles behind e-commerce and the Internet of Things. The trends and dynamics described here will need at least a few more years to come to full maturity.

This brings me to address a pressing question that relentlessly concerns investors and markets *Is China's e-commerce massive growth sustainable?* In other words *What happens if the economy stops growing?* When looking closely at what is happening, we can see that nothing has really changed. The underlying consumption growth is still there. But this is not actually the point.

I will elaborate my answer. China has been a key source of growth for international companies for decades, but in 2015 GDP's growth has slowed to a figure deemed to be somewhere between 5 and 7%. The share price of some of China's e-commerce and Internet platforms has decreased in value – sometime even considerably. Hence the world is questioning China's future. According to a study from a well-known Think Tank, The Demand Institute, and Nielsen – *Sold in China* – in the next decade China's GDP growth will slow even more. Why is it so? China is trying to shift from an economy dependent on export and investments toward domestic consumption. Chinese economy appears to look more and more like a two-headed dragon. One side is slowing down – export and investments – while another – the tertiary sector – is still growing. Anyhow, whether or not China makes this transition, The Demand Institute predicts that consumption might still grow up to 60% in 10 years. So consumption remains strong.

What role do Internet and e-commerce play in this growth? They are the underlying force behind a new class of consumers: the “connected consumers”. Violette, the main character of this book, is a clear example. According to another report from The Demand Institute – *No more Tiers* – by 2025 the connected consumers will account for 80% of growth in consumption and connectivity will almost single handedly sustain their growth, giving them access to information and retail channels.

This is why, in my opinion, Internet and e-commerce are so important in China despite how much the GDP will grow. They have become part of this new consumers' culture, enhancing their



life through virtualization and have brought an irreversible change. Those who get caught up in measuring China's technological revolution by purely looking at shares prices or statistics – instead of as phenomenon that has brought a massive shift in the society and business – are missing the global impact of this change.

Eventually I will stop updating this book, but for the moment I am just enjoying the chance to keep sharing my findings.

Marco Gervasi  
Shanghai  
February 2016

## Acknowledgments

**T**hey say that writing a book is like becoming a parent. At the beginning your child takes everything out of you, and later it gives it back to you piece by piece. Though that sounds a bit extreme and somewhat limiting, I tend to agree with this, at least in terms of writing a book. At the beginning of this project I told myself that I could finish the very first book on China e-commerce in just four months. I simply wanted to write a small guide. My estimate was ambitious, and, as I discovered, unrealistic; days turned into weeks, which eventually turned into a 12-month marathon.

In many ways writing a book is also like launching a startup. Plans never go quite as predicted. But I like to think that it is often for the best.

Both a child and a startup need hard work and support. And in both cases, the outcome is a mix of its DNA, or of an idea, and the environment where the idea grows.

Looking back, I realize that the original idea of this book had been developing over the course of many years, with experiences gathered from around the world. Most of its genes were sort of free floating in my notepads—where, once in a while, I would write down comments, opinions, sketches and most of all events and meetings that inspired me—before the process of arranging them in this book and weaving a story even got started.

It took me a while to find the right team to transform my ideas and stories into the structure of this book. The small guide that I had originally intended turned into a manual, which eventually turned into a tale. I went through a series of trials and errors, and the beauty of it was that my ideas were enriched by the people that I met along my journey. Their suggestions and points of view made my child grow up stronger and more aware of the world it was living in.

I begin these acknowledgment pages with Jennifer Johnson. She helped me in the very challenging task, so far one of the most challenging, of patiently weaving my stories until they turned into

this book. I will always be grateful for the uncountable number of hours she dedicated to discussing ideas, editing my drafts and giving me suggestions.

I owe a huge debt to another friend, Toby Overmaat, who was frank enough to tell me, four months into the writing process, that my book was full of information, but it was bereft of a story. Being a lawyer, I thought that I knew how to write, but I could not have been more wrong. Toby has been a strong supporter, providing outstanding advice to craft the book's outline, helping me explain what East-Commerce really means and creating the three pillars. She has watched the book like a mentor, providing great support and stepping in whenever necessary.

I am indebted to the people whose experiences form the backbone of this book: Porter Erisman, Jacky Xue, Fan Fan, Bruce Nikoo, William Tanuwijaya, Jeffrey Kang, Junling Liu, Toine Rooijmans, Onno Schreurs, Dexter Lu, Kunal Bahl, Thibault Villet, JP Gan, Violette Kong, and everyone who has contributed by sharing their experience. I am grateful to have been able to recruit these extraordinary people as characters—and even more grateful for the opportunity to have learned from them in the process.

In conducting the research necessary to understand what e-commerce really is and how it works, a special thanks goes to Edoardo Carfagna, who was my research analyst and traveling mate for the first leg of my journey through China e-commerce. He brought the spirit and the critical voice of the younger generation into analyzing the impact of mobile on e-commerce, something I had initially underestimated. I also thank him for suggesting *East-Commerce* as the title for this book.

I am indebted to Enrico Mattoli, Erica Poon Werkun, and many of their colleagues at UBS Hong Kong, for their continuous support and the opportunity to present my books and ideas to their unique audience. And finally, for granting me access to some of the most inspiring leaders in the world of Asian e-commerce.

A special thanks goes also to Jeffrey Kang and Feng Li from Cogobuy for introducing me to the fascinating world of the Internet of Things. I could have not written this very important part of the book if they hadn't been willing to spend time talking with me. A special thanks goes also to Alessandro Duina and to Prodygia.com for helping me transform this project into an online education tool and

for supporting me with my bold plans. I have finally found my “bone to chew”.

Finally, I would like to thank Jeff Xiong for accepting to write the foreword to this book and for showing me that technology has no more borders.

Like a father looking at his son on the day he turns 18, there were times when joy and sorrow alternated, when he gave me doubts and worries that kept me awake, but I never questioned the pride I felt as he was growing up. He is now free to live in the world and make it more special.

This is how I see my book and my journey so far.

## About the Author

**Marco Gervasi** is the founder and managing director of The Red Synergy where he provides management consulting assistance to leading international and Chinese companies, venture capital funds, and Internet platforms investing both in and out of China. He also advises leading Chinese companies on how to become exponential organizations. He has over twelve years of senior corporate management experience in China and is one of the world's leading experts on China e-commerce and IOT. He is a keynote speaker at international conferences on technology, a guest writer for various newspapers and magazines both in Asia and Europe, and an active technology blogger [www.marcogervasiwrites.com](http://www.marcogervasiwrites.com). He lives in Shanghai.

## The East-Commerce Video Course

**M**y goal is that this book is not the end of the conversation, but the beginning.

Together with the education site Prodygia ([www.prodygia.com](http://www.prodygia.com)) I have prepared a 60-minute video course on China e-commerce (Your Introductory Course on E-Commerce in China And Why It Matters To Your Business) that you can find at <http://prodygia.com/courses/23-your-introductory-course-on-e-commerce-in-china-and-why-it-matters-to-your-business>. Here you can explore topics critical to China e-commerce—from understanding China's unique e-commerce model, to starting an e-commerce business in China. Book readers will be entitled to a 50 percent discount on the course using the promo code: `ecomml`.

I also invite you to continue the discussion with me on the developments of China e-commerce and the Internet of Things by following the book's website: <http://www.east-commerce.com>. Here you will find my blog (A Quote on Singularities) where I will update readers weekly on the latest news on technology from around the world.

Finally, you can reach me at [marco.gervasi@east-commerce.com](mailto:marco.gervasi@east-commerce.com).

## Illustration Credit

**T**he illustrations in this book were drawn by Shelby Chen on an iPhone. Shelby began to draw finger sketches on his first iPhone in 2011 to capture snippets of his life. These small pieces of digital art take 20–30 minutes to sketch and are often posted on social media and also featured in the Financial Times Chinese website in 2013. Shelby also dedicates part of his time to *Wings of Music*, a children's charity program he helped create as a founding trustee in 2009, teaching underprivileged children classical music ([www.wingsofmusic.org](http://www.wingsofmusic.org)).

Shelby was born and raised in Beijing and worked in the U.S. during the 90s. He is a managing partner of a leading Chinese venture capital firm focused on investing in environment technology companies. His work takes him around China and the world.

He lives in Beijing with his wife, Jeane, and daughter, Claire.

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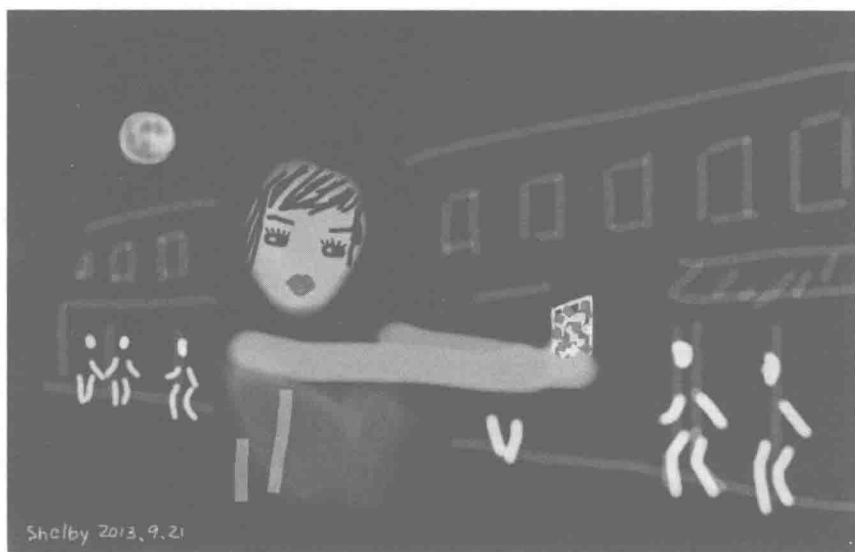
# Contents

Foreword	vii
Preface	ix
Acknowledgments	xiii
About the Author	xvii
The East-Commerce Video Course	xix
Illustration Credit	xx
Chapter 1 <b>The Great (Technological) Leap Forward</b>	1
Chapter 2 <b>A Perfect Blend</b>	15
Chapter 3 <b>A New Breed of Companies</b>	29
Chapter 4 <b>Transformed Lives</b>	51
Chapter 5 <b>A Super-Connected World</b>	67
Chapter 6 <b>It Is All About Social</b>	83
Chapter 7 <b>Moving East (and West)</b>	99
Chapter 8 <b>The Connected Brand</b>	115
Chapter 9 <b>What Happens Next?</b>	129
Endnotes	137
Index	145



# CHAPTER 1

## The Great (Technological) Leap Forward



**K**ong Wei—or Violette, as she much prefers—puts on her black jacket, switches off her computer and powers down her office ready to leave. It's a Wednesday in May, one of Violette's favorite months; it is the start of the rainy season that nourishes crops, so meaningful even here in the heart of Shanghai's Xin Tian Di business district.

At 37, Violette is a veteran merchandiser who, like many ambitious Chinese, has worked her way up the ladder. She began her career