



China's Digital Revolution

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Manufacturing companies dominated *Fortune Magazine's* first list of the 500 most profitable US companies in 1956; in stark contrast the latest ranking in 2018 is dominated by internet companies. The digital revolution is clearly transforming the way the whole world does business.

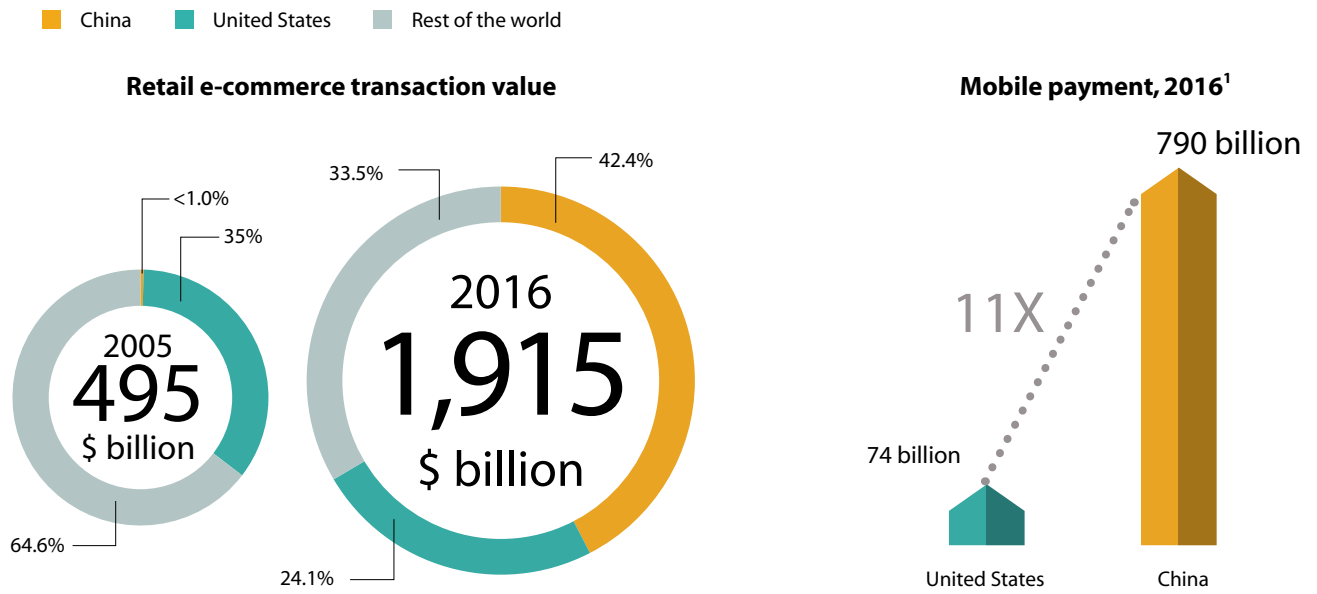
A natural effect of this revolution is that businesses, and sometimes entire industries, are becoming obsolete even as new players emerge. This is what led Austrian economist Joseph Schumpeter (1883–1950) to coin the term 'creative destruction' to describe how creativity is at the heart of market economies, where innovations make traditional companies obsolete. It all began with the Industrial Revolution in the UK, in the 18th century, which included James Watt's invention of the steam engine in 1769. That revolution transformed the world; while some countries prospered, others lagged behind. We are now in the midst of another revolution, the digital.

This digital revolution started in the 1980s with Tim Berners-Lee's creation of the World Wide Web and in less than 30 years the internet has made a profound impact on the world economy. China has been a particularly interesting case. The opening up of the Chinese economy under the leadership of Deng Xiaoping in the late 1970s, dovetailed with the creation of the World Wide Web. Since then, China has experienced both revolutions – industrial and digital – almost simultaneously. Whereas it took the West almost 300 years to implement all the changes that resulted from the industrial revolution, China did it in less than three decades, transforming itself from an underdeveloped country into one of the largest economies in the world. The pace of China's Digital Revolution has been even faster. The country is becoming a leading force in the world's digital transformation, which is creating a new driver for the Chinese economy.

In a McKinsey Global Institute discussion paper

comparing 2005 and 2016 retail e-commerce transaction values worldwide, China's numbers went from miniscule in 2005 to representing 42.4% of the world's transactions in 2016. In terms of mobile payments, China is by far the largest user on the planet, with 11 times the number of users in the United States.

Figure 1 - China's Retail E-commerce

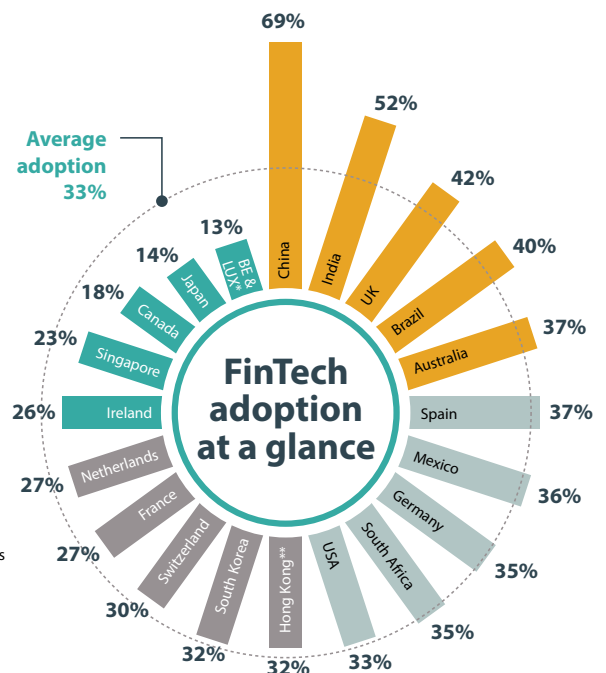


1 Refers to third-party payments conducted through mobile transactions. For China, mobile payments exclude bank or UnionPay credit card transactions, digital wealth management, and digital finance. For the United States, payments are in-person payments on mobile between buyers and sellers, and remote payments on mobile devices.
 2 Defined as a startup valued at \$1 billion or above.
 NOTE: Numbers may not sum due to rounding.

SOURCE: PitchBook; Dealogic; eMarketer; iResearch; TechCrunch CrunchBase Unicorn Leaderboard; McKinsey Global Institute analysis

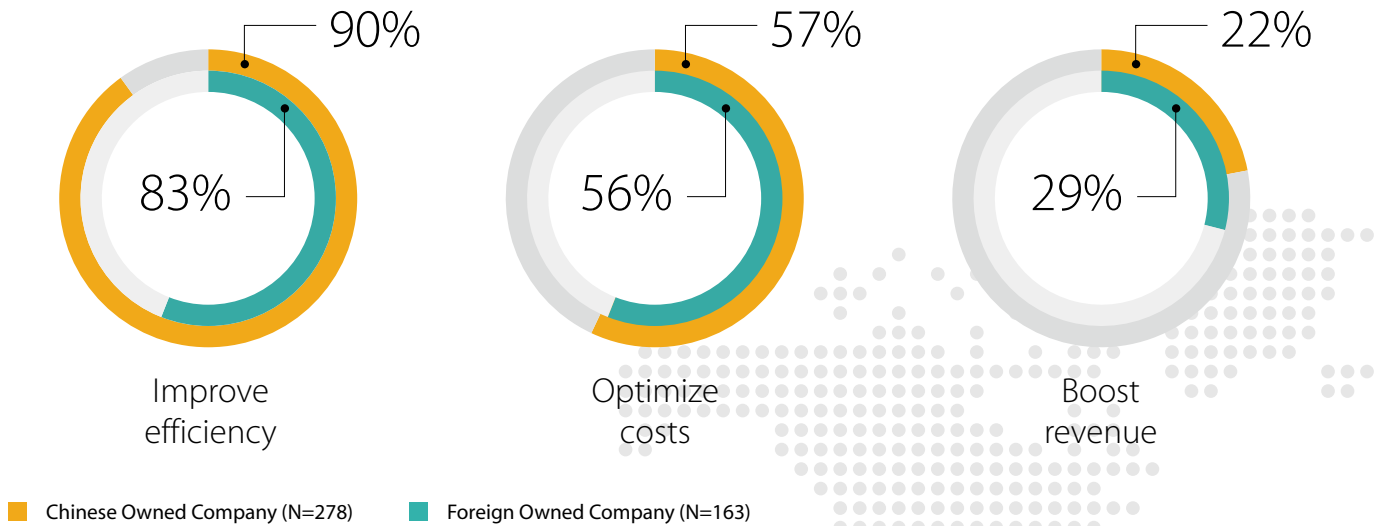
Another example is FinTech, the application of digital technology in China's financial industry. An EY report about FinTech adoption in 2017 shows that China has 69% of its digitally active consumers using FinTech. This is the highest adoption rate in the world, more than double the 33% average adoption rate across the 20 markets studied. This is also reflected in the funds venture capitalists invest in digital start-ups: China is one of the leading countries.

Figure 2 - FinTech adoption rates across 20 markets



NOTE: The figures show FinTech users as a percentage of the digitally active population. All figures are shown in percentages.
 * Belgium and Luxembourg
 ** Hong Kong SAR of China

Figure 3: How does investing in digital technology help your business?



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Given the Digital Revolution’s impact on how Chinese companies do business, we decided to include a few questions in our annual *China Business Survey*, to better understand what companies are doing and plan to do in the future.

View from China

Out of our sample of 699 executives, 82% declared that their companies have already adopted digital technologies or plan to adopt them in the near

Figure 4: Have you adopted digital technologies in your company? All sample, N=608

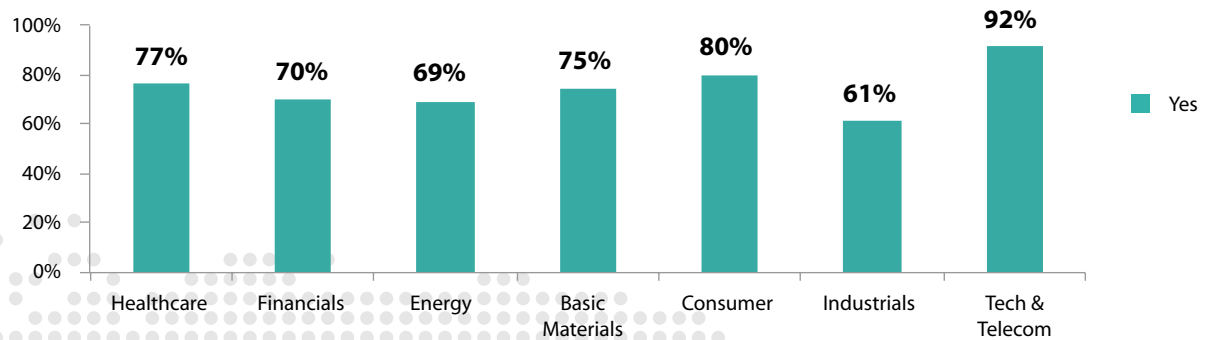
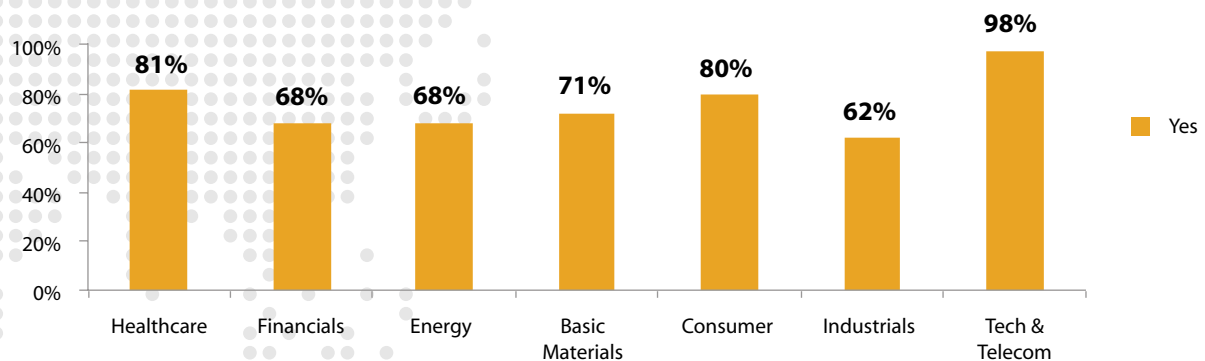


Figure 5: Have you adopted digital technologies in your company? Chinese firms only, N=374



future (72% have adopted, 10% plans to adopt soon). This data is consistent with Chinese consumers' high rate of adoption of digital technologies. Moreover, companies currently using digital technologies all agree on the importance of digitalization for the success of their business, regardless of the industry where they operate, their size or type.

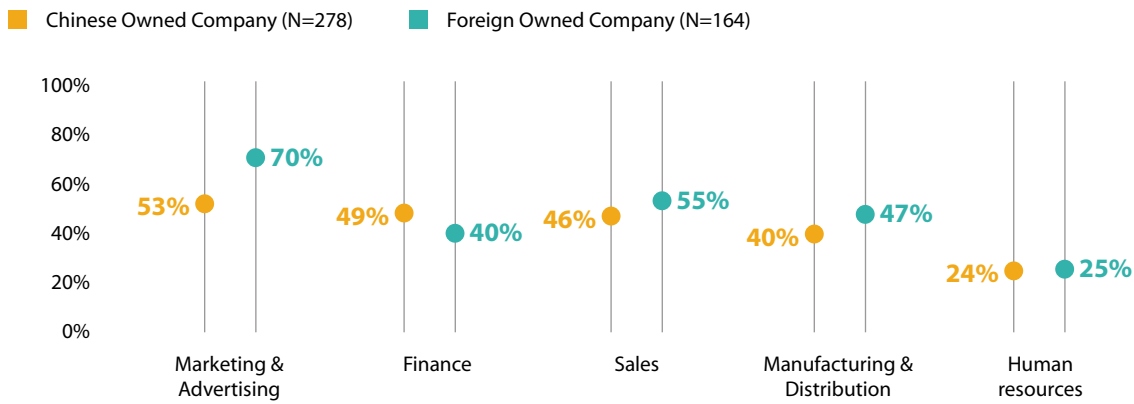
Most of the companies, adopters of such technologies, say digitalization helps them improve efficiency (90% of Chinese firms, 83% of foreign firms). Cost optimization comes in second place, mentioned by 57% of companies. A lower percentage of companies, 22% of Chinese firms and 29% of foreign ones, cite a boost in revenue as an advantage of digitalization.

Despite the high level of adoption across the whole sample, the level of digitalization varies across industries. Unsurprisingly, Technology & Telecommunications is the

industry showing the highest rate of adoption, accounting for 92% of the total sample. Energy and Industrials are on the lower side of the spectrum with adoption rates of 69% and 61% respectively. This effect is seen in our total sample as well as for Chinese-owned firms only.

The impact of digitalization also depends on the function within the firm. Marketing & Advertising is the area where most of the sampled firms use digital technologies (53% of Chinese firms and 70% of foreign firms), followed by Finance, Sales and Manufacturing & Distribution. Human Resources is the area with lowest penetration rate at 24% of Chinese firms and 25% of foreign firms.

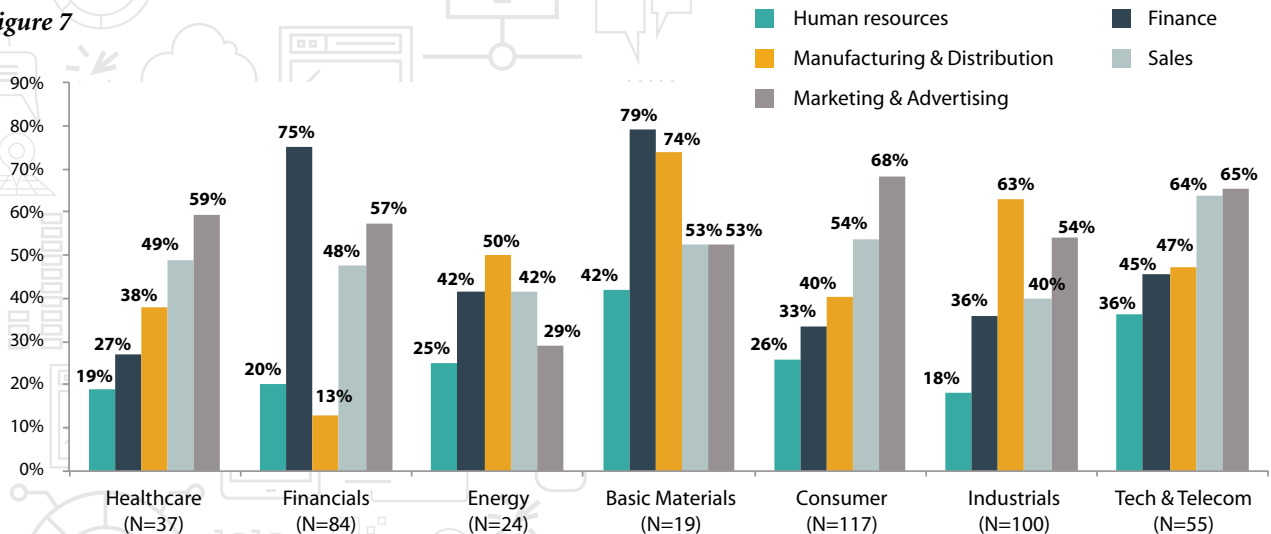
Figure 6 - In which area of your company have you adopted digital technologies?



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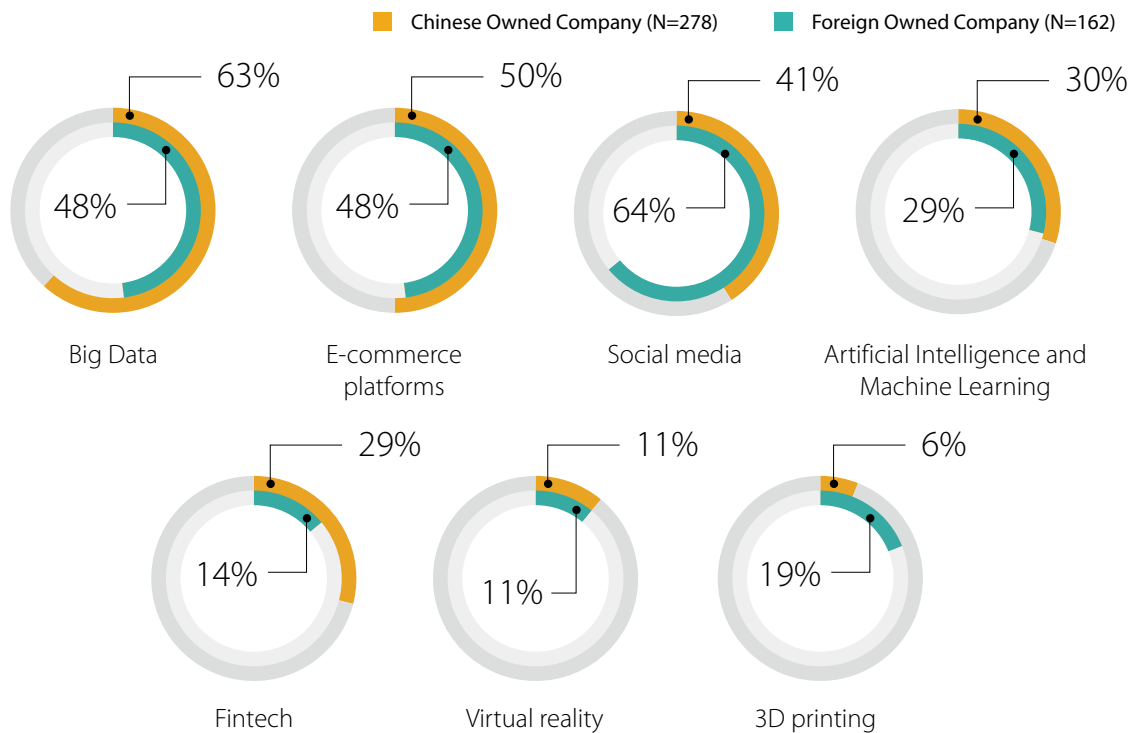
The chart below (Figure 7) shows the differences, by industry, in the areas of these companies which adopt digital technologies. Several clear differences emerge that can be explained by the specificities of the industry. For example, adoption of digital technologies in the finance department is seen more often for firms in the Finance or Basic Materials sectors. Digitalization in the Marketing & Advertising department is highest for firms in the Consumer sector, Technology & Telecommunications and Healthcare.

Figure 7



We also asked our sample about the type of digital technologies they use. Chinese companies mostly select the areas of Big Data (63% of companies), followed by E-commerce platforms and Social Media (50% and 41% of them respectively). Foreign firms show a strong preference for the use of Social Media (64% of companies), followed by Big Data and E-commerce (48% of firms).

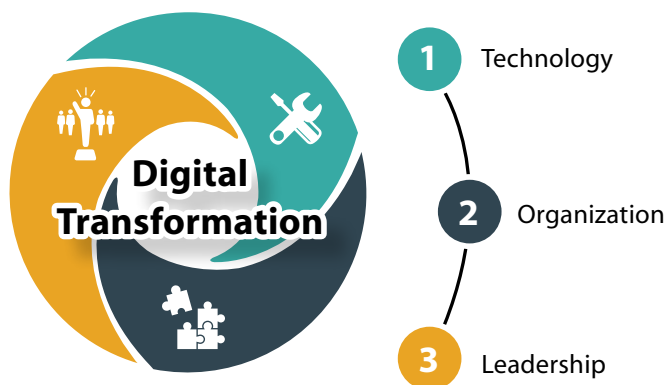
Figure 8 - Which of these technologies do you use in your company?



How to maximize digital technology

Chinese consumers are some of the most enthusiastic adopters of digital technologies in the world. Moreover, companies in China are adopting this technology which is helping them improve efficiency and reduce costs. However, it is not often easy for a traditional company to start on the path towards digital transformation. But there are some key factors that can go a long way towards successfully adopting digital technologies in organizations:

Figure 9: The Three Elements of Digital Transformation



Technology: Keeping up with and, more importantly, leveraging the latest technology will be one of the biggest challenges of the Digital Revolution. A few years ago, it was all about 3G and Big Data. Today we are talking about 5G and how to interpret the mounds of data literally at our fingertips. Conversations routinely touch on topics such as the Internet of Things (IOT), Virtual and Augmented Reality (VR and AR), Artificial Intelligence (AI) and how all of these will impact the way we live and work.

Organization: Today's organizations need to be agile and able to quickly respond to changes in an ever-evolving environment, and in their client base. They must be connected to the market, extremely skilled at listening to their customers, and always ready to adopt the digital tools their businesses need to thrive. With today's Digital Revolution, success hinges on creativity, a proactive attitude, and specific skills adapted to the needs and conditions of the digital world. Employees need to have big ideas and propose workable solutions, not just wait for instructions on what to do. The national education system must be adapted to



the new technology as well as to today's increasingly tech-savvy youngsters. At the same time companies must provide more mature employees with the training needed for them to acquire the necessary skills, as well as establish internal processes that foster creativity and initiative taking. These initiatives are increasingly important as questions arise about which skills or positions will be made obsolete with even greater breakthroughs in AI and robotics.

Leadership: Today's leaders – and those of the immediate future – will face the huge challenge of being at the helm of organizations where many of those they lead know a lot more about the digital age than they do. A healthy dose of humility will help them remain effective and respected. So too will having an open mind and willingness to learn from others, even if their teachers are younger or have less seniority within the company.

The digital revolution is here to stay. It is transforming the way we do business and it is transforming customer expectations. Organizations and individuals need to adapt fast if they want to be among the winners.

伟大不止历史
也可以是明天的你

扫码测一测，你的前世英雄是谁

Which "HERO" Were You?



「刘备」