



The Analyst Opinion Series: Conversational Commerce in China and the US

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In this series of short notes, we explore various aspects of consumer behavior as it relates to technology adoption and retail in the US and China. In this report, we focus on the intersection of mobile commerce and instant messaging, which is considered to be one of retail's next frontiers.

- 1) WeChat, the most popular mobile messaging app in China, is the front-runner when it comes to fusing messaging with commercial transactions, and serves as an example for Western messaging apps in search of a path to monetization.
- 2) A closer look at WeChat, however, shows that consumers do not necessarily want to transact in conversational form, but would rather choose to transact using the most convenient and efficient way, which is what WeChat manifests.
- 3) Following the same logic, whatever direction the next evolution of digital commercial applications takes in the West, it would not necessarily have to be based on a conversational interface; rather it needs to be significantly better in terms of convenience in order to overcome these

Is China's WeChat Model the Future of Mobile Commerce in the West?

In this first report, we focus on the intersection of mobile commerce and instant messaging or “conversational commerce,” which is considered to be one of retail’s next frontiers. When it comes to fusing messaging with commercial transactions, consumers in China hold the lead by a wide margin, due to the high user adoption rate and multiple functionalities of WeChat, the country’s most popular mobile messaging app.

WeChat is a unique mobile app in China, in that it shapes the way mobile users connect and engage among themselves and with businesses. Within just six years, the instant-messaging platform has grown to become one of the largest communication tools in the world, with a monthly active user (MAU) base of 889 million, according to parent company Tencent, that engage with the app 11 times a day on average. Beyond messaging, the platform is a destination for gaming, online and offline payments, social media and news. As such, as a communication and marketing channel for businesses that cater to a Chinese audience it is an absolute necessity. Additionally, its multiple functionalities also differentiate it significantly from any communication app in the West where single-use apps have been the norm rather than the exception.

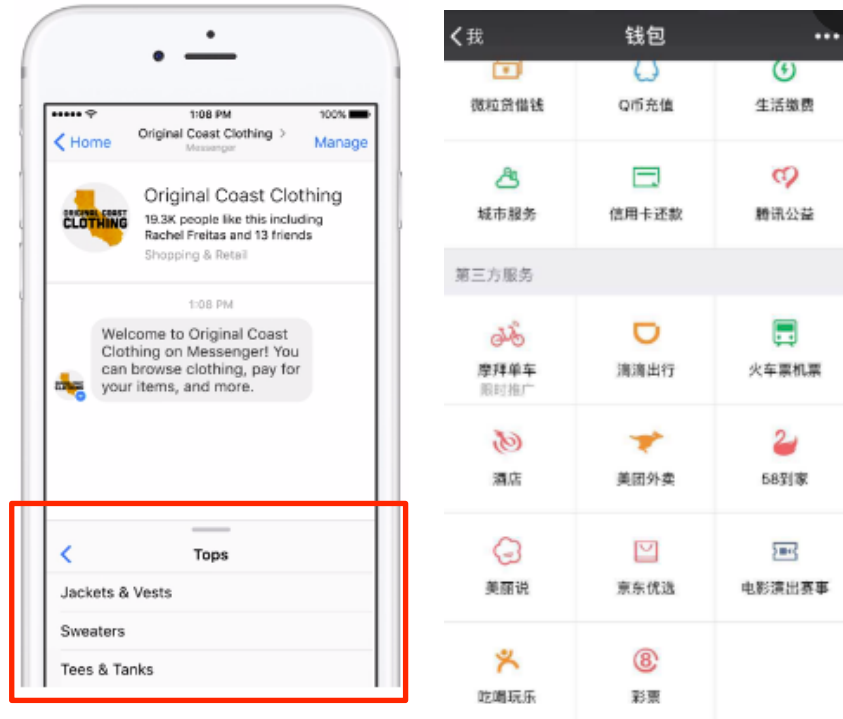
Conversational Commerce: Simplified

The question that WeChat raises, and one that technology companies in the West such as Facebook and Kik are grappling with, is whether a natural language interface (text and/or voice) is the new way users want to search, discover and transact digitally. In other words, is conversational commerce the next big thing?

A conversational commerce model creates a clear path to monetization for instant-messaging apps such as Facebook Messenger and WhatsApp, which have been successful at acquiring and retaining users, but have so far lagged behind instant-messaging platforms in the East (WeChat and Line) in coming up with ways to monetize their large user bases.

Messenger’s foray into chatbots in 2016, which allowed businesses to run bots on the platform, is one example of the drive toward conversational commerce. Messenger chatbots, such as the one for 1-800 Flowers, allow users to browse and buy products inside the app, while also offering customer service. In terms of functionality, chatbots allow Messenger to mimic the commerce part of WeChat’s multi-use offering.

However, the bots fell short of expectations. Technology news site The Information reported in February that Facebook’s own AI assistant “M” was able to “fulfill only about 30% of requests without human agents.” As a result, Facebook shifted its AI bot strategy to move away from pure conversational interaction to include features such as menus and buttons, which enable the user to navigate the interaction with one click instead of a typed response. Not surprisingly, this is consistent with WeChat’s approach, which had already merged typed responses with clickable menus and links.



Messenger introduced menus that allow one-click responses

One-click options for services on WeChat

Source: Getvoip.com/Fung Global Retail & Technology

What the approaches to conversational commerce taken by Facebook and WeChat show is that consumers do not necessarily want to transact in conversational form, but would rather opt for transacting using the most convenient and efficient way.

In China, WeChat has, in fact, become one of the most convenient and efficient ways to transact, however, can Messenger become its equivalent in the West?

The Road to the All-in-One Messaging App

To answer that question, one has to consider how WeChat became what it is today. Since its launch in 2011, the app has been adding services and features to its original messaging service, such as QR code payments and “Mini Programs,” to address unique pain points relevant to its user base in China—namely, the relatively underdeveloped banking and credit-card infrastructure, the data and storage constraints that some mobile users in rural China are subject to, and the fact that the Android and iOS operating systems lacked functionalities desired by local users (QR code scanning, for example). In essence, consumers had unmet needs which the available mobile software solutions were not addressing. This created ample ground for WeChat to morph from a simple messaging tool to a meta-operating system. From there, the path to a multifaceted commercial strategy was clearly laid out.



In this sense, WeChat's success is not necessarily attributed to the fact that it started as an instant-messaging service, but rather because Tencent was able to identify the white spaces created by its users' unmet needs and move very quickly to occupy them.

Will There be a WeChat in the West?

Following the same logic that underpinned WeChat's success, the challenge for Messenger or another instant-messaging app to become the WeChat of the West is enormous—mainly because consumers' needs around payments, app distribution and storage usage are met sufficiently well by solutions and infrastructure already in existence, creating high barriers to adoption of new approaches. So, whatever direction the next evolution of digital commercial applications takes in the West, it would not necessarily have to be based on a conversational interface; rather, it needs to be significantly better in terms of convenience in order to overcome these adoption hurdles.



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