PRESS RELEASE

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Schlegel und Partner's Senior Specialist Asia, Dorothea Slevogt, shares her experience and view on digitalization from her recent experiences in China.

China leads in public digitalization, while its industry is still lagging behind

Chinese companies are overtaking the rest of the world when it comes to digitalizing everyday life through high-tech innovation. Now, that China is also moving towards digitalizing its industries, German 4.0 industrial companies should grab these opportunities quickly.

With new digital solutions currently developing at an unprecedented speed, companies around the globe are in the process of screening new opportunities to enhance their business processes. Schlegel und Partner supports its customers in identifying these opportunities in this increasingly digitalized world and exposes possible paths for future profitable growth. For many years, the regional scope for the screening of innovative digital solutions was clearly America and Europe. Recently, the massive push of digitalization in Asia, however, changed the game. Schlegel und Partner therefore regards scouting the Chinese digitized world in particular to be necessary for understanding tomorrow's opportunities through digitalization.

The largest internet population in the world supports digitalization in China

With more than 800 million internet users, China has become the largest internet community in the world. 98% use their smart phones to go online. This makes China also the largest smart phone population in the world. With substantial government

support, China continues to see rapid growth in mobile technology innovation.

Chinese companies have seemingly limitless opportunities to develop and try out new technologies, often encouraged and financed by the Chinese government. Its digitalization policy is oriented at strengthening China's slowing economic growth and support its modernization process.

Chinese mobile phone companies are popular in Germany

While ten years ago most Chinese consumers mainly bought foreign smart phones from companies such as Apple and Samsung, top sellers in China are now Chinese Huawei, Vivo, Oppo, htc and Xiaomi. Some of these brands have also become common sight in Germany, particularly with the young generation. Chinese Huawei, Vivo and htc smartphones are no longer just cheaper alternatives to Apple and Samsung, but even technically more advanced with ample high tech options and apps. Chinese smartphones have overtaken the rest of the world when it comes to the speed of implementing new applications, such as full-screen-3.0 with bezel-less models. OEMs are investing significant R&D resources to develop products with 'true infinite screens', pop-up cameras, under-display fingerprint sensors and 3D face recognition technologies.

Mobile technology an indispensable feature of everyday life in China

Internet companies like Baidu, Alibaba, and Tencent, also referred to as BAT, have developed into the biggest internet companies in the world.

They dominate nearly every aspect of China's internet, such as web search, social media, E-commerce and entertainment. There are around 600 million regular social media app users in China. Especially China's social media network Weixin (WeChat) controls the lives of millions of Chinese, when it comes to everyday on- and offline shopping, seat reservation, taxi bookings, car and bike sharing. 500 million Chinese are already using mobile payment. Baidu has now even moved into developing self-driving cars with its Apollo 3.5 initiative. Baidu has already developed and produced more than 100 self-driving buses in China.

The Chinese ride hailing company Didi Chuxing has developed into the largest hail ride provider in the world within a few years. It is solely based on a digitalized system used via the mobile phone platform WeChat. China's Waymo rival, Pony.ai, quietly launched an Uber-style app for driverless cars that allows users to hail an autonomous taxi, making it one of the first to do so. They are currently testing the service with a limited number of users in Nansha, part of Guangzhou in southern China.

China was also the first to provide a wireless system to offer rental bikes in its cities. Chinese mobikes, now even spread all over Berlin. Rental bikes had boomed within a short period of two years. Oversupply, jammed sidewalks and lack of maintenance changed the picture again at the end of 2018. Chinese cities have introduced stricter rules to handle the massive oversupply of rental bikes after more and more companies started providing wireless rental bikes.

Moving away fast from technologies that are not feasible or cause unexpected problems is typical of China's approach when it comes to the application of new digital technologies. It is all about trial and error in real life environments. German companies on the other hand often get stuck in lengthy discussions and slow decision making. Chinese business partners have been regularly criticizing this slow un-daring approach over the years.

Alibaba owner, Jack Ma, has perfected the digitalization of its Hema supermarket chain within a few years. Its futuristic shopping idea is way ahead of any German supermarket chain and even ahead of its US counterparts with its 30-minute delivery service. It combines the experience of online and offline shopping for its customers. Payments are only possible via smartphone and facial recognition.
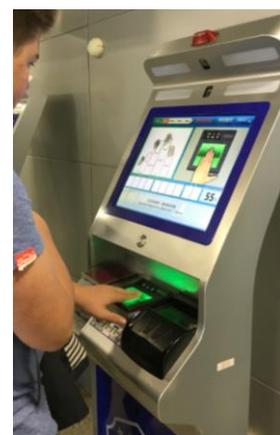
Digitalization has become a crucial element of China's modernization process

Much of the success of China's large internet and telecommunication companies would not have been possible

without the support of the Chinese government, which defines digitalization as an element of modernizing its economy and as means to achieve global competitiveness and improved governmental control and guidance of its people.

Even the three internet giants BAT act more like national champions rather than private firms. With the support of the government, especially Baidu has been expanding aggressively into artificial intelligence (AI) and autonomous vehicles. It has been developing technical standards for automated driving together with the authorities. The government coordinates all related activities under the project name "Intelligent Connected Vehicle" (ICV). Complying with ICV standards is necessary to gain access to the test regions for automated driving and the infrastructure.

Another company, which has gained fast success through government and state bank funding, is Beijing-based Megvii. Most of China's 176 M security cameras already in use, where made with Megvii's facial recognition technology Face++. 400 M more are planned. Chinese police and security also use the technology to catch traffic offenders and criminals, digitally checking all foreigners' fingerprints at the airport as well as checking on all guests checking into hotels and hostels in China since 2018. However, the technology is not 100% mature and reliable yet. Megvii has thus recently received another "service package" from the Chinese government to further enhance the technology.

The Chinese population, when asked, considers the much criticized surveillance systems a means of making their neighborhoods saver for their children and themselves and also to prevent traffic villains to endanger Chinese peoples' life. Traffic police even send fines for speeding via WeChat, minutes after the driver passed one of the traffic surveillance cameras and has appeared on a large video screen at the next junction. No problem in China. The country's stability and safety is a top priority for most Chinese, in addition to more personal convenience. Data safety and ownership is not a big issue in a country where everything is run through mobile phones and where the government was able to obtain information about their citizens a long time before digitalization made its way into China's society.

The Chinese government wants to make China the AI leader

While China is already leading the way in the digitalization of fundamental aspects of consumers' daily lives, the Chinese

government is aware that industrial digitalization is still lagging much behind that of developed economies. Only 25% of Chinese manufacturers have smart-factory initiatives, whereas Germany has almost double as many. To move ahead, the Chinese government planned to enhance the digitalization of its industry and grow the AI industry sector to USD 15 billion by 2020, and USD 150 billion by 2030. Intelligent cars will play a central role in this national development strategy.

Chinese industrial companies are now pushed to enhance their intelligent manufacturing. This means, they need to re-examine their existing partnerships and start dealing with completely new types of partners, local and globally. German companies much appreciated in China for their smart-manufacturing initiative 4.0 now have new opportunities of doing business in China. They must adjust their strategy to address new forms of competition and partners. They must act fast now and not wait for China to overtake Germany also in the industrial digitalization process. For a start, they need to determine the most advantageous way to participate in the industrial internet in China and must build relationships with the right partners and address them with selected approaches suitable to the Chinese way of moving ahead, taking decisions and testing new technologies.

Interested in further information?

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