

Market Study

CHINA E-COMMERCE



OFFICIAL PROGRAM

MARKET STUDY CHINA E-COMMERCE MARKET REPORT

The size and growth rate of the e-Commerce market in China is unique. With more than 618 million Internet users, China has more users online than the USA has inhabitants. The opportunities for business are diverse and almost unlimited. However, due to special regulations and laws, e-Commerce in China works different than e-Commerce in the rest of the world.

Since China is one of the fastest growing economies in the world, this growth will also continue in the e-Commerce market. The speed at which the whole industry has grown, and also the manner in which it is affecting the Chinese economy has come as a surprise to many. This fast development also offers huge possibilities to foreign companies. But the most challenging question is, how to successfully enter the Chinese e-Commerce platform.

This S-GE report is written with the collaboration of companies like Jura Elektroapparate AG, Swissmooh AG, Boschung China and goCommerce GmbH and gives insight on e-Commerce in China. This report also gives the insight of the tendencies, perspectives, opportunities, risks and market entry conditions of the B2C as well as the B2B e-Commerce sector in China for SMEs. Subsequently, the last part of the report provides some recommendations for SMEs willing to enter this promising market.

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1. Executive Summary

With over 1.3 billion inhabitants, China is the country with the biggest population. According to the China Internet Network Information Center (December 2013), 618 million Chinese citizens are online, which represents more than 50% of the population. Out of this 500 million mobile Internet users are connected to the Internet.¹ The IT infrastructure of the People's Republic of China (PRC) is well developed, and the Chinese government has subsidized high-speed Internet access in order to approach Internet penetration at a level on-par with developed countries.

The fast development of the Internet in China has opened new business opportunities, and e-Commerce being the most promising Online Business module in the world's largest consumer base. China has potential to become the biggest market for almost everything, and e-Commerce is no exception. Growth rates in the e-Commerce market are still very high and China principally has become not only one of the largest, but one of the most fascinated e-Commerce markets. According to the Boston Consulting Group, China will have around 380 million online shoppers by 2016.²

E-Commerce is particularly well developed in the so-called Tier 1 Cities (Shanghai, Beijing, Guangzhou and Shenzhen). The gap between the Tier 1 cities and the Tier 2, 3 and 4 cities has been widened by the rapid development of the whole country. This means that there is still a big potential for future growth in Chinese e-Commerce. Millions of Chinese consumers can log onto the Internet and buy a wide range of products today. In fact, through this development a growing number of consumers will be able to look for products such as clothing, electronics, books and food on the Internet in the future. Thus e-Commerce will far outpace the traditional retailing in China in the future and create new opportunities for doing business.

One big player, the Alibaba Group, is providing online marketplaces for the B2B, B2C as well as the C2C sectors, and dominates China's e-Commerce industry. But comparing the Chinese e-Commerce players with their American peers, Taobao vs. eBay, JD.com vs. Amazon and Suning vs. Walmart, the Chinese players are less experienced and less mature. Nevertheless it can be predicted, that they are going to overtake their US counterparts very soon.

Chinese netizens are big users of social media platforms, because they do not trust firms and advertising much. Chinese online shoppers rely on product recommendations and reviews from other customers. This is an important fact to bear in mind, because in order to become successful it is very crucial to have Social Media presence. The negative side is the negative ratings; that can inversely effect the sales tremendously. Therefore it is important to prepare for damage control, customer care, and follow-up when selling products to Chinese customers.

The S-GE report on e-Commerce in China shows the tendencies, perspectives, opportunities, risks and market entry conditions of the B2C as well as the B2B e-Commerce sector in China.

¹ Source: CNNIC (January 2014)

² Source: <http://www.bcg.com.cn/en/newsandpublications/news/pressreleases/pressrelease20140424001.html> - 28.05.2014

2. Overview of B2C e-Commerce Market

2.1. MARKET DYNAMICS AND TRENDS

B2C (business-to-consumer) are direct business activities between businesses and consumers. This means that manufacturers are directly selling their products to the end consumers. China is on the top of the countries with the highest growth in B2C e-Commerce, with 120% of growth from 2003-2011.³ The local online platforms and the broad middle class, continuing to increase in wealth, have contributed heavily to this growth, making China the largest online shopping market in the world. The speed at which e-commerce is growing and the way in which it affects business and consumer habits has been a surprise to many.

A peculiarity of China's online shopping market is the structure. The market structure can be divided into B2C and C2C, in which the C2C market share is prevailing. According to data of iResearch, the C2C proportion of total online sales in 2013 is 64.9%. The B2C share is growing steadily and should overtake the C2C share by 2017. This opens business opportunities to well established retailers who wants to enter the Chinese E-commerce world.

Fig. 1 Structure of China Online Shopping Market Q1 2012 – Q3 2013



iResearch (2014)⁴

Online Shopping has become a permanent part of online behavior and many of the Chinese online shoppers are buying goods on a regular basis through different web portals. Spending patterns from the growing middle class is shifting to online channels. Other factors that support online shopping include an increased number of payment options as well as increased Credit Card usage.

³ Source: McKinsey – China's e-tail revolution: Online shopping as a catalyst for growth

⁴ Source: <http://www.iresearchchina.com/views/5548.html> - 10.05.2014

2. Overview of B2C e-Commerce Market

The online shopping market can be split into two categories: marketplaces and independent merchants. Marketplaces are the leading model and had a share of approximately 90% in 2011. Marketplaces are websites for different merchants that provide tools to set up individual online stores on their platform.

Today, China is still an emerging market with high growth rates in online sales for global brands. Foreign market entrants can expect very high growth rates considering the market share and market value of e-Commerce in China. The CAGR from 2013 – 2017 in online shopping is expected to be at 22%, which means that the expected sales will double until 2017. The B2C market steadily expands its share in the online shopping market and has reached 66.61 billion Yuan, which counts for 36.2% of the total online shopping market in the year 2013.⁵

Fig. 2 Online Shopping Revenue in 2013

Segment	Revenue in 2013 (bn Yuan)	Revenue in 2017 (bn Yuan)	CAGR (2013-2017)
Online Shopping	1850	4140	22%

Source: iResearch (2014)⁶

The whole e-Commerce market in China will also encounter fierce competition in the near future. The big players such as Alibaba with Taobao and Tmall, JD and others will gradually consolidate their platforms and improve their positioning in the online market. As a consequence it will be harder for smaller players to compete and almost impossible for newcomers to enter this highly competitive market.

In the Chinese e-Commerce market the following trends can be clearly identified:

- Trend towards mobile shopping
- Huge growth potential for the service Industry in the Offline2Online (O2O) market
- Readjustments in product positioning (changing customer needs)
- Discovery of Social Media as a powerful marketing tool
- Consolidation and concentration of the market

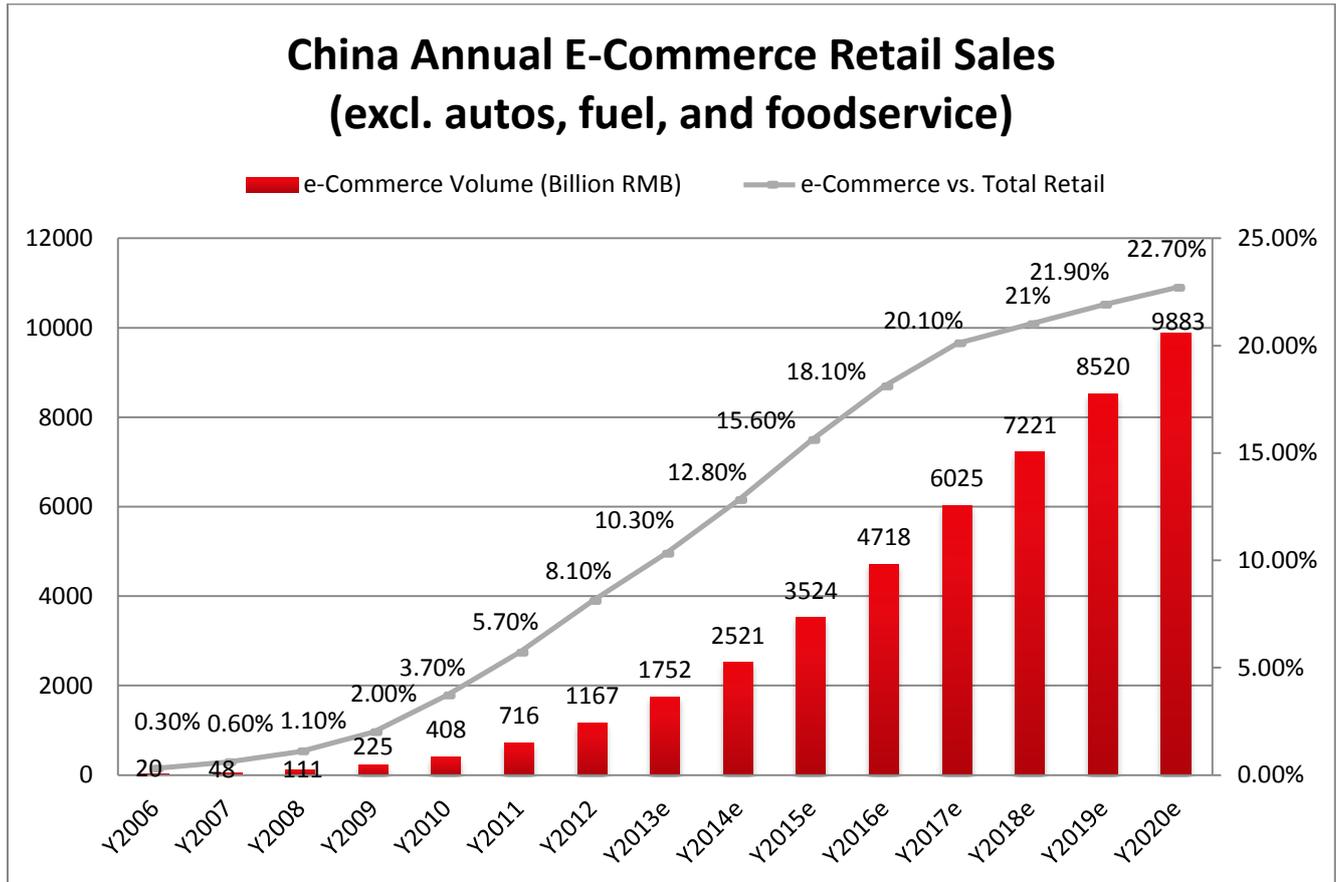
On top of that, the prevalence of smartphones helps the third and fourth tier cities and rural areas to hurdle the limitation of broadband Internet access and directly enter the mobile shopping age. At the moment, mobile shopping is less important, but growth rates are almost reaching two folded on year to year basis, with further potential growth in the future.

⁵ Source: iResearch – 2014 – 2017 China Internet Economy Forecast Report

⁶ Source: iResearch – 2014 – 2017 China Internet Economy Forecast Report

2. Overview of B2C e-Commerce Market

Fig. 3 China Annual E-Commerce Retail Sales



Source: Alibaba (2014)⁷

Any further development in China's e-Commerce will be very close linked to the technological development in the country as well as the behavior of the Chinese customer. Apart from that, the growth in the B2C segment is also supported by the development of online payment methods. Different providers of payment services are battling for a higher market share. The clear leader within the third-party payment companies is Alipay, which belongs to the Alibaba Group.

2.2. CONSUMER ANALYSIS

The large and growing middle-class in China is used to make frequent purchases online. Chinese people are also developing brand awareness and are willing to buy high quality services or products. There is great importance to build brand loyalty, as it has been observed that pleased shoppers are likely to repeat shopping.

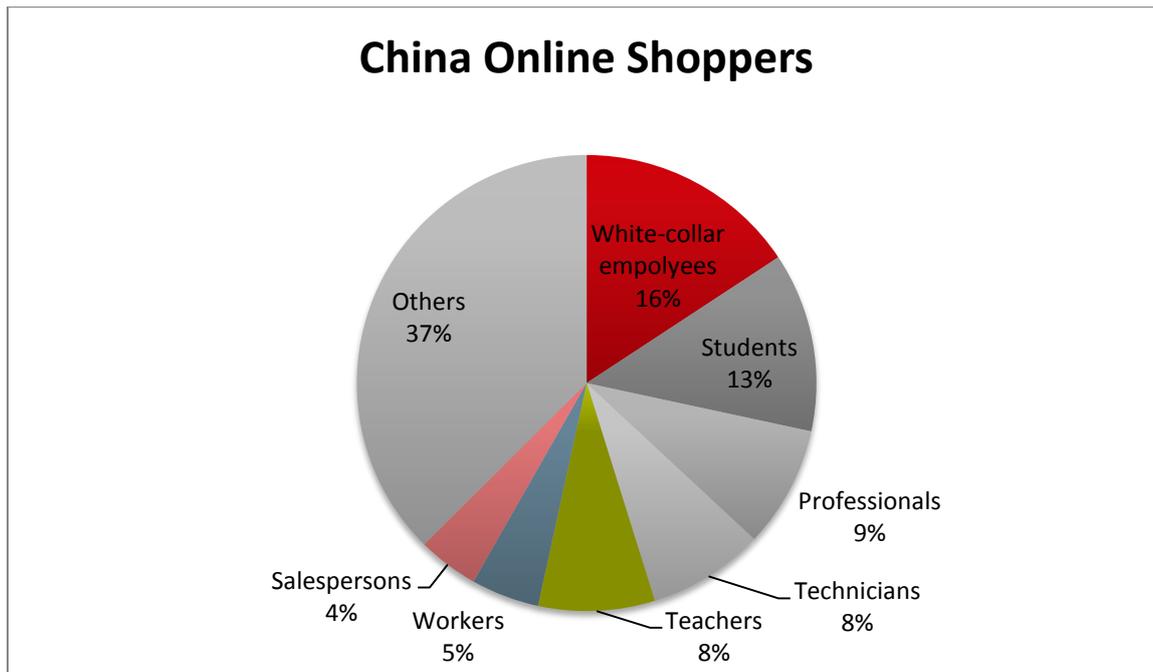
The biggest sector of online users and shoppers is young and well-educated with high value of purchasing power. In 2012, men made up 52.3% of the online shoppers surpassing the women by 4.6%. Amongst these young online shoppers in China, the 25-30 age class makes the most prominent section, with a 29.9% of share. Online Shoppers are mainly coming from developed

⁷ Source: Tmall.com – China's Premier Online Shopping Destination

2. Overview of B2C e-Commerce Market

costal regions; these regions include the Guangdong Province, the Jiangsu Province and the Zhejiang Province, indicating a high concentration of online shoppers in Northeast China.⁸

Fig. 4 Occupation of China Online Shoppers in 2012



Source: iResearch (2013)⁹

The table below represents clothing, shoes & hats, luggage & bags and outdoor gear were the most sold goods in 2012. These products are contributing almost 40% of the e-Commerce sales in the B2C segment. Furthermore about 40% of the consumers have spent a total of 3'000 – 10'000 Yuan online. According to iResearch, men spent more money online than women did in 2012. The question now is, why do people prefer buying goods online? According to Alibaba, over 50% of the online consumers surveyed said, that the main reason for using e-shopping is that the price is cheaper than in the stores. Hence, it is very important to remember, that price matters for Chinese consumers.¹⁰

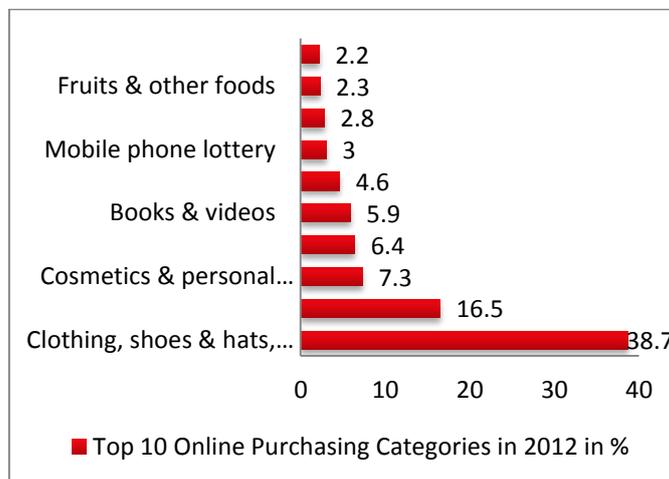
⁸ Source: iResearch – 2012-2013 China Online Shopper Behavior Report

⁹ Source: iResearch – 2012-2013 China Online Shopper Behavior Report

¹⁰ Source: <http://www.iresearchchina.com/news/4888.htm> - 09.05.2014

2. Overview of B2C e-Commerce Market

Fig. 5 Top 10 Online Purchasing Categories in 2012



Source: iResearch (2013)¹¹

2.3. COMPETITIVE LANDSCAPE

In China, the B2C Market can be divided into two markets, differentiated based on platform-based sellers and individual pages for direct sellers. In the B2C market Tmall and JD have a market share of almost 70% and thus are clearly dominating the whole B2C sector.

2.3.1. Platform Based

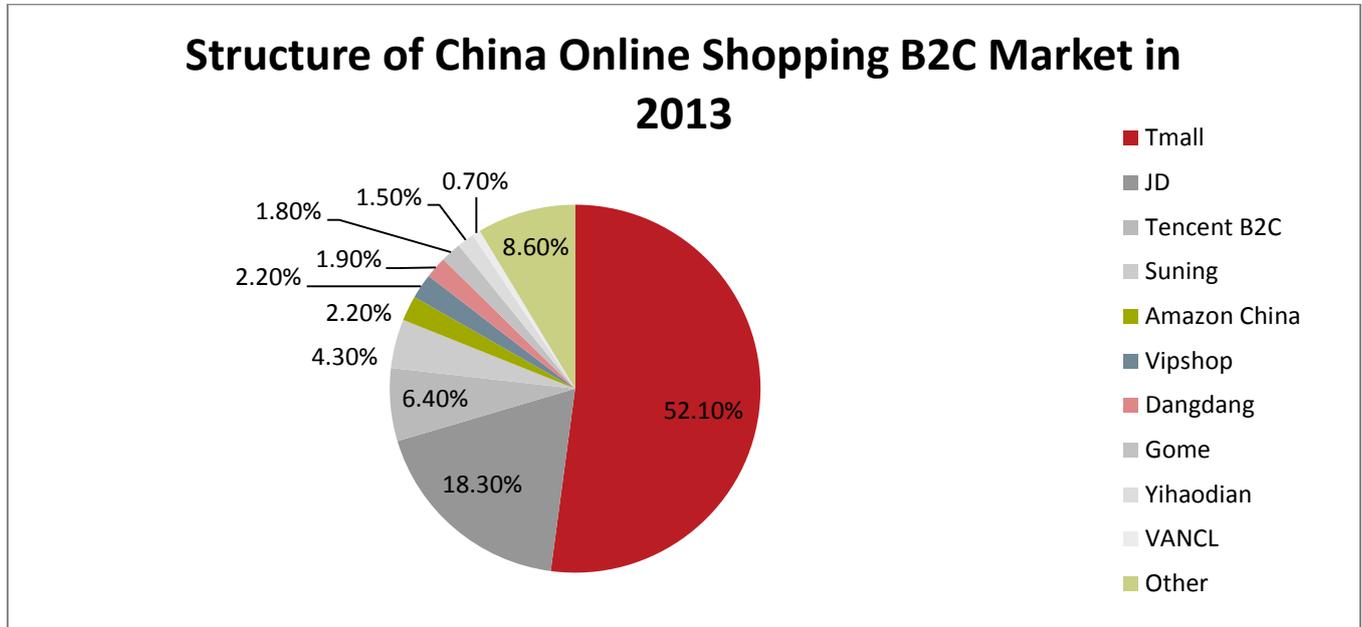
Electronic marketplaces are supporting business partners to exchange goods and services. Marketplaces are providing a framework with their platforms, which facilitate consumers and sellers to do business, create direct competition with other providers of goods on the Internet. Physical as well as virtual goods and services can be sold on marketplaces. Professional sellers can operate in marketplaces, which contributes to greater competition. Marketplaces facilitate e-tailing in China by providing a platform to companies to open online stores in order to attract online consumers.

E-marketplaces have some big advantages since they allow absolute trading without being restricted in time or physical presence. Business partners do not need to meet any longer at a specific time and place to do business. Due to the higher competition on a marketplace, they become much more transparent and costs for the products as well as costs for the transaction are often lowered compared to other electronic channels.

¹¹ Source: iResearch – 2012-2013 China Online Shopper Behavior Report

2. Overview of B2C e-Commerce Market

Fig. 6 Structure of China Online Shopping B2C Market in 2013



Source: iResearch (2014)¹²

Among the platform based B2C providers of marketplaces, Tmall is the dominating player with a market share of over 50%. Tmall is an online retailer and spin off from Taobao, which is run by the Alibaba Group. Tmall has over 50'000 shops that sells over 70'000 brands. The different store formats operated by Tmall are as following:

Fig. 7 Tmall Store overview

Flagship Store	Authorized Store	Specialty Store
The merchant is the brand (trademark) owner, or possesses exclusive authorization from the brand owner to open a storefront on Tmall.com	The merchant holds authorization documents from the brand owner to open a store on Tmall.com.	Merchant sells products of two or more brands that belongs to the same product category.

Source: Tmall¹³ / CBC Schweiz AG

2.3.2. Individual Pages

Direct sellers are selling their own products as well as products from other brands but are holding an inventory. JD (Jingdong Mall), formerly 360buy, has the biggest market share with 46.50%, within the segment of the direct sellers. Moreover, JD has one competitive advantage; JD is able to deliver goods within 24 hours to 156 cities in China. JD has already made its first investments into developing logistics and now has 65 warehouses in 24 cities.¹⁴

JD is the largest direct seller and is still expanding. Additionally Yixun and Vipshop, Yihaodian and the other competitors are also noticeable with increasing share value.

¹² Source: <http://www.iresearchchina.com/views/5548.html> - 10.05.2014

¹³ Source: <http://about.tmall.com> - 20.05.2014

¹⁴ Source: <http://contextchina.com/2013/08/qa-jd-com-chinas-leader-in-online-direct-sales-to-consumers/> - 15.05.2014

2. Overview of B2C e-Commerce Market

Fig. 8 Structure of China Online Shopping B2C Direct-Sale Market in 2013



Source: iResearch (2014)¹⁵

Tmall and JD sum up a combined share value of 70% of the total B2C market and are clearly dominating the e-Commerce industry. According to iResearch, this competition structure should carry on so that Tmall's and JD's leadership will not be affected in the near future. The other B2C participants will also grow as they can benefit from their different advantages in supply chains and development strategies.

¹⁵ Source: <http://www.iresearchchina.com/views/5548.html> - 09.05.2014

2. Overview of B2C e-Commerce Market

2.4. MARKET ENTRY BARRIERS

Market entry barriers can differ on products or services offered in China. Generally, market entry barriers in the B2C market are low, leading to a lot of players and rather low profit margins. Online selling in China means to face big challenges. As many different providers of product and services are gathered in the B2C Market, it is very important to have an outstanding reputation and to differentiate from the competition. Furthermore it depends on how a foreign company wants to enter the market.

The market entry barriers can be divided into two groups; there are the e-Commerce specific barriers and the country specific barriers. Main differences also appear in comparing western and Chinese culture, which is a critical factor to take into consideration when entering China's market.

Fig. 9 Specific B2C e-Commerce Barriers

Inception	The incumbents on the Chinese market have a cost advantage, because they are already present in the market.
Selling / Price	It is unlikely to increase sales without having done brand building. Due to low sales it is unlikely to benefit from economies of scale.
Payment	Appropriate ways of payments must be provided (refer to payment methods, point 4.3).
Competition	High competition leads to low prices and thus also to low margins.

Source: CBC Schweiz AG (2014)

Fig. 10 Specific B2C country barriers

Product certification	Certain products sold on the Chinese market need to be certified by the China Compulsory Certificate mark. This mark is often needed for both domestic manufactured products as well as imported products (see also appendix)
Product loyalty	Chinese people are usually very loyal to a brand
Distribution	Good knowledge of local distribution partner is needed. If importing from abroad, customs can be a problem.
Government policies	Be prepared for a lot of paperwork if planning to enter China physically.

Source: CBC Schweiz AG (2014)

2. Overview of B2C e-Commerce Market

2.5. MAIN PLAYERS

As already mentioned earlier, Alibaba is the biggest player in the Chinese e-Commerce industry. Clearly the number one platform on the B2C market is Tmall. Tmall provides a comprehensive e-Commerce marketplace and hosts thousands of brands and manufacturers with over 40 million visitors daily.

The number two position is held by the Chinese online retailer JD (Jingdong). Their product covers 12 main categories with thousands of brands. Main products are home electronics, digital/communications, computers, household articles, clothing materials and baby care products, books, food and tourism products.

Another big player is Dangdang, which is pretty similar to Amazon China. They had started with selling books online and are currently one of the leading comprehensive online retailers in China. Tencent and 51buy (Yixun) are also leading comprehensive online retailers in China, which provide e-tailing directly to customers.

In the segment of online grocery stores, Yihaodian is one of the leaders, selling food & beverage, cosmetics, household articles, electronic appliances, maternal and baby care and toys.

B2C business owners should not forget Alibaba's other e-commerce platform Taobao. Although targeting mainly C2C transactions, it has attracted lots of small and medium-sized businesses due to its high traffic volume and low set up cost.¹⁶

As most of the online shoppers start product research online, it is important to bear in mind that products listed on Tmall or Taobao are not going to be found via the search engine Baidu. Since Baidu launched its own online shopping platform, Taobao and Tmall disappeared from search results.

2.6. FOREIGN PLAYERS

Amazon China is the biggest foreign player in the Chinese B2C market and their main products are books, audio/video and software. US Company Newegg is another player represented on the Chinese B2C Market, which mainly sells computer hardware and software.

Amazon did the market entry in China by taking over the online bookstore Joyo.com in August 2004. Amazon's Business in China market is successful, as their technology and the system are well developed. Nevertheless, their policies, local strategies, and local marketing tend to lack sufficient flexibility. This is the reason Amazon is behind the big players such as JD and Tmall. Amazon still follows its global model and global process. They apply the same model in Germany, France or Japan as they apply in China. Therefore, they are not able to take into consideration specific challenges and customer needs as well as the cultural differences of China.¹⁷

¹⁶ Source: <http://www.advantent.com/2013/08/20/top-10-china-b2c-e-commerce-websites/> - 08.05.2014

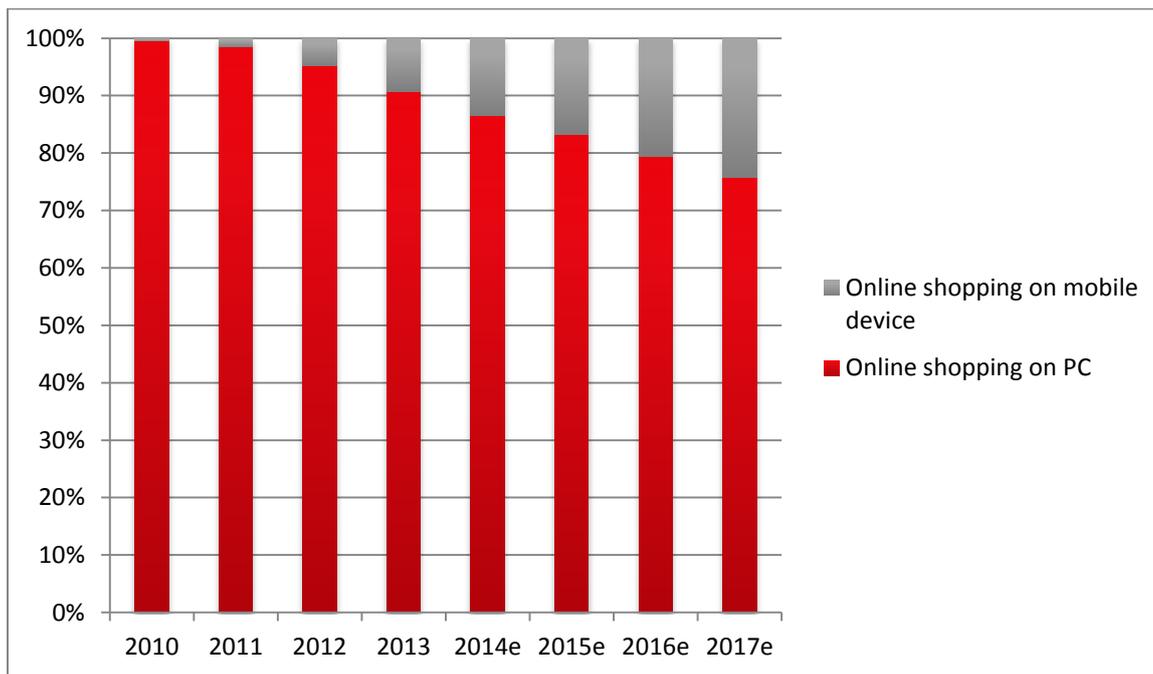
¹⁷ Source: <http://contextchina.com/2013/08/qa-jd-com-chinas-leader-in-online-direct-sales-to-consumers/> 09.05.2014

2. Overview of B2C e-Commerce Market

2.7. MOBILE SHOPPING

The prevalence of smartphones helps the third and fourth tier cities and rural areas to overcome the limitation of broadband Internet access to immediately enter the mobile shopping age. Mobile Shopping at this moment is less important, but growth rates are almost getting doubled each year, expecting further growth in the future.¹⁸

Fig. 11 Share of China Online Shopping on PC vs. Mobile Devices 2010-2017



Source: iResearch (2014)¹⁹

According to iResearch, the mobile shopping GMV amounted to 169.6 billion Yuan in 2013. The mobile shopping sector has reached a 9.2% penetration ratio in the whole online shopping market, still having the potential to grow. The mobile shopping market is dominated by apps of e-Commerce websites and mobile websites. But Tencent along with WeChat offers another way of mobile shopping and also provides its payment method that can be used directly through the mobile phone. Mobile shopping is much more convenient than shopping via PC. The popularity of mobile devices and the decrease in fees for Internet access, allows less wealthy individuals to go online. Mobile shopping is expanding rapidly as mobile Internet penetration also grows.

¹⁸ Source: <http://www.iresearchchina.com/views/5405.html> - 08.05.2014

¹⁹ Source: <http://www.iresearchchina.com/views/5548.html> - 09.05.2014

3. Overview of B2B e-Commerce Market

3.1. MARKET DYNAMICS AND TRENDS

The B2B sector is still in rapid development as companies continue to grow and strengthen their models. International trading as well as a steady growth in domestic trade is contributing to the growth in the B2B Sector. Furthermore there are steady increases in B2B enterprises that uses the Internet for their B2B sales online, and this trend will likely remain as the Internet penetration in China continues to grow. In 2013, enterprises have become even more creative and new business models, including operating models, as well as profit and service models, will come up and create new opportunities.

The development of China's B2B e-Commerce market is based on the global economy. The internal economic growth in the B2B Sector is not very high and thus Internet has become an important sales channel for SMEs in China. Therefore the internetization of traditional firms will allow continued rapid growth going into the future.

The long tail market has hit the B2B market, resulting in the real market cost to provide niche products being too high. This is due to the demand for these products being geographically limited. But the demand for a niche product offer on a global market can be enormous. Further internetization within traditional companies will keep e-business growing fast. B2B e-Commerce is getting into many fields and with a steady development of the information and capital flow, with this internet industrialization, the logistics gets improved in the coming years.²⁰

SME B2B companies clearly dominated the Chinese e-Commerce Market in 2013, and are projected to see further growth.

Fig. 12 China e-Commerce Market Share by GMV in 2013



Source: iResearch China (2014)²¹

²⁰ Source: <http://www.chinainternetwatch.com/6769/china-b2b-market-overview-2013/> - 10.05.2014

²¹ Source: <http://www.iresearchchina.com/views/5466.html> - 10.05.2014

3. Overview of B2B e-Commerce Market

According to iResearch, some of the B2B website operators have expanded their business to online transactions and online financing services in 2013. This trend will continue and will tremendously influence the whole SME B2B e-Commerce sector.

Fig. 13 B2B e-Commerce segmentation

Segment	Minor Segment	Revenue in 2013 bn Yuan
B2B e-Commerce	MSE B2B e-Commerce	5147.4
	Large Enterprise B2B e-Commerce	2606.9

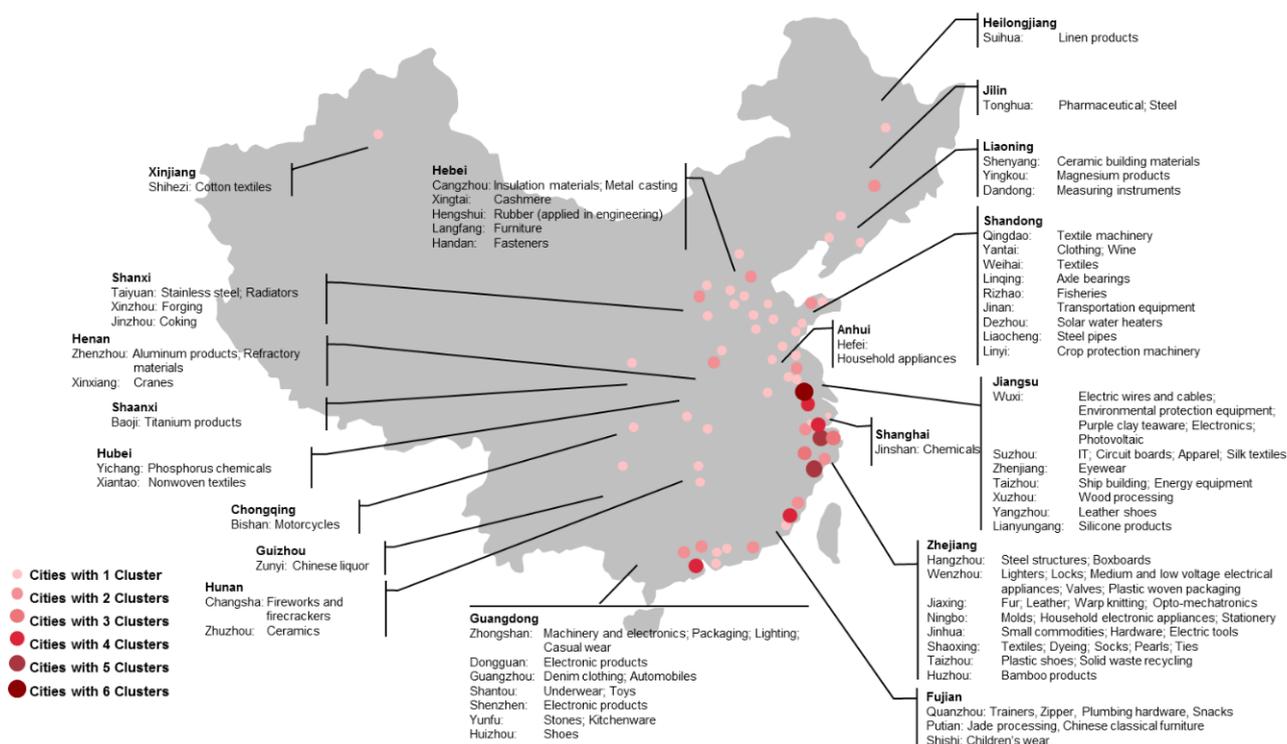
Source: iResearch (2014)²²

In 2013, the GMV of B2B e-Commerce (MSE & large enterprise B2B e-Commerce) amounted to 7754.3 billion Yuan. This indicates that the B2B market clearly dominates the whole e-Commerce market in China.

3.2. CONSUMER ANALYSIS

The top 100 industrial clusters in China are scattered throughout the whole country. Clusters characterize China's B2B landscape. These clusters enhance a region's economic power and enhance competition in a region.

Fig. 14 Industry Clusters in China



Source: Li & Fung Research Centre (2010)²³

China's clusters are mainly formed by the manufacturing industry. The Chinese manufacturing industry is mainly engaged in exporting goods, generally business that generate lower added-value activities. Most of the high added-value activities (design, marketing, etc.) are performed by businesses in developed economies. But rising wages and also the steady appreciation of the RMB is leading to more prosperity in the country. China is under a process to become the consumption based economy and this trend is going to hold on. China is transforming from producing low value-added goods toward high value-added goods and services.²⁴

²² Source: iResearch – 2013 China Internet Economy Report

²³ Source: <http://www.funggroup.com/eng/knowledge/research/LFIndustrial6.pdf> - 20.05.2014

²⁴ Source: http://www.mckinsey.com/insights/manufacturing/a_new_era_for_manufacturing_in_china - 21.05.2014

3. Overview of B2B e-Commerce Market

3.3. COMPETITIVE LANDSCAPE

As in the B2C market, Alibaba is also the biggest player in the B2B market. The platform alibaba.com provides a marketplace to buyers and sellers where people can transact with each other. Sellers use marketplaces to establish a presence on the Internet and market products and services to hundreds of millions of consumers and other businesses.

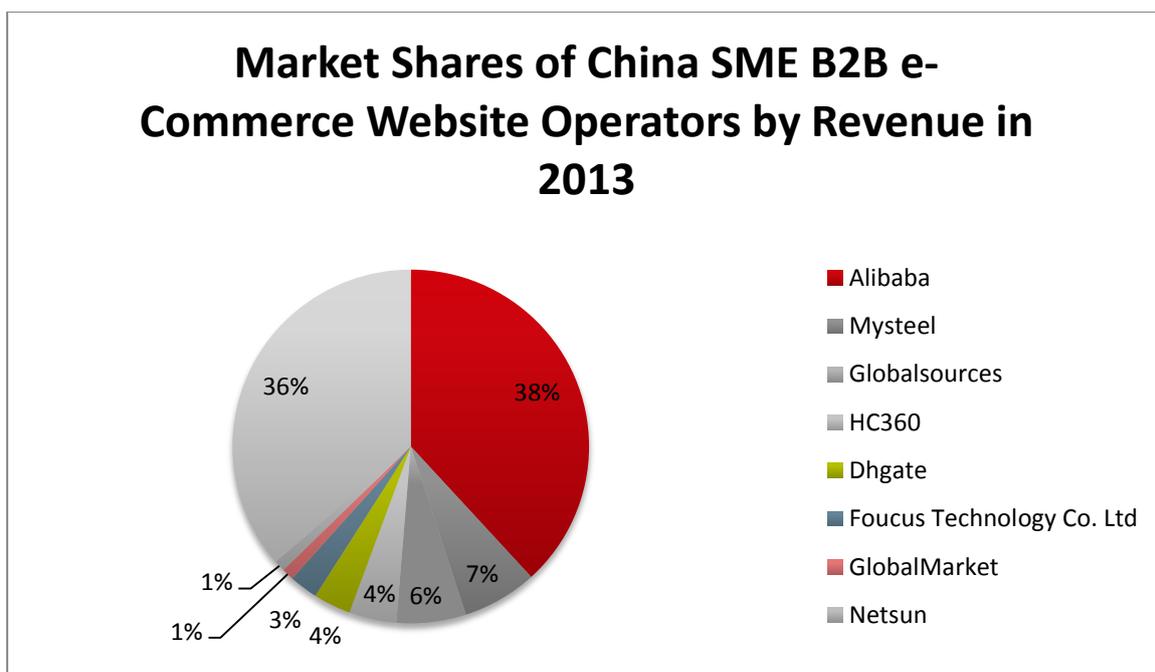
Fig. 15 China Major B2B Platform Service Models

Enterprise	Trade Area	Product Positioning
Alibaba	All over the world	Petty commodities
HC360	In China	Petty commodities
Globalsource	The majority trades in global market and the minority trades in China	Petty commodities
Focus Technology Co., Ltd.	The majority trades in global market and the minority trades in China	Petty commodities
Mysteel	In China	Bulk commodities
Netsun	In China	Bulk commodities
JYD Online Co., Ltd.	In China	Bulk commodities
Dhgate	In China	Bulk commodities

Source: iResearch (2014)²⁵

Alibaba is the leading player in the B2B Sector and has over 38% of the market share. The Alibaba Group will be presented later in this study. The three biggest players in the B2B Sector have a market share of over 50%. This can almost be considered as a state operated monopoly even if these companies are not state-owned. The government strictly controls all the companies and therefore it is much harder to get into the Chinese online B2B market for foreign players. Domestic players that do not follow the censorship laws have no chance to survive.²⁶

Fig. 16 Market Shares of China SME B2B e-Commerce Website Operators by Revenues in 2013



Source: iResearch (2014)²⁷

²⁵ Source: <http://www.iresearchchina.com/views/5607.html> - 20.05.2014

²⁶ Source: <http://www.scmp.com/business/china-business/article/1509914/monopoly-factor-key-driver-mainland-china-internet-stocks> - 20.05.2014

²⁷ Source: <http://www.iresearchchina.com/views/5607.html> - 20.05.2014

3. Overview of B2B e-Commerce Market

3.4. MARKET ENTRY BARRIERS

Many company's profit calculations for relocating the projects shows high returns. Therefore the "royal road" is not always the ideal way to enter a foreign market. Too often obstacles are overlooked, underestimated or just ignored. Also specific risks to a market entry are not estimated correctly. Thus it is very important to do a realistic assessment of the sales figures and also a market study in order to find out if there is a market for the products. Furthermore, price adjustment needs to be taken into consideration as well as ensuring full manufacturing capacity. In order to set a new growth strategy in China, first of all lobbying must be made. China has numerous regulations that could deter many potential customers from purchase and creating a need for close relations with officials.

To do a successful market entry as a western firm, it is also important to manage the cultural differences between the western world and China. Some of the cultural differences can be used to achieve common goals. Chinese will reward a good leadership style with high commitment, loyalty and good cooperation. It is very important to understand that a part of the success lies in respecting basic elements of the Chinese culture and also showing interest in it. This applies to social manners, table manners and customs and basic expressions in Chinese.

Fig. 17 Specific B2B e-Commerce barriers

Inception	The incumbents on the Chinese market have cost advantage, because they are already present in the market.
Selling / Price	It is unlikely to increase sales without doing brand building. Due to low sales it is unlikely to benefit from the economies of scale.
Payment	Appropriate ways of payments must be provided (refer to payment methods; point 4.3).
Competition	A high competition leads to lower prices and thus also to lower margins. In the B2B market the competition is rather low (depending very much on the product).

Source: CBC Schweiz AG (2014)

Fig. 18 Specific B2B country barriers

Product certification	Certain products sold on the Chinese market need to be certified by the China Compulsory Certificate mark. This mark is often needed for both domestic manufactured products as well as imported products (see also appendix)
Distribution	Good knowledge of local distribution partner is needed. If importing from abroad customs can be a problem.
Government policies	Get ready for lot of paperwork if willing to enter China physically.

Source: CBC Schweiz AG (2014)

3. Overview of B2B e-Commerce Market

3.5. MAIN PLAYERS

Alibaba.com

Alibaba.com is worldwide the biggest online B2B marketplace, with millions of suppliers and buyers meeting daily to close deals. No matter the size of the company or sector of the company, Alibaba is always an important platform to consider. The platform is the biggest product search engine for every product and company in B2B sales, as over 7 million suppliers are registered on Alibaba.com. Furthermore, Alibaba's AliExpress platform has provided an ideal place for smallest orders offering wholesale prices since 2010. With Alibaba.com, Chinese buyers can directly find over 5 million goods from over 20'000 qualified suppliers.

Some Facts:

- Over 7 million suppliers
- Over 13 million users within 240 countries (ensures international trade)
- Over 40 product categories
- Alibaba provides a buyer protection (liberation of the payment, after delivery of the good)²⁸

Mysteel

Shanghai Ganglian E-Commerce Co., Ltd. was founded in 2000 as a provider for IT services, with business forte into steel information, network technology, E-Commerce services and logistics management software for metallurgic companies. The firm was recognized as the leader in China's B2B steel E-Commerce sector. Mysteel.net was funded by Shanghai Ganglian E-Commerce Co., Ltd. in 2002. Mysteel.net provides real-time news on the Chinese steel market, which is the fastest-growing in the world. The company is the most successful English steel info provider in China.²⁹

Globalsources

Global Sources is another B2B marketplace which aims primarily to facilitate trading with Greater China. The main business is to provide an English marketplace to enable trading between Asia and the world using English-language resources. Over 1 million buyers from all over the world and 95 of the world's top 100 retailers use the platform to get information and goods. Furthermore Globalsources also provides integrated marketing services to suppliers in order to promote their products.³⁰

Made in China

Made-in-China.com was founded in 1996 and is a pioneer and leader in the field of electronic business in China. With the aim of enabling clients to drive cost down and increase sales and profits with effective web-based solutions, they have helped many Chinese small-and-medium-sized enterprises to compete in international trade. As China's exports are growing, Made-in-China tends to offer the most complete, accurate and up-to-date information on Chinese products and Chinese suppliers. Today, Made-in-China is counted amongst the world leading B2B portals, specializing in bridging the gap between global buyers and Chinese suppliers.³¹

²⁸ Source: <http://www.alibaba.com> - 15.05.2014

²⁹ Source: <http://www.mysteel.net> - 15.05.2014

³⁰ Source: <http://www.globalsources.com> - 15.05.2014

³¹ Source: <http://www.made-in-china.com> - 15.05.2014

3. Overview of B2B e-Commerce Market

3.6. FOREIGN PLAYERS

The foreign B2B players do not necessarily have offices in China. But in the B2B sector it is more likely that companies source worldwide. Thus foreign player can also play an important role, even if they are not as big as the Alibaba Group.

TradeBanq

TradeBanq is an online business marketplace from Dubai, which also operates worldwide. TradeBanq is providing one single platform where all the sourcing needs from companies can be satisfied.

The following services are provided on TradeBanq:

- Buy and sell products and services to and from global buyers and suppliers
- Buy and sell businesses, find investments, joint venture and invest in businesses
- Provides a single platform to manage and promote companies on the Internet³²

EC21.com

EC21.com is another globally operated B2B marketplace that connects millions of suppliers with buyers. They have over one million member, three million products and 3.5 million monthly visitors. EC21 is headquartered in Seoul, Korea and was founded as a spin-off of KITA's "eTrade Service".

There are operating in the following fields:

- Global Buyer Sourcing
- Global B2B Marketplace
- Online Marketing as well as SMM (Social Media Marketing)
- SEM (Search Engine Marketing)
- SEO (Search Engine Optimization)
- International Market Research
- Trade Consulting and Education
- Overseas Trade Missions
- Tradeshow Promotion
- Website Development and Hosting³³

³² Source: <http://tradebanq.com> – 15.05.2014

³³ Source: <http://www.ec21.com> - 21.05.2014

3. Overview of B2B e-Commerce Market

MFG.com

MFG.com is the world's largest online marketplace for the manufacturing industry, facilitating interactions between buyers and manufacturers. MFG.com allows sourcing professionals to contact quality suppliers for CNC Machining, Injection Molding, Metal Stamping, Metal and others through its online marketplace. In 2013 more than \$115 billion in RFQs were done through the marketplace, and thus MFG.com has helped thousands of manufacturers. Not only small machine shops, but also large companies were able to increase sales and grow profits because of this platform. MFG.com is globally operating with offices in the north- and mid-America, Europe and Asia.³⁴

Fig. 19 Other providers of B2B Platforms

Tradekey.com	Electronic Marketplaces worldwide for both exporting and importing countries.
Allactiontrade.com	Trade media publisher, promoter and online b2b marketplace.
TradeBoss.com	Exchange trade offers in an online environment over the Internet.

Source: CBC Schweiz AG (2014)

³⁴ Source: <http://www.mfg.com> - 15-05-2014

4. Regulatory overview

4.1. INTERNET CONTENT PROTOCOL (ICP)

Swiss companies that want to register a China country top level domain (.cn) need to apply for the Internet Content Provider (ICP) license. The Decree No. 291 & 292 of the State Council of the People's Republic of China namely the People's Republic of China Telecommunications Regulations & the Methods for the Administration of Internet-Based Information Service in China have implemented a licensing system called ICP. The license is issued by the Ministry of Industry and Information Technology of People's Republic of China, Communication Administration of the Province (Autonomous Region, Municipality), while the Telecommunication Management Bureau, Communication Administration of the Province (Autonomous Region, Municipality) approves the license.

An ICP license is also required for any foreign company that wants to operate a stand-alone website, including e-Commerce services, with a webserver based in Mainland China. The process of application for this license can be particularly time consuming, resulting in the general limitation of license applications to big companies with a lot of resources. The application takes at least 20 work days on average but can differ by case.

Fig. 20 Example ICP License



Source: Schuler Wines³⁵

The Chinese Ministry of Industry and Information Technology issues two main categories of ICP licenses, for commercial businesses and for non-commercial businesses. Non-commercial ICP licenses are for government sites, news sites, enterprises and institutions for public benefit as well as personal sites, but this is not only limited to the mentioned sites. Commercial ICP licenses include sites with online advertisement, e-commerce, sites providing host & server co-location services, sites getting paid for online services and other sites with a lucrative aim.

A foreign-invested enterprise providing services in e-Commerce must apply to the Ministry of Industry and Information Technology for a "value-added telecommunications business license". This license is a commercial ICP license and the process of application is more complex.³⁶

³⁵ Source: <http://www.schulerwine.cn/cn/> - 26.05.2014

³⁶ Source: <http://english.mofcom.gov.cn/article/policyrelease/announcement/201009/20100907128335.shtml> - 29.05.2014

4. Regulatory overview

Value-added Telecommunication Services:

- The operator should be a legitimate company located in China
- Sufficient funds & professional staff to ensure the operational activities
- Operational place, facilities and resources
- Good reputation and the abilities to provide long-term services
- Registered capital : RMB1.0 million for local operating companies (Province, Autonomous Region, Municipality); RMB10million for cross-regional operators
- Other stipulations could apply

4. Regulatory overview

4.2. CHINESE DOMAIN REGISTRATION REQUIREMENTS

The Domain Name Dispute Resolution Policy was issued by the China Internet Network Information Center. The requirements for a domain name registration in Mainland China are as following:

- Earlier application, earlier registration
- Unique domain
- 7 categories with different suffixes, classified by use (Chinese top class domain “cn” managed by Ministry of Industry and Information Technology of People’s Republic of China)
- Approval and domain registration certificate: within 10 days after receiving application materials.

Documents to submit for the application:

- Domain: checking online and confirm the domain (www.cnnic.cn)
- Contact registration service organization and provide the information including:
 - o Primary DNS (Domain Name Server) server, secondary name server, hostname, IP address, company name, code of organization, contact information: address, mailbox, tel., fax etc.;
 - o Management representative, domain technology / payment / undertaker contact person, address, mailbox, tel. etc.;
 - o Domain validity, e.g. 5 years
 - o Sign domain registration agreement and keep the certificate in the records.³⁷

4.3. PAYMENT METHODS

The most common methods of online payment are internet banking payments and third party payments. The channels used in order to do payments are online, mobile, mini payment terminal and the quick payments (the account number needs to be stated and a dynamic password ascertained).

Commissions are 0.3 – 1.8% per order or a fixed commission for certain revenues. The standard charges from the top 4 players are listed following:

Alipay (time limit-one year):

- The commission per order 1.2% of order value, if the accumulated amount exceeds RMB 60 thousand within one year, subsequent commission rate of each order reduces to 1.0%.
- Fixed commission per year based on the annual income: e.g. commission RMB 600 for income RMB 60 thousand, taxes RMB1800 for RMB 200 thousand, taxes RMB3600 for RMB 450 thousand; if the income exceeds the limit, taxes will be collected as per order 1.2%.³⁸

TenPay:

- Dynamic commission 0.3~0.8%(monthly income RMB1million ~0)
- Annual fixed commission range from RMB 480 (annual income RMB 50 thousand) to RMB 220 thousand (suitable for marketing & promotion)³⁹

China UnionPay:

Software RMB 4000(one-time fee), membership RMB 3000, commission 1.8% as per order value (lowest RMB 0.2)⁴⁰

99bill:

Charge for technique services (the amount depends on what service users have selected, lowest RMB1200), commission 1.0%(lowest RMB0.1, RMB5.0 for B2B)⁴¹

³⁷ Source: CBC Schweiz AG (2014)

³⁸ Source: <http://www.alipay.com> - 15.05.2014

³⁹ Source: <http://www.tenpay.com/v2/> - 15.05.2014

⁴⁰ Source: <http://en.unionpay.com> – 15.05.2014

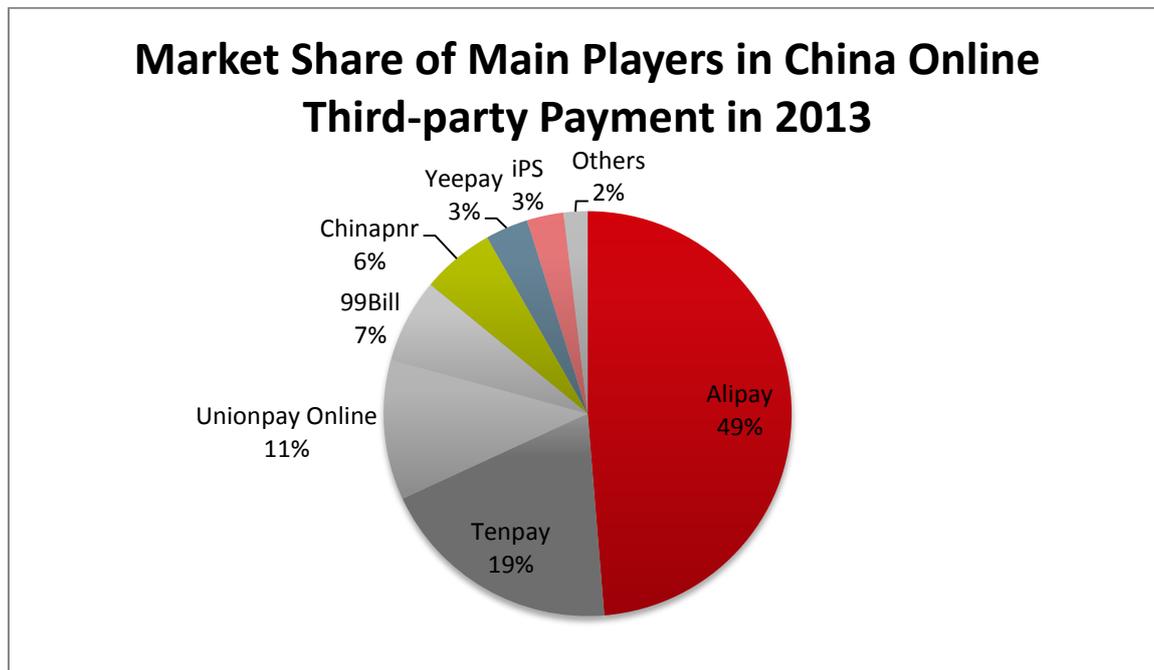
⁴¹ Source: <http://www.99bill.com> - 15.05.2014

4. Regulatory overview

4.3.1. Overview of Players

The Chinese online payment market is still approaching maturity and found its way to almost every segment of online trading. Various providers of online payment solutions are battling on the Chinese market for a higher market share and are also offering cross-border payments as well as traditional financial products. This allows them fully integrated financial solutions to clients.

Fig. 21 Market Shares of Main Players in China Online Third-party Payment in 2013



Source: iResearch (2014)⁴²

Mobile Phone Payment

The year 2012 was groundbreaking for mobile phone payment solutions. Now many industry sectors are selling goods and services online adapted for mobile payment solutions. Tencent launched within its WeChat App a payment solution that allows customers to do payments to verified accounts on Tencent's platform. Tencent's WeChat offers payment solutions for online and offline purchases. Customers are able to either pay for goods and services on webpages or inside the App, or pay in stores by scanning the QR code of products provided by offline retailers.⁴³

⁴² Source: <http://www.iresearchchina.com/views/5575.html> - 18.05.2014

⁴³ Source: <http://www.iresearchchina.com/views/5510.html> - 18.05.2014

4. Regulatory overview

4.4. PARCEL IMPORT AND TAXATION

All the entry goods including parcels shipped to China individually are dutiable according to the stipulations of Dutiable Value of Entry Goods of the People's Republic of China, effective since March 26th 2012.

The Categorization: all entry goods are categorized according to the Categorization of Entry Goods of the People's Republic of China by their name and main function. The dutiable value of the entry goods is according to the specific value and tariff rates listed in the Dutiable Value of Entry Goods of the People's Republic of China.

The dutiable value is a base for setting import duties, and a higher dutiable value amounts to more duties even if the tax rates remain unchanged. For example a bottle of imported perfume is set at a dutiable value of 300 Yuan. Therefore, the import duty would now be 150 for each bottle imported into China. Should the value of the imported perfume deviate significantly from the dutiable value, the customs will ask for the actual sales invoice or receipt in order to determine the final dutiable value.

As an example for cosmetics, the dutiable value and tariff rates are:

Fig. 22 Dutiable Value Cosmetics

Tariff Line	Name & Specification	Unit	Dutiable Value (RMB)	Tariff Rate
09000000	Cosmetics			
09010000	— Fragranced Cosmetics			
09010100	— — Perfume	Bottle	300	50%
09019900	— — Others	Piece	TBD	50%
09020000	— Cleansing/skin care			
09020100	— Face cleansing cream/lotion	Piece/bottle	100	50%
09020200	— — Eye cream	Piece/bottle	200	50%
09020300	— — Face cream/lotion	Piece/bottle	200	50%
09020400	— — Essence/Serum	Piece/bottle	300	50%
09020500	— — Lip cream	Piece	20	50%
09020600	— — Facial masks	Piece/bottle	20	50%
09020700	— — Toner	Piece/bottle	150	50%
09020800	— — Hand cream	Piece/bottle	50	50%
09020900	— — Sun screen cream/lotion	Piece	150	50%
09029900	— — Others	Piece	TBD	50%
09030000	— Make up cosmetics			
09030100	— — Foundation cream/lotion	Box/piece	200	50%
09030200	— — Mascara liquid	Piece/bottle	100	50%
09030300	— — Nail polish	Bottle	20	50%
09030400	— — Lip stick	Piece	150	50%
09039900	— — Others	Piece	TBD	50%
09040000	— Special function cosmetics	Piece	TBD	50%

Source: CBC Schweiz AG (2014)

5. Consumer rights

Parcels with a dutiable value of RMB 50 or less are duty free, but the Customs may apply the following:

- In general the Customs determines the import tariff by the already specified value and rate.
- Random checking of the actual purchase price may occur.
- For those products not specified in the list, the Customs will determine their dutiable value by the recent retail prices in major markets of the same products from the same origin.
- In the case that the actual purchase price is two times or higher, or 50% or less than the specified dutiable value, the Customs will ask for the actual sales invoice or receipt and then determine the final dutiable value.

5. Consumer rights

5.1. RETURN POLICY

The return policy has been revised in order to enforce consumer rights. On demand of the consumer, the seller of the good has to issue an invoice. If there are any complaints the customer is able to use an electronic shopping voucher to prove the transaction. Furthermore, the consumer is allowed to return the goods within seven days without any particular reason.⁴⁴ The new law is expected to encounter the latest problems in China's e-Commerce market. Besides a revised return law, the law also clarifies the liability of online shopping platforms (Taobao/Tmall, etc.). Buyers can now ask compensation from the platforms if they do not provide valid contact details for vendors using the platform.⁴⁵

5.2. PRODUCT WARRANTY

Consumers are normally protected by the San Bao or Three Guarantees Policy (Provisions on the Liability for the Repair, Replacement and Return of Some Commodities), which means that:

- If a product malfunctions within 7 days after purchase, a customer may request a refund, replacement or repair.
- Within 15 days after purchase, replacement (free of charge) or repair may be requested.
- Extensive coverage: applicable to almost all major consumer goods, such as household appliances, microcomputer products and accessories (hardware and software), automotive, clothing and shoes, etc.:
- Imported goods are also covered

Obligations of the Seller

- The party that sells the goods shall bear the responsibility for the Three Guarantees. And these obligations cannot be exempted in contracts concluded between the sellers and manufacturers, sellers and suppliers, or sellers and repair shops.
- The length of the warranty period is dependent on the type of product, ranging from 3 months to 2 years.

⁴⁴ Source: <http://www.metrocorpounsel.com/articles/28465/china-adopts-new-administrative-measure-protect-internet-privacy-and-personal-informa> - 15.05.2014

⁴⁵ Source: <http://www.iresearchchina.com/news/5254.html> - 14.05.2014

6. Logistics

5.3. CUSTOMER CARE

Distinguished customer care services are very important in China, especially in the field of e-Commerce. Because of the intense competition, Chinese customers are increasingly seeking products and services where excellent customer care is ensured. Offering customer care improves competitive advantage and customers are more likely to remain happy repeat purchase. Furthermore some marketplaces like Tmall and others require sellers to provide customer care in order to open an online store.

The advantages of providing customer services are:

- Customer satisfaction retention
- Competitive advantage against competitors
- Helpful for brand building and brand awareness
- Higher revenues

Different companies are providing services in online store creation, contact center support, e-Marketing, Online Shop maintenance and data analysis service for an indicative rate of 18% of the sales.

6. Logistics

Companies that want to do business in China also have to manage logistics, abroad as well as within Mainland China. This can be very complex and also relatively expensive as moving products within China remains very challenging. Provincial or national laws and regulations could impose road tolls, which increases the prices of the transported goods. The investments that have been done so far led to more accessible highways and railways. Furthermore there are airports in almost every province, and the capacity on the country's most important rivers has doubled in the last few years.⁴⁶

The e-Commerce industry could benefit a lot from cheap shipping costs, but the development could have been even faster with an adequate logistics infrastructure in place. According to the State Post Bureau of China, around 50% of the parcel deliveries come from e-Commerce. The logistics infrastructure is still in development in China, so late deliveries, damaged or lost goods as well as tedious return procedures are not uncommon. Another important aspect for further development of e-Commerce in China addressing the accessibility problems with inland provinces, especially those in the mountains. The government should make that these provinces more accessible, but building new roads and railways means high expenditures, which may not pay off.⁴⁷

Many e-Commerce companies outsource their delivery services to third-party express companies. The companies selling via Tmall frequently rely on these providers. The companies that cover a large network area provide mainly basic delivery services, but it is challenging to get more specific services or tailored services from them. Mainly foreign companies can step into this gap and provide more specific services or customized deliveries. These companies can also be considered as more reliable and consistent in delivery.⁴⁸

⁴⁶ Source: <https://www.kpmg.com/cn/en/IssuesAndInsights/ArticlesPublications/Documents/Transport-Logistics-in-China-201112.pdf> - 16.05.2014

⁴⁷ Source: Business and E-Commerce in China – The Marketing Guy

⁴⁸ Source: Klako Group – E-Commerce in China (February 2014)

6. Logistics

6.1. MAJOR PLAYERS BY SECTOR

Logistics has traditionally been viewed as a transportation service, and the majority of State Owned Enterprises (SOEs) continued to handle this as an in-house function. As a result of self-management and localized operational footprints, transportation and logistics operations are highly fragmented. Nevertheless, improvements and consolidation in the industry is occurring. Foreign players accelerate their expansion in the wake of market liberalization and particularly China's WTO accession. Domestic players upgrade facilities and improve their services to compete with foreign entrants. Foreign-invested manufacturers looking to improve operating efficiency along their supply chains.⁴⁹

Fig. 23 Types of large-scale logistics enterprises

Type	Enterprise	Pros	Cons
State-owned	<ul style="list-style-type: none"> - Sinotrans - COSCO - China Post 	<ul style="list-style-type: none"> - Large-in-scale - Pan-China network - Good relationship with government 	<ul style="list-style-type: none"> - Overstaffed - Low operational efficiency - Not customer oriented
Private-owned or JV	<ul style="list-style-type: none"> - PG Logistics - JC Trans - SF Express 	<ul style="list-style-type: none"> - Clear market segment in terms of location, services and targeted customers - Relatively efficient - Rapid growth 	<ul style="list-style-type: none"> - Limited assets - Weak expansion - Constrained by internal structures
Spin Offs	<ul style="list-style-type: none"> - Midea - Haier 	<ul style="list-style-type: none"> - With specialist knowhow - Good network coverage because of mother company 	<ul style="list-style-type: none"> - Difficult to develop customer base - No clear positioning, due to mother company
Foreign players	<ul style="list-style-type: none"> - FedEx - DHL - UPS - TNT 	<ul style="list-style-type: none"> - Strong international network - Good logistics operation knowhow - Developed technology 	<ul style="list-style-type: none"> - Relatively weak domestic network - Limited scope of business in China - Higher operating cost in China

Source: Fung Group (2013)⁵⁰

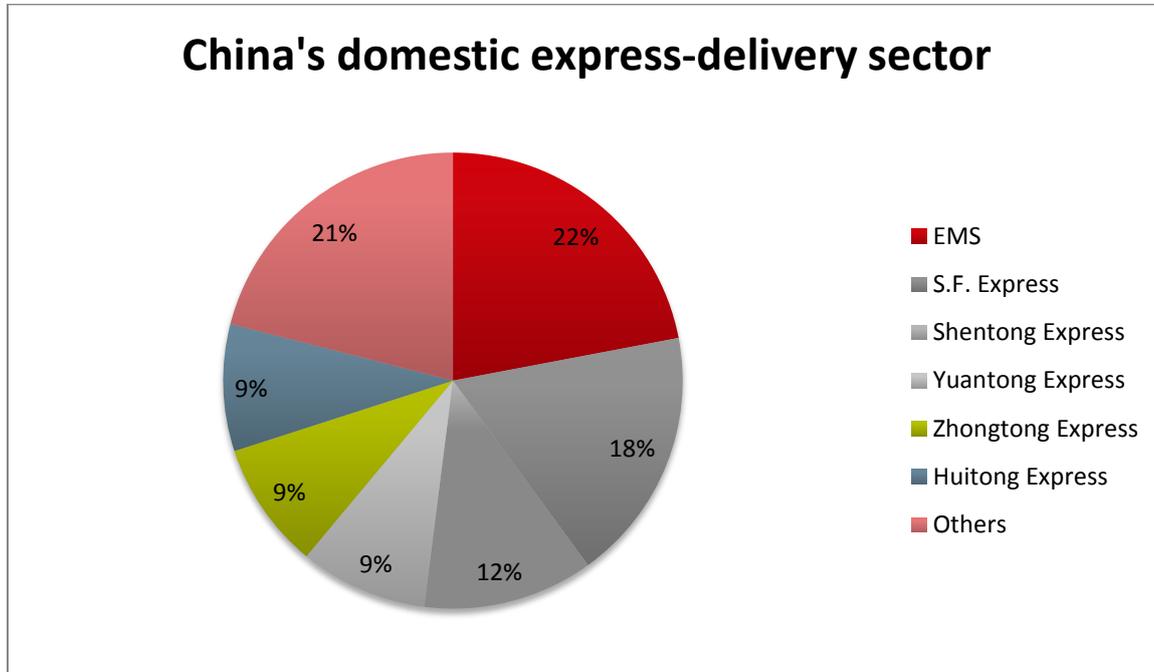
Benefiting from the high growth rates of e-Commerce, the Chinese express delivery industry has rapid growth since 2013. From January until September 2013, the express delivery companies with an annual sales revenue of over RMB 20 million, have completed the delivery of 6.18 billion mails and parcels, which represents a growth of 61.20% year on year.⁵¹

⁴⁹ Source: KPMG – Logistics in China (2008)

⁵⁰ Source: Fung Group - China's Logistics Industry Update (2012)

⁵¹ Source: <http://www.reuters.com/article/2013/11/22/research-and-markets-idUSnBw225174a+100+BSW20131122> - 29.05.2014

Fig. 24 China's domestic express-delivery sector



Source: The Wall Street Journal (2013)⁵²

6.1.1. Oversea players

Foreign providers of logistics services are usually more developed in technology, expertise in their interconnections. They are in an advantageous role when it comes to providing international logistics and express delivery solutions. These companies are also capable of providing specific logistic services that are meeting international and local requirements and are capable of fulfilling orders as per customer’s demands. In the segment of international express delivery, international companies such as DHL, FedEx, TNT and UPS have a market share of 80%. Their advantage is that they have a global network coverage, which allows them to remain efficient even for high-value orders.⁵³ The Swiss Post provide solutions to send packages to China for a starting price of CHF 12.00 for a so called “MiniPac”. It should be taken into consideration that customs needs to be cleared by the end customer.

Large-scale logistics:

- Agility
- DB Schenker
- LF Logistics

Express delivery:

- DHL
- FedEx
- TNT
- UPS

⁵² Source: <http://blogs.wsj.com/chinarealtime/2013/09/04/consumption-fuels-private-equity-bets-on-china-logistics/> - 14.05.2014

⁵³ Source: http://www.funggroup.com/eng/knowledge/research/china_dis_issue113.pdf - 14.05.2014

6. Logistics

6.1.2. Domestic players

China's logistics market is very fragmented, with numerous logistics enterprises providing various kinds of services. Local players will continue to expand into the logistics market, but government policies can punish the improvements of the logistics capacity and efficiency.

Most of the transport companies are small- and medium-sized enterprises and they tend to operate in single cities or nearby groups of cities. To increase their business activities, they try to compete with each other on price, instead of on service quality. On the other side, many large-scale logistics service companies provide in-town transportation services, and also offer all-round logistics services or provide tailor-made and sophisticated logistics solutions. Generally, they have substantial logistics resources, and comprehensive nationwide networks.⁵⁴

Fig. 25 Domestic logistics enterprises by sales revenues

Logistics enterprise	Revenue in Bn Yuan in 2011
China Ocean Shipping (Group) Company	161.6
Sinotrans & CSC Holdings Co. Ltd	99.1
China Shipping (Group) Company	62.8
Xiamen Xiangyu Group Co. Ltd	33.9
China Railway Material Group Co., Ltd	26.7
China National Materials Storage and Transportation Corporation	26.3
Kailuan Group	22.6
Tianjin Port Group	22.1
China Petroleum Transportation Corporation	21.5

Source: Fung Group (2013)

⁵⁴ Source: Fung Group – Logistics Industry China (August 2013)

6. Logistics

Fig. 26 Chinese Logistic Companies

Company Name	Website	Network Coverage	Special Coverage	Price Comparison	Delivery Time	Service of Note
ZHONGTONG (ZTO) EXPRESS	www.zto.cn	450 cities 32 regions		Yuan 402	3 days	Logistics Warehousing Packaging e-Commerce & distribution COD
HT EXPRESS	www.htkv365.com	349 cities 31 regions		Yuan 250	3 days	Packaging COD
YUNDA	www.yundaex.com	397 cities 31 regions		Yuan 327	3 days	Packaging COD
TIANTIAN	www.ttkus.com	1200 cities 34 regions 185 countries	Zhujiang River Delta Yangzhe River Delta Bohai Gulf Offshore regions	Yuan 405	3 days	International Express Delivery COD
CHINA POST EMS	www.ems.com.cn	20000 locations 2000 cities 200 countries	National Coverage	Yuan 730	2-2.5 days	International Express Delivery Warehousing COD
SHUNFENG (SF) EXPRESS	www.sf-express.com	2000 locations 1550 cities 32 regions	Guangdong Hong Kong	Ground Delivery: Yuan 300 Standard Express: Yuan 412 Same Day Air Express: Yuan 1320	Within a day	Warehouse Fee Free Packaging Materials COD International Express Delivery
ZHAIJISONG (ZJS) EXPRESS	www.zjs.com.cn	2000 cities 32 regions		Yuan 325	2 days	International Express Delivery Storage Packaging Storage COD
SHENTONG (STO) EXPRESS	www.sto.cn	315 cities 32 regions	Zhejiang Jiangsu Shanghai	Yuan 410	3 days	
YUANTONG (YTO) EXPRESS	www.yto.net.cn	1300 cities 34 regions		Yuan 402	2-3 days	

Parcel from Beijing-Chengdu
Measurements: 100 x 100 x 100
Weight: 40 kg

Source: EU SME Center (2012)

6. Logistics

6.2. LOGISTIC CHAIN AND PROCESS

Different solutions exist to send packages to China. DHL provides DHL Express to send packages in 3-5 days to China. DHL collects the package at the pick-up location and transports it to the recipient, but without doing the customs clearance. The Chinese customs are therefore able to open the package and issue an invoice to the end consumer.

Example of transporting customized shoes:

Pick up location: Bern, Switzerland

Recipient: Shanghai, China

Weight: 2kg

Product: Customized shoes

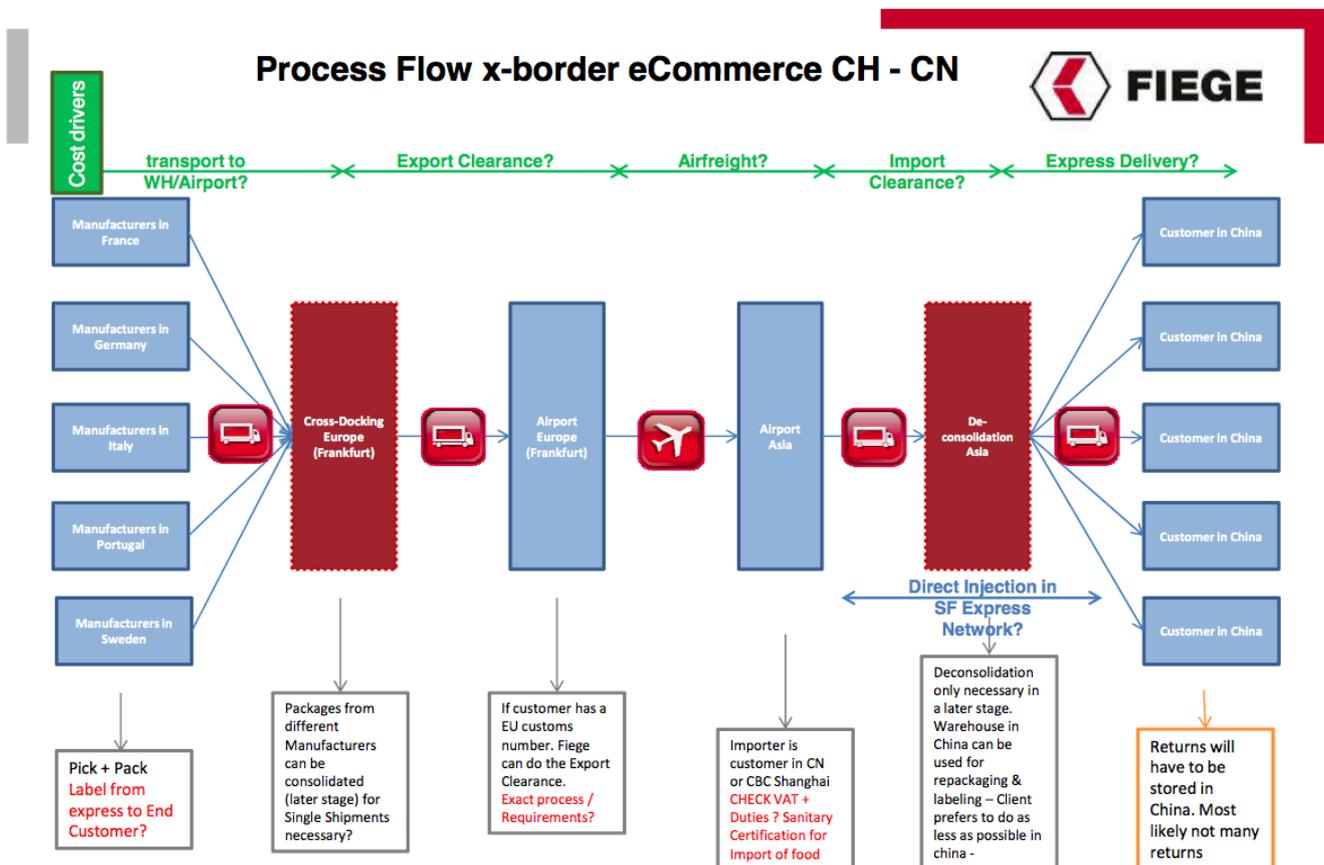
Price of the product: CHF 500.—

Price of the transportation (indicative): CHF 291.95

Goods are insured up to CHF 2'000.—

The logistics company Fiege offers fully integrated e-Commerce solutions to Swiss SMEs. The service includes order management, B2B and B2C channel Management, payment solutions, debtor management, customer services.

Fig. 27 Fiege Logistics process



Source: Fiege

6. Logistics

Transporting wine via Fiege from Switzerland to China takes 3-4 days and the costs for transportation are almost the same up to 50kg. The following example of a cost calculation is based on transporting a good via air freight.

Item: Non hazardous general cargo (Wine)
Pick up location: Bern Switzerland
To: PVG Shanghai Airport

Fees:

Pick up: CHF 75.00
Handling Export formalities: CHF 60.00
Xray: CHF 75.00
Air freight with Lufthansa: CHF 90.00
Fuel/Security CHF 2 .00 chf/kgs on cargo weight

Transporting goods from Switzerland to China requires more information that needs to be clarified like who is importing the goods to China, commercial flow, certification and label status, invoicing, return handling and export responsibilities. The local distribution in China is in most of the cases via SF Express. Consumers like to get the parcels via this provider due to short lead times, excellent quality and customer services. The costs of distributing a good within China, is not taken into consideration in the above cost overview and needs to be added to the end price. Fiege adds on 10% for the management and handling of the courier service which is standard in China.

6.3. CUSTOMS AND IMPORT TAXES

Importing to and exporting from China generally involves three types of taxes:

Value-added Tax for Imported Goods

Imported goods to China are subject to the value-added tax (VAT). The applicable tax rates are the same as those applied to goods sold within Mainland China (17 percent, and 13 percent for some other goods). VAT is paid on the day of customs clearance.

Consumption Tax for Imported Goods

Items subject to consumption tax (CT) include luxury products such as high-end watches, non-renewable petroleum products such as diesel oil, and high-energy consumption products such as passenger cars and motorcycles. Import Consumption tax is collected either on an ad value basis or quantity basis, with tax rates and amounts varying greatly. Consumption tax has to be paid within 15 days from the day that Customs issues the Import CT Bill of payment.

Customs Duties

Customs duties include import duties and export duties, with a total of 8,238 items taxed, according to China's 2013 Customs Tariff Implementation Plan. Customs duties are computed either on an ad valorem basis or quantity basis.⁵⁵ For companies that are shipping goods from outside of China, customs tariffs will have to be paid depending on the value of the product.⁵⁶

⁵⁵ Source: <http://www.china-briefing.com/news/2013/03/11/import-export-taxes-and-duties-in-china.html> - 20.05.2014

⁵⁶ Source: EU SME Centre – Selling online in China (2012)

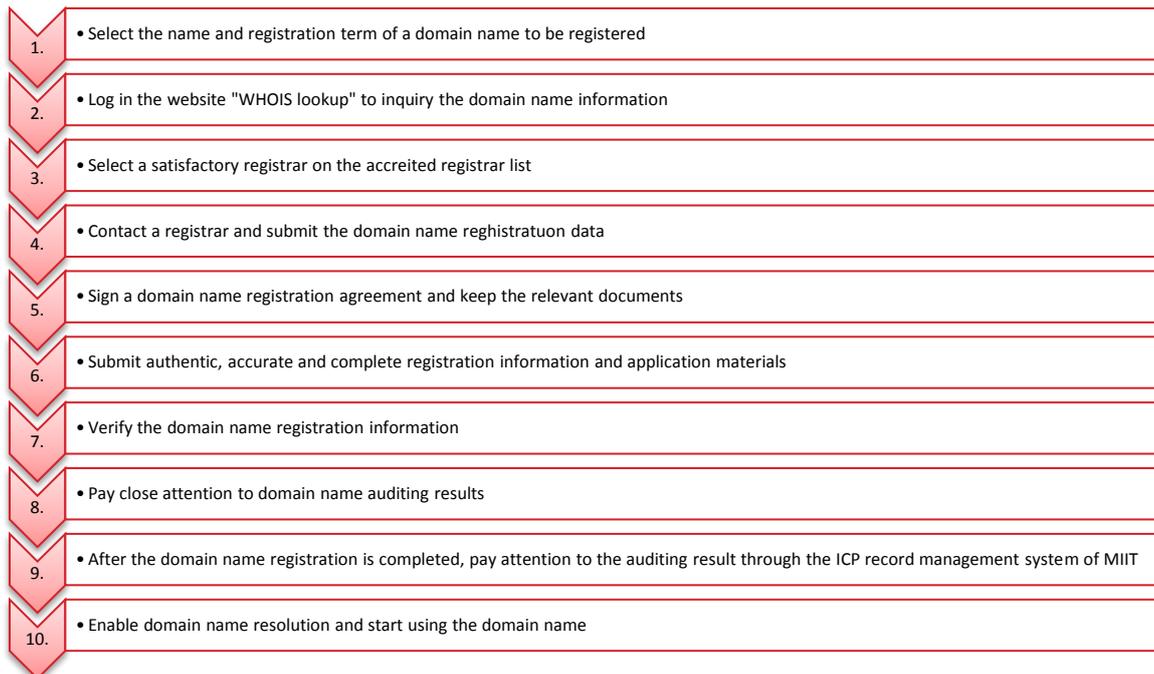
7. Business Set-Up

7.1. PHYSICAL PRESENCE IN CHINA

7.1.1. Own Website

For a Swiss Company that is present physically in Mainland China and willing to set up a stand-alone website with a hosting in China has to fulfill the same requirement as having a website abroad. The costs of a website on a Chinese server are similar to the costs of a server somewhere else. Assuming that the company is registered in China, it is necessary to register for an ICP license in order to set-up the website. This registration for the ICP license can be particularly time consuming. If the company is not registered in China it is necessary to find a local partner, either a distributor or an agent who can assist with the website registration in China.⁵⁷

Fig. 28 Procedures for CN domain name registration



Source: CNNIC⁵⁸ / CBC Schweiz AG

The China Internet Network Information Centre (CNNIC) usually takes around 15 days to review the submitted domain name registration form. Delays may occur, if the domain name has already been registered or if a related company exists.⁵⁹

⁵⁷ Source: Entering the Chinese e-Merging Market: Selling Online in 2014 China

⁵⁸ Source: <http://www1.cnnic.cn/IS/CNym/cnymyfaq/> - 19.05.2014

⁵⁹ Source: <http://www.tradecommissioner.gc.ca/eng/document.jsp?did=76359&cid=512&oid=32> - 19.05.2014

7. Business Set-Up

Fig. 29 Overview physical presence; own website

	Advantage	Disadvantage
Chinese consumer	<ul style="list-style-type: none"> - Fast delivery speed and no import taxes, assuming that the goods are in China - Customer care 	<ul style="list-style-type: none"> - Less trust, as it is not known
Swiss seller	<ul style="list-style-type: none"> - Targeted offering to Chinese consumers 	<ul style="list-style-type: none"> - Chinese website needed - No traffic on the website - Site must be registered to a company established in China - IT/Hosting costs - Import of goods

Source: EU SME Centre – Ways to enter the Chinese market / CBC Schweiz AG

7.1.2. Via Marketplace

Opening a store on Tmall.com, the biggest marketplaces in China, requires that a business entity is located in Mainland China and thus is also holding a Chinese retail business license. The products to sell are ideally located in Mainland China in order to quickly fulfill orders.⁶⁰

Fig. 30 Overview physical presence; marketplace

	Advantage	Disadvantage
Chinese consumer	<ul style="list-style-type: none"> - More likely to trust - Easier to pay online - Faster delivery, assuming that goods are in China - Customer care 	<ul style="list-style-type: none"> - Taobao/Tmall are not found on Baidu
Swiss seller	<ul style="list-style-type: none"> - Low set-up costs - Benefit from existing traffic on platform 	<ul style="list-style-type: none"> - Marketing difficult - Foreign language - Certification requirements

Source: EU SME Centre – Ways to enter the Chinese market / CBC Schweiz AG

As Tmall.com is the biggest player in the B2C market, the best way of opening a store on this platform is shown. In order to fulfill steps 1 – 5, around 4-8 weeks are needed.

Step 1: Entry Preparation

- Determine compatibility and resources requirements
- Assess prerequisites
- Determine needs from third party service providers (TPs)
- Create logistics plan
- Prepare necessary application forms
- Reserve technical resources
- Start with Application Programming Interface (API)
- Complete negotiations and sign contract with TPs

⁶⁰ Source: <http://about.tmall.com> - 18.05.2014

7. Business Set-Up

Step 2: Store Application

- Sign Tmall.com/Alipay agreement
- Open Alipay compatible bank account

Step 3: Store Development

- Plan product offering
- Plan product categories
- Plan pricing model
- Establish customer service team
- Build store page with products
- Build product detail pages
- Develop and execute API integration

Step 4: Pre-Launch

- Develop new opening plan
- Develop promotion plan
- Upload store pages to Tmall.com
- API integration online

Step 5: Launch

- Store live on Tmall.com

The costs to establish an online store on Tmall is not to underestimated. The following costs applies for a opening on Tmall:

Security Deposit

The security deposit depends upon the products or services that are sold on Tmall.com

- Flagship Store, Franchise Store: ™ RMB 100,000 | ® RMB 50,000
- Specialty Store: ™ RMB 150,000 | ® RMB 100,000
- Specialty Categories: From RMB 10'000 up to RMB 300'000

Annual Technology and Service Fee

This fee is paid to Tmall.com yearly for all the services provided on the platform. This fee is also dependent upon the registered primary category and is refundable if certain conditions are met.

- Merchants operating on Tmall.com must pay an annual fee. Depending on the merchant's primary product category, they may be charged either a fee of 30,000 RMB or 60,000 RMB.
- Customer Loyalty Program:

There is an additional 0.5% deduction (or higher at merchant's discretion) per transaction which accumulates for Tmall.com to reward consumers in future promotions.

- Commission Fee:

Tmall.com charges a small commission fee based on the category of the product sold.⁶¹

⁶¹ Source: <http://about.tmall.com> - 21.05.2014

7. Business Set-Up

7.2. NO PHYSICAL PRESENCE IN CHINA

7.2.1. Own Website

To host a website outside of China may be the easiest way to sell product to China, but it is by no means the most effective way. For Companies willing to go this path, the minimum requirement is to have a Chinese version of the webpage. Furthermore it must be possible to do payments with the most current credit cards.

Fig. 31 Overview no physical presence; own website

	Advantage	Disadvantage
Chinese customer	<ul style="list-style-type: none"> - Access to goods that are not available in China - Lower price due to no intermediaries 	<ul style="list-style-type: none"> - No or bad customer care - Difficult to find webpage - Slow loading speed of the webpage - Long shipping time - Import fees - Maybe language barrier
Swiss seller	<ul style="list-style-type: none"> - Low set-up fees - Can be set-up within a short period of time 	<ul style="list-style-type: none"> - Chinese translation needed - May be blocked by the Chinese government

Source: CBC Schweiz AG

Companies that want to operate from abroad should consider, that website loading times are taking longer when the server is not based in Mainland China. The following tests have been done in Mainland China and show a comparison of loading times from servers in different locations:

Loading Time Server China:	Average Speed for 56 bytes (ping): 32.045 ms (indicative)
Loading Time Server Hong Kong:	Average Speed for 56 bytes (ping): 34.993 ms (indicative)
Loading Time Server USA:	Average Speed for 56 bytes (ping): 74.002 ms (indicative)
Loading Time Server CH:	Average Speed for 56 bytes (ping): 337.655 ms (indicative)

7.2.2. Via Marketplace

Selling products via marketplaces based outside of China will not guarantee big success. Chinese customers are used to buying good on their Chinese marketplaces such as Taobao or Tmall. Therefore a Company should not sell its products to Chinese customers via a “Western” marketplace such as eBay or others.

Fig. 32 Overview no physical presence; marketplace

	Advantage	Disadvantage
Chinese customer	<ul style="list-style-type: none"> - Access to goods that are not available in China 	<ul style="list-style-type: none"> - Language barrier - Use to Chinese payment methods - Long delivery time - Import costs - Custom tariffs - After sales service
Swiss seller	<ul style="list-style-type: none"> - Accustomed with local platforms - Low costs 	<ul style="list-style-type: none"> - Hard to target market

Source: EU SME Centre (2013)⁶²/ CBC Schweiz AG

⁶² Source: EU SME Centre – Ways to enter the Chinese market (2013)

7. Business Set-Up

Tmall has recently started with their international platform for China “Tmall Global”, setting up a marketplace on this platform should be considered. Tmall Global allows companies that are based abroad to directly advertise and sell to millions of Chinese customers. Companies without a China business license are allowed to open a store on Tmall Global. The requirements for opening a store on Tmall Global are meant to provide a China-based product return arrangement and also a Chinese-language customer service support.⁶³

Fig. 33 Tmall Global store types

Flagship Store	Flagship Store (Marketplace)	Authorized Store	Specialty Store
<ul style="list-style-type: none"> - The products shall have the relevant trade mark registrations in Hong Kong or have applied for but pending the approval for a registered trademark in Hong Kong. - If the Merchant is a brand owner, they shall provide the trade mark registration certificate for their products. - If the Merchant is an exclusive authorized dealer, he shall provide the trademark registration certificate for the products and the letter of authorization for selling his products. 	<ul style="list-style-type: none"> - Merchant shall have or have applied for a Class 35 trademark (the “Service Mark”) in Hong Kong for its brand. - If Merchant is the owner of the Service Mark, the Merchant shall also provide its trademark registration certificate. - If Merchant is not the owner of the Service Mark, the Merchant shall provide the Service Mark and evidence of their exclusive authorization to use or operate a store on Tmall.hk Website using the Service Mark. 	<ul style="list-style-type: none"> - The products shall have its trade mark registration in Hong Kong or have applied for but pending the approval of its trademark registration in Hong Kong. - If Merchant is not the owner of the trademark of its products, he shall also provide evidence of his authorization to operate a store on the Tmall.hk platform. 	<ul style="list-style-type: none"> - Evidence of product source, and invoice of the products purchased. - The name of the shop shall not infringe the legitimate rights of others. - Specialty store types may sell products of up to two categories.

Source: Tmall⁶⁴

⁶³ Source: <http://about.tmall.com> - 20.05.2014

⁶⁴ Source: <http://about.tmall.com> - 21.05.2014

7. Business Set-Up

In order to open a store on Tmall Global steps 2-5 should be considered and it can take 4-8 weeks for the process. Following is step by step procedure:

Step 1: Entry Preparation

- Determine compatibility and resource requirements
- Assess prerequisites
- Determine needs from third party service providers (TPs)
- Create logistics plan
- Prepare necessary documents
- Reserve technical resources
- Begin API integration
- Complete negotiations and sign contracts with TPs

Step 2: Store Application

- Sign Tmall.hk/Alipay agreement
- Open Alipay compatible bank account

Step 3: Store Development

- Plan product offering
- Plan product categories
- Plan pricing model
- Establish customer service team
- Build store page with products
- Build product detail pages
- Develop and execute API integration

Step 4: Pre-Launch

- Develop new opening plan
- Develop promotion plan
- Upload store pages to Tmall.hk
- API integration online

Step 5: Launch

- Store live on Tmall.hk

Costs to set-up a store on Tmall Global:

Deposit

Flagship Store, Flagship Store (Marketplace), Authorized Store, Specialty Store must submit the required \$25,000 security deposit to operate via Tmall Global.

Technology and Service Fees

This fee is payable to Tmall Global yearly for services rendered. This fee is dependent upon the merchant's registered primary category.

Real Time Transaction Fee

Tmall Global charges a commission fee based on the category of the product sold. The commission fee is calculated using the product price and the logistics cost.⁶⁵

⁶⁵ Source: <http://about.tmall.com> - 21.05.2014

7. Business Set-Up

Alipay Service Fee

Alipay charges a 1% service fee, applied to each transaction via Tmall Global. The applicable transaction is the total of the product price and logistics fee.⁶⁶

7.2.3. Other Ways

goCommerce

goCommerce offers to Swiss manufacturers of quality products, the opportunity to present their products online directly to the Chinese consumers. goCommerce has implemented its own online presence on the Chinese Internet. With the brand “The Alpine Cabin”, Swiss products—and in the future products from the adjacent Alpine region as well—will be sold directly to the Chinese end consumer.

The company is currently present on Alibaba’s platform Taobao (<http://alpine.taobao.com>). Products are ordered by Chinese consumers, and the respective manufacturers directly pack and ship the products to the end consumers. Manufacturers are using a new, innovative delivery network from Yakit, a U.S. startup company from Sunnyvale, CA.

The system provided by Yakit, combined with the shipping logistics with this solution and are allowing orders to be sent directly to the end consumer B2C and DDP (duty paid). Furthermore the system provides to fully track the package from the manufacturer to the Chinese end users. The delivery time is currently 12-15 days, however, their goal is to bring down the delivery time to 10 days.⁶⁷

e-WOOW

E-woow from CBC Switzerland Ltd., helps you to overcome language barriers and to create your very own Chinese HTML page that will show-up in the results of Chinese search engines. The greatest barrier to achieving visibility to consumers is the tendency of Chinese people to search in Chinese and use Chinese search engines, such as Baidu, rather than Google and Yahoo. This creates a stiff barrier between Chinese customers and Western users based on both language and surfing habits/online resources. By simply entering the descriptions of the products or services, the e-woow team translates the text into Chinese and promotes it on the Chinese Internet. The one-page HTML is hosted in Mainland China and lacks the risk to get blocked, as the e-woow platform has applied for an ICP license.⁶⁸

⁶⁶ Source: <http://about.tmall.com> - 21.05.2014

⁶⁷ Source: <http://www.gocommerce.ch> - 29.05.2014

⁶⁸ Source: <http://www.e-woow.com> - 29.05.2014

7. Business Set-Up

7.2.4. Marketing in China

7.2.4.1. Social Media in China

Effective use of Chinese social media can be critical in establishing a successful e-Commerce operation. According to the China Internet Network Information Center (CNNIC) over 40% of the Chinese online shoppers have seen a product on social media before buying it. Online shoppers heavily rely on recommendations and ratings of other customers. It is very important to take into consideration that purchasing decisions are highly made on word-of-mouth recommendations and also on key opinion leaders.⁶⁹ Because Chinese consumers distrust advertising and news sources, recommendations from online reviewers and peers on social networks are very important for people that want to buy goods on the Internet. People generally distrust advertisements and mainstream media in general because they assume that it is associated with (government) propaganda. It can be assumed that social media influences buying decisions to an even greater degree in China than elsewhere in the world.⁷⁰

The social media landscape in China differs very much from the social media landscape in the rest of the world. Social Media platforms are very important in order to communicate with customers, but an entry into Chinese social media is not easy at all. Due to political and economic issues, popular social media platforms as they exist in the western world, are blocked in China. Companies that want to reach their Chinese clients through Social Media need to be familiar with the local practices and platforms.

China is about to become the largest Social-Networking-Nation in the world. Nevertheless, the Chinese Social Media landscape is unknown to most of the western companies. Popular Social Media platforms such as Facebook, Twitter, and YouTube are blocked in Mainland China. Furthermore Chinese people prefer to communicate in their language, which creates an additional hurdle to Companies that want to enter this market.

Fig. 34 Social Media Landscape in China



Source: CBC Schweiz AG (2014)

⁶⁹ Source: <http://www.iresearchchina.com/news/4888.html> - 14.05.2014

⁷⁰ Source: <http://mashable.com/2012/05/20/e-commerce-china/> - 14.05.2014

7. Business Set-Up

The most popular Chinese Social media platform is Weibo and corresponds in function with Twitter. Weibo was formerly known as Sina Weibo and had 129.1 million active users in December 2013.⁷¹ Another very popular social media platform is Renren, which corresponds to Facebook. At the end of the Q2 2013, Renren had 194 million active users according to ChinaInternetWatch. This networking site is very popular with Chinese students and people can link themselves with fellow students and other friends.⁷²

However, the crown of critical platforms in both influence and communication ability may go to the App WeChat, released by Tencent in January 2011. WeChat counts 396 million monthly active users and over 100 million at any given time, and is best known for its Instant Messaging functions similar to the western App Whatsapp (and the Japanese App LINE, which is also growing in popularity in China for its cute stamps and stable phone connection). It is also possible to send photos and videos through the WeChat, as well as build online profiles and blog like posts. With the greater popularity of mobile internet use in China compared to the west, it might be a fair assessment to see WeChat as the true corresponding platform to Facebook (as opposed to the much less active computer-based platforms like Renren). Furthermore, it is possible to purchase goods and to pay them via the App by scanning QR codes. Companies can also set up their own business profile on WeChat.⁷³

7.2.4.2. Search Engine Optimization in China

China's most important search engine is Baidu, with a market share of over 70%. In order to promote a domain on this search engine, it is important to consider the following points:

- A top-level-domain (.cn) leads to a higher ranking on the Baidu search results
- As on Google, on Baidu it is important to do a proper Keyword analysis
- The page description (meta-tag) still plays an important role on Baidu
- Content is King!
- Backlinks leads to a higher ranking
- If possible, host your website in China

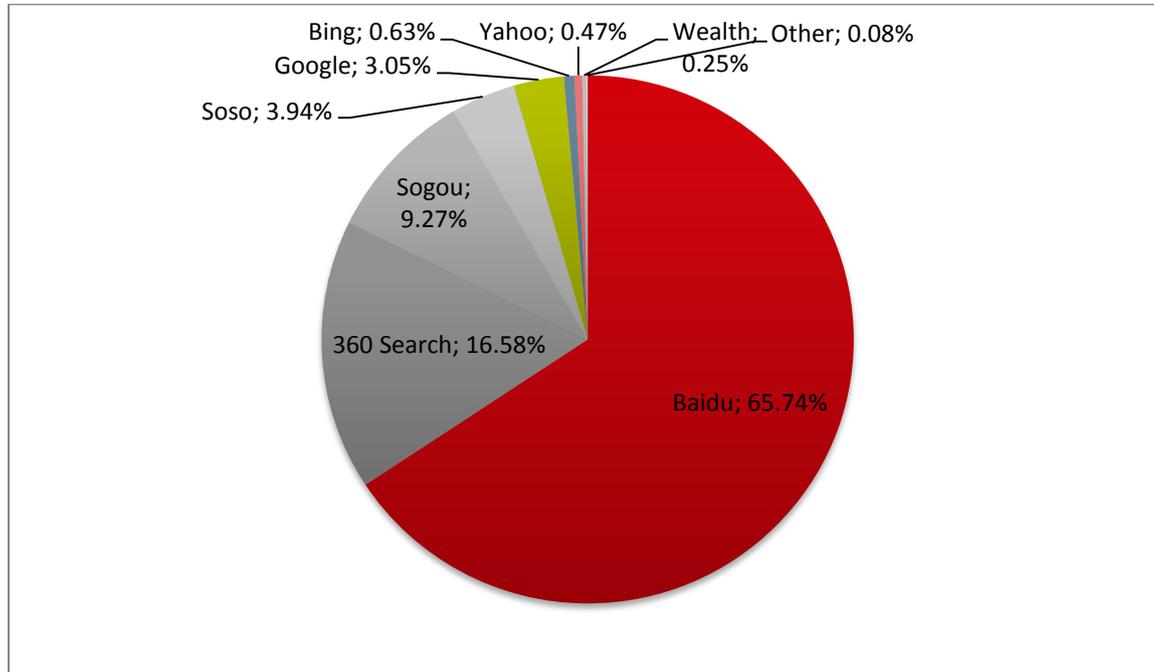
⁷¹ Source: <http://www.scmp.com/news/china-insider/article/1469338/weibo-less-active-expected-says-new-study> - 14.05.2014

⁷² Source: <http://www.chinainternetwatch.com/3335/renren-active-users-up-to-194-million-in-q2-2013/> - 14.05.2014

⁷³ Source: <http://www.tencent.com/en-us/content/at/2014/attachments/20140514.pdf> - 14.05.2014

7. Business Set-Up

Fig. 35 Search Engine Market Shares in China



Source: Search Engine Watch (2013)⁷⁴ / CBC Schweiz AG

Baidu prioritizes Chinese websites, because it is very hard for this search engine to differentiate between different languages. In order to get a good ranking on Baidu, it is important to have a fully translated webpage, which also increases the trust of the customers. Baidu will also give an essential importance to bigger websites than to websites with a higher number of webpages.

Fig. 36 Main differences Google vs. Baidu

	Google	Baidu 图标
Page Title	Major	Major
Meta Description	Minor	Major
Meta Keywords	None	Major
Heading Tags	Medium	Major
Alt Tags	Minor	Major
Internal Anchor Text	Major	Medium
External Anchor Text	Minor	Medium
Quantity of Inbound Links	Medium	Major
Quality of Inbound Links	Major	Minor
Sitemap	Medium	Medium
Site speed	Minor	Major

Source: Codethat (2013)⁷⁵

⁷⁴ Source: <http://searchenginewatch.com/article/2280420/Googles-Search-Market-Share-in-China-Falls-to-Just-3/> - 14.05.2014

⁷⁵ Source: <http://www.codethat.co.uk/blog/search/baidu-seo-guide> - 24.05.2014

7. Business Set-Up

Marketing Agencies in China are providing services for western companies, enabling users to find said companies on the “Chinese” Internet. Potential Chinese customers that are looking on Baidu for a specific product will be able to find this product. As it is not possible for most of the companies to have their own websites in China, it is hard for Chinese customers to find these product via Baidu. There are different solutions to that problem, such as partnering with a local marketing firm in order to get a webpage or to choose a second level domain .com.cn. CBC Marketing & Communications provides a tool in e-woow that allows foreign companies to be found on Baidu. One page html will be created and linked to the company website. This one page html is online on a Chinese server so that Baidu is able to index the webpage. To summarize, Baidu is only available in Chinese while Google is available in several languages and Baidu is doing much more censoring than Google in order to follow the imposed censorship of the Chinese Government.

When going online with its own website in China, it is better to collaborate with a local SEO agency which is familiar with Baidu’s guidelines. SEO services starts from 20’000 RMB a year to optimize the website in order to get found on Baidu.

8. Case Studies

8.1. STAND-ALONE WEBSITE, PHYSICAL PRESENCE

The company Boschung has over 60 years of history in developing and manufacturing high quality products in Switzerland, France, Germany, Austria, China, North America and Russia. Swiss Marcel Boschung AG factory mainly produces all kinds of special vehicles, which are later sold to customers around the world. Boschung is servicing B2B as well as B2C clients.



Source: Boschung China⁷⁶

The Company is running a stand-alone website in Mainland China, with an average loading time of 40.583 ms for 56 bytes (access from Mainland China). Boschung is mainly leading a relationship based client acquisition. That is why the company doesn't push online marketing activities for the moment. Boschung is not present on Social Media platforms in China and therefore they are able to do the whole online marketing in-house. Furthermore Boschung has acquired an ICP license, which means that this webpage meets the Chinese government's policies.

Boschung is getting a few requests via their website but most of the clients are acquired via exhibitions, summits, other merchants or requests for quotations. The products are then either directly distributed to the end client or sold to other merchants, which means that Boschung operates in the field of B2B. In general, Boschung China considers its marketing strategies as successful.

⁷⁶ Source: <http://boschung.cn> - 29.05.2014

8.2. TMALL – PHYSICAL PRESENCE

The Company SwissmooH was founded by the independent Swiss dairy farmer’s association Nordostmilch AG. SwissmooH entered the Chinese market with a wholly foreign-owned enterprise (WFOE) in October 2012 and has opened a flagship store in Qingdao in May 2013. The company supplies its major share of milk to the local artisanal cheese makers and dairies. SwissmooH is providing a range of selected premium products for Chinese customers.



Source: Tmall⁷⁷

SwissmooH started their e-Commerce activities through a stand-alone website, but quickly the company became aware that most of the Chinese customers don’t trust shopping through stand-alone websites. SwissmooH opened a flagship store on Tmall.com in October 2013. It is now possible to order products via swissmooH.tmall.com from home, delivered to the customers door. SwissmooH has two distribution centers, one in Qingdao and one in Shanghai, in order to assure timely, stable, and cool delivery.⁷⁸

SwissmooH is mainly promoting Swiss cheese on Tmall via the “Pay-per-Click” solution provided by the platform. So it is possible for customers to find the cheese very quickly and also to browse for other products provided by SwissmooH on Tmall. The company is not promoting their Chinese website on Baidu or other Chinese search engines because the success of the shop on Tmall is much higher. Therefore the traffic on their webpage is rather low. Furthermore SwissmooH’s marketing activities are complemented by Social Media activities via WeChat, Weibo and Facebook. The online marketing activities are done in-house and only the distribution and the customer service are outsourced.

⁷⁷ Source: <http://swissmooH.tmall.com> - 29.05.2014

⁷⁸ Source: <http://www.swissmooH.ch> - 30.04.2014

8.3. STAND-ALONE WEBSITE, NO PHYSICAL PRESENCE

Since 1931 the Swiss company JURA Elektroapparate AG has developed innovative and quality, high standard home appliances. One of the major products is fully-automatic machines for espresso and coffee, as JURA is one of the pioneers in this field. This traditional Swiss brand has strengthened in recent years and has become a global player. JURA is present in around 50 countries worldwide with its products, sales via distributors and joint ventures, as well as in-house retail stores.



Source: JURA China⁷⁹

JURA Elektroapparate AG is not physically present in Mainland China with own offices or stores. The company has created a stand-alone website, with a server based in Singapore (www.cn.jura.com). The indicative average loading speed for the website is 56 data bytes in 69.570 ms (access from Mainland China). The website is fully in Chinese and English and is ranked on Baidu. Therefore it is possible for potential Chinese customers to find Jura on the Chinese Internet. Supported by Search Engine Optimization in Chinese, it allows Jura to directly be present on the Chinese Internet. It is also possible to buy JURA appliances via Tmall, Taobao, JD, and Amazon. These shops are operated through the local distributors or re-sellers.

JURA is selling its products via Shanghai Qijie Economic and Trade Co. Ltd, a distributor based in Shanghai. Branding guidelines are predefined by the JURA headquarter in Switzerland. Furthermore the company is doing sales promotions in China via the distributor. They are also providing Coffee-Seminars and trainings regarding the provided sales products to the selling staff. These trainings are important for the distributors as they usually also sell products from other brands. Additionally Jura is present on exhibitions.

⁷⁹ Source: www.cn.jura.com - 30.05.2014

8.4. TAobao - NO PHYSICAL PRESENCE

The company goCommerce GmbH was founded in October 2012 as a spin-off of the Swiss Post. More and more manufacturers sell their products via online shops directly to the end customers. And this not only nationally, but also internationally. goCommerce has specialized in building online sales channels with integrated B2C international shipping in selected target countries.



goCommerce has built a B2C online shop in China, which is integrated into the local online platforms, and market products offered in the shop via Chinese social media platforms. The shop was opened under Alibaba's platform Taobao. The Swiss manufacturers of the original products can sell their products through this online shop directly to Chinese consumers. goCommerce takes on not only the online marketing and online sales but also the delivery of the products purchased directly from the manufacturers in Switzerland to the Chinese end users. goCommerce uses an innovative delivery system that has been developed within the framework of Swiss Post, together with international partners.⁸¹

⁸⁰ Source: <http://alpine.taobao.com> - 29.05.2014

⁸¹ Source: http://www.gocommerce.ch/epages/goCommerce.sf/de_CH/?ObjectPath=/Shops/goCommerce/Categories/AboutUs - 30.05.2014

8. Case Studies

8.5. OTHER CASES

The Storchen Zürich is a traditional first class establishment with elegant rooms and suites in the heart of the old city. They are particularly well known for their first class Hotel rooms as well as their services. Due to the 650 year old history, tourists from all over the world are enjoying the amenities of this Hotel.⁸²



Source: Hotel Storchen⁸³

In 2013, the Hotel decided to translate their entire webpage into Chinese, in order to attract more Chinese tourists. Furthermore they have decided to collaborate with a marketing agency for a promotion on the Chinese Internet, with the translation of the webpage and the marketing solutions provided by the agency, it is now possible to find them on the biggest search engine in China (Baidu). Storchen's webpage has a server based in Switzerland and the average loading time for 56 bytes is 279.059 milliseconds (access from Mainland China).

After translating the website into Chinese the page was ranked on Baidu and the magazine ID View found the Hotel on the Internet. This magazine wrote an article about the Hotel Storchen in Zurich. Furthermore the Hotel Storchen recorded an increase in the number of guests from China.

⁸² Source: <http://www.storchen.ch/en/> - 19.05.2014

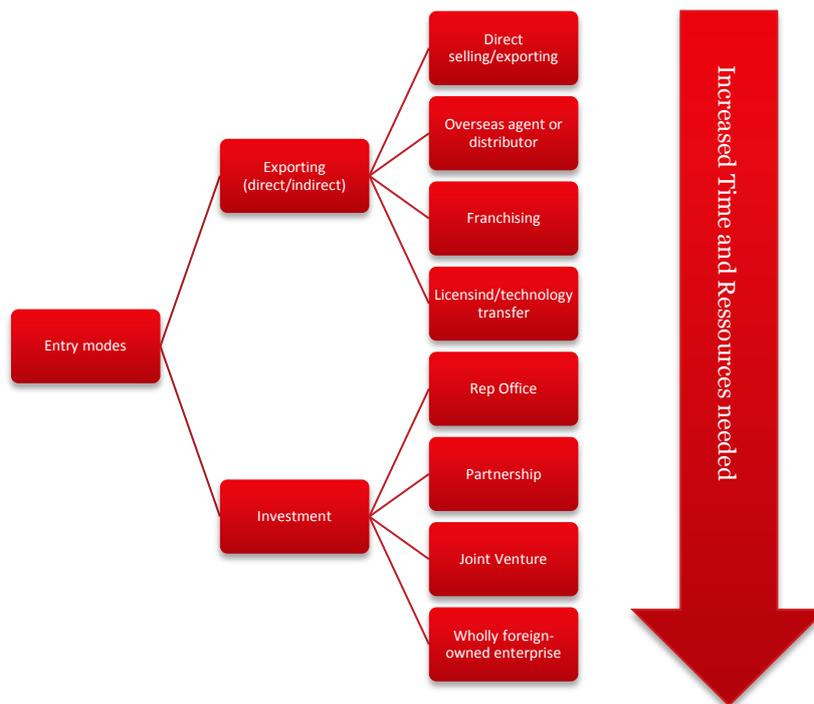
⁸³ Source: <http://www.storchen.ch/cn/the-house/portraet/> - 19.05.2014

9. Recommendations

E-Commerce in China is still experiencing high growth. Therefore many companies seek to enter into this fast growing market, but these companies should take into consideration that China is very competitive, especially within the e-Commerce market. It is very important to understand the target market as well as its customers and how they are acting. As China has over 1.3 billion inhabitants, it is not only important to cover the needs of the well developed areas, but also the needs of less developed regions as there is tremendous growth potential in consumption.⁸⁴

The recommendations for a market entry into China can differ greatly depending on how a company wants to be present on the market. For companies it is very important to know the different alternatives that exist for a market entry.

Fig. 37 Ways to enter the Chinese market



Source: EU SME (2013)⁸⁵

⁸⁴ Source: KPMG – China 360 – E-commerce in China: Driving a new consumer culture (January 2014)

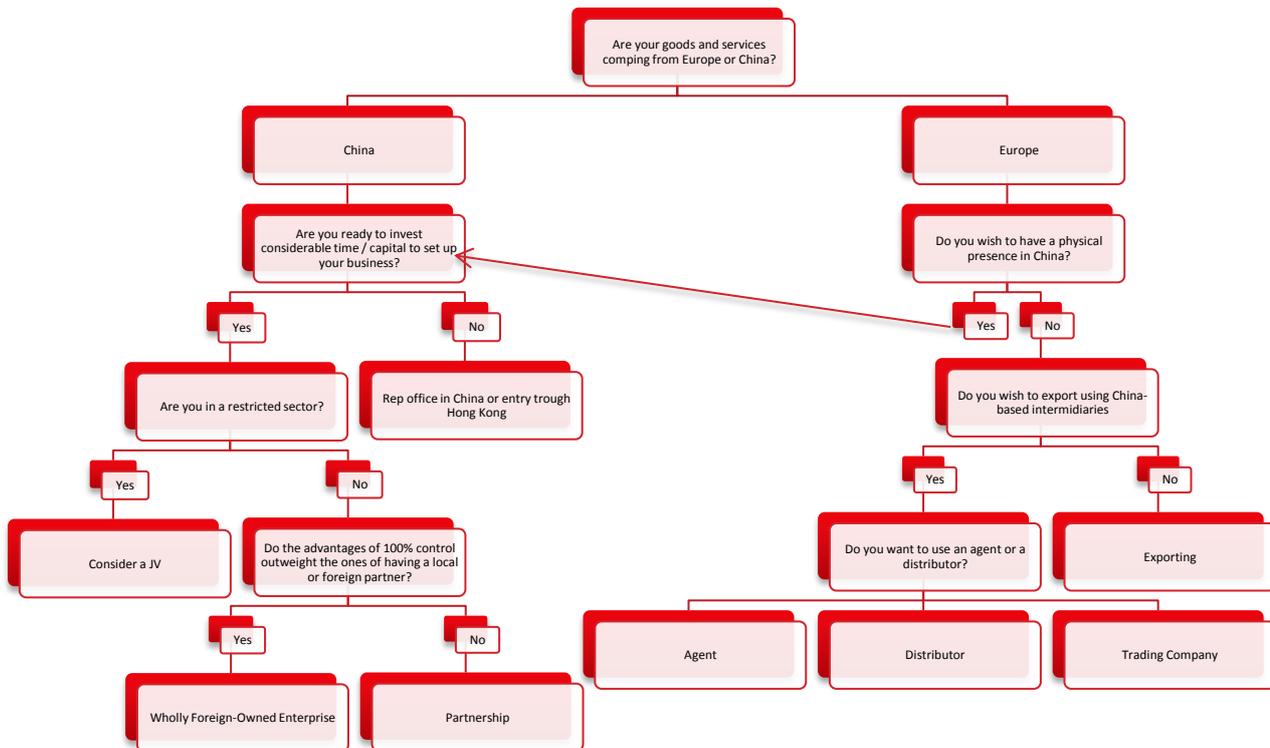
⁸⁵ Source: EU SME – Ways to enter the Chinese Market

9. Recommendations

The considerations, which have to be made in order to choose the right way for a market entry into China, are:

- The size of the firm
- The nature of the products
- Any export experience and expertise
- Business conditions and regulations
- Physically presence needed (i.e., marketing, customer care)
- Need of control of the product or intellectual property rights
- Time and resources of the company

Fig. 38 Market Entry China Decision Matrix



Source: EU SME (2013) – Ways to enter the Chinese Market⁸⁶

Setting up an online business in China means dealing with different factors that do not usually exist elsewhere. Having a standalone website in China requires application for an ICP license. For this, a Company needs to be physically present in the Chinese Market. Creating a website on Tmall.com requires a company to be physically present in Mainland China. For companies that are not present yet, it is possible to set up a standalone website outside of China as well to access the Chinese market through Tmall Global or another marketplace like Amazon.

The biggest part of the demand in e-Commerce is the products that people cannot find in physical stores. Many consumers, especially amongst the younger age groups, have their first contact with a brand over the Internet. The interaction between search engines and e-Commerce is different in China than in the rest of the world. Outside of China, most of the people start

⁸⁶ Source: EU SME – Ways to enter the Chinese Market

9. Recommendations

their shopping intentions with a search on Google. In China, Baidu is the biggest search engine, and this search engine blocks results from the biggest marketplaces Tmall and Taobao. This results in many Chinese shoppers starting their search on Taobao or Tmall. Customers are not only looking for discounted products on the Internet, but increasingly for unique products.

Due to the distrust in mainstream advertisements, Chinese consumers heavily rely on recommendations, both by word of mouth and by online experience reports. It is very likely that customers will check product recommendations on social media platforms. For companies looking to sell products via the Internet, a social media presence can be critical. Furthermore, it is very important to take into consideration that customer care plays a very important role in the whole Chinese e-Commerce operation.

Logistics are also critical in successful e-Commerce. Chinese customers are not only concerned about the costs and the risks of damage through delivery, but also delivery times and authenticity of goods.⁸⁷

It is very important to fulfill the orders of China's super-heavy spenders to satisfaction in order to build reputation, retention, brand, and take a place in the Chinese market. This way it is possible to engage Chinese customers with value propositions and build loyalty to the brand.

For Swiss SMEs, selling online can be a good way to enter the Chinese market, even without doing a larger investment. Marketplaces provide a relatively low cost method of selling products to a large customer base. This also has the advantage of circumventing the need for an ICP license in order to do business in China.

The free trade agreement between China and Switzerland signed in 2013 in Beijing, will become effective in July 2014. This agreement is particularly important since it is the first free trade agreement between China and a continental European nation. On top of that, the sectors of fine mechanical goods, power stations, chemicals and watches can benefit from lower or no custom tariffs. (4.2 % of Swiss exports to China will eventually receive zero tariffs according to this FTA.)⁸⁸

Points to consider when entering Chinese e-Commerce market:

- Conduct in-depth market study
- No physical presence: hiring a quality service provider to manage online shop
- Aligned marketing strategy
- Chinese language on the website is a must
- Set up a mobile version of the homepage
- Good understanding of the logistics and distribution process
- Parcels could be maintained at the customs and clients need to pay the tariffs in order to receive the sending
- Readiness to have limited control over IPR (Intellectual Property rights)
- Entering Chinese e-Commerce means offering appropriate (localized) payment methods to potential customers
- Not only low prices are crucial to succeed in the Chinese market, but also uniqueness and quality
- Customer care is crucial for Chinese customers
- Language Barrier & Cultural differences
- Without ICP License the Website can be blocked at any time and without premonition
- If entering China, it is important to be ready to deal with a lot of bureaucracy
- Negative reviews will have a tremendous impact on your sales
- Engage your existing customers by sending information via SMS, e-mail or other channels

Big marketing efforts need to be undertaken to promote the product or services in this challenging but promising market. The use of different marketing tools such as SEO, Pay-per-click and social media should seriously be taken into consideration. Regarding the online marketplaces, it is very important to understand their ranking system, because it can have a tremendous impact on the sales when a company loses the rating on a marketplace like Tmall. Furthermore, it is very important not to underestimate the time, financial and human resources required to firstly enter the Chinese market and later on to maintain the online presence either through a standalone website or a marketplace. Usually such a market entry requires a separate team, which is only dedicated to online marketing issues.⁸⁹

⁸⁷ Source: <http://www.bcg.com/media/PressReleaseDetails.aspx?id=tcm:12-92179> - 27.05.2014

⁸⁸ Source: http://www.chinadaily.com.cn/business/2013-07/06/content_16741193.htm - 27.05.2014

⁸⁹ Source: Entering the Chinese e-Merging Market – Danai Krokou (2014)

10. Appendix

China Compulsory Certificate mark main categories

- Electrical wires & cables
- Circuit switches, electric devices for protection or connection
- Low-voltage Electrical Apparatus
- Low power motors
- Electric tools
- Welding machines
- Household and similar electrical appliances
- Audio & Video apparatus
- IT equipment
- Lighting apparatus
- Telecommunication Terminal equipment
- Motor vehicles
- Motor vehicle tires
- Safety glasses
- Agricultural Machinery
- Latex products
- Medical devices
- Fire fighting equipment
- Safety protection products
- Home décor and remodeling products
- Safety party and accessories of vehicles and motorcycles
- Toy products
- IT products⁹⁰

Check-List

Step 1:

- Market risks and opportunities
- Labeling requirements
- Pricing
- Warehousing
- Supply Chain
- Product registration

Step 2:

- Choose online platform
- Choose & train service provider
- Create flagship store
- Align with local language website
- Keep track of the competition
- Monitor sales
- Modify product/service offering and price if needed

Step 3:

- Understand well regulations and product registration requirements
- Hire an import agent
- Monitor regulatory environment
- Calculate customs fees and logistics costs⁹¹

Useful Links & References

- MINISTRY OF INFORMATION AND INDUSTRY (MIIT)

Statistics on China's IT and telecommunication industry from the Chinese government.

www.miit.gov.cn

- CHINA INTERNET NETWORK INFORMATION CENTRE

Statistics on Internet usage in China.

www.cnnic.net.cn/en/index/

- IRESEARCH CHINA

Graphics and statistics about China

www.iresearchchina.com

⁹⁰ Source: <http://www.china-certification.com/en/list-of-ccc-mandatory-products>
- 20.05.2014

⁹¹ Source: Entering the Chinese e-Merging Market
– Daniel Krokou (2014)

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