

# ARE YOU LOOKING FOR GROWTH IN THE CHINESE MARKET? GET ONE STEP CLOSER!

This white paper answers the fundamental questions for entrance into the Chinese market and our helpful check-list will set you up for success.

# INTRODUCTION

Chinese consumers' rising demand of overseas products have provided international retailers with a wealth of opportunities. Especially products that are "Made in Germany" are much-loved and sought-after by Chinese buyers. Most of all, young people are excited by new brands that represent their individual tastes and lifestyles. Light luxury, a newly defined kind of affordable premium product, is gaining popularity due to the rising cost of living in major cities<sup>1</sup>. This has led to specific product categories being sought after by Chinese consumers who have already developed strong preferences for products from different countries - especially when it comes to cross-border purchases. For Germany, the most-loved product categories are cosmetics, kitchen utilities, nutritional supplements, mother-child products and personal care products.

According to a study on Chinese Consumerism from McKinsey (2015), China has the largest middle class in the world. Over 225 million wealthy Chinese take advantage of their steadily increasing disposable income for foreign premium products. Around 122 million Chinese tourists learn about foreign products whilst on holiday and spend, on average, USD 900 for them.<sup>2</sup> Primarily, consumers from tier 1 cities such as Beijing, Shanghai, Shenzhen and Guangzhou, but also Chinese consumers from tier 2 and tier 3 cities are increasingly exploring markets beyond China for new and exotic specialities.

Cross-border e-commerce facilitates this international shopping boom. Chinese buyers no longer have to leave their homes to obtain foreign products and German retailers can avoid complicated processes by founding local companies.

When it comes to the Chinese e-commerce market, there are as many challenges as there are chances.

With this white paper, Azoya and Händlerbund provide an overview of what retailers should consider when expanding their online business to China.



## Cosmetics

- Lavera
- Dr. Hauschka
- Balea



## Kitchen Utensils

- Zwilling
- WMF
- Woll



## Nutritional Supplements

- Doppelherz
- Abtei
- Salus



## Mother-Child Products

- NUK
- Braun
- Weleda



## Personal Care Products

- Rausch
- Alpecin

<sup>1</sup><http://multimedia.scmp.com/2016/cities/> These are mostly Tier 1 cities with more than 15 million citizens  
<sup>2</sup>National Tourism Administration of China

# HOW TO SET UP YOUR CROSS-BORDER SALES CHANNELS

New suppliers who want to enter the Chinese market are often unsure if they should sell from marketplaces or their own websites. This following section will give you a clearer understanding of the differences between these two options.

## THE PROS & CONS OF ONLINE MARKETPLACES

*Tmall and JD are at the top when it comes to marketplaces in China, which are suited for all product categories. The marketplace, Jumei, for example, is more focused on the product category of cosmetics.*

Advantages	Disadvantages
<ul style="list-style-type: none"> <li> <b>Brand Awareness</b> - existing and stronger brand influence in the major cities in China</li> <li> <b>Speed</b> - easy and quick set-up</li> <li> <b>Traffic Volume</b> - mature traffic acquisition and B2B traffic procurement from own eco-system. Permanent traffic on the platform is shared, allocated or sold to merchants</li> <li> <b>Easy Handling</b> - simple operation due to sophisticated back-end controls</li> <li> <b>Experience</b> - well established guidelines for everyone</li> <li> <b>Sales Oriented</b> - the focus is on sales rather than brand development</li> </ul>	<ul style="list-style-type: none"> <li> <b>Expensive set-up</b> - costly to set up cross-border business and operation</li> <li> <b>Tough Competition</b> - many competitors struggle for limited resources</li> <li> <b>High Marketing Costs</b> - marketing and visitor acquisitions are huge investments</li> <li> <b>Product Counterfeiting</b> - there are sometimes massive problems with counterfeit products</li> <li> <b>Strict Regulations</b> - strict guidelines leave little room for creativity</li> <li> <b>Untrustworthy products</b> - marketing are crawling with counterfeits</li> <li> <b>Complexity</b> - difficulties in building omni-channel and customer loyalty</li> </ul>

### Marketplaces:

-  **Suitable for** brands and manufacturers with high margin and quality standards; strong control of supply chains and distribution channels
-  **Less suitable for retailers**, as own retail brands and marketplace brands “vanish”

## THE PROS & CONS OF STAND-ALONE WEB-SHOPS

Advantages	Disadvantages
<ul style="list-style-type: none"> <li> <b>Direct Access</b> - retail brands are displayed directly to Chinese consumers</li> <li> <b>Independence</b> - easily implement merchandising and operational strategies</li> <li> <b>Flexibility</b> - flexible cost and investment structures</li> <li> <b>Multi-channel</b> - omni-channel is also possible</li> <li> <b>Compatibility</b> - preferred payment methods selectable</li> <li> <b>Scalability</b> - suitable for long term growth</li> </ul>	<ul style="list-style-type: none"> <li> <b>Localization Requirement</b> - professional third party (agency, partner) needed to build sophisticated and localized platform</li> <li> <b>Complexity</b> - complicated visitor generation</li> <li> <b>Logistics Requirements</b> - advanced supply chain and international logistics are required</li> </ul>

### Stand-Alone Web-Shop:

✔ **Suitable for** retailers and brands that offer customers a wide range of products at competitive prices

✔ **Less suitable for** retailers with a limited choice of products and suppliers with products that have little or no brand awareness

## MARKETING ON MARKETPLACES VS. MARKETING FROM YOUR OWN PLATFORM

Whilst marketplaces are still the common choice for overseas retailers to enter a market, more and more retailers are looking for ways to retain customers and develop more distribution channels. Setting up your own shop could be a good alternative. However, one should be aware that digital marketing in China differs from that in Germany and that there are big differences between marketing on marketplaces and marketing with one's own platform. You have to delve deep into Cyberspace, overcome the language barrier, deal with foreign affiliates, compete with imaginative competitors and capture and impress the buyers. It sounds like an impossible mission. On the contrary: with the right strategy and a reasonable budget, everyone can conquer these obstacles.

The following list highlights some differences between marketing on marketplaces and the stand-alone web-shop.

Marketing on Marketplaces	Marketing for Stand-Alone Web-Shop
<ul style="list-style-type: none"> <li>● <b>Campaigns</b> - the use of Campaign Management that is available in the back-end system to generate customer frequency</li> <li>● <b>Searches</b> - marketplace SEO and SEA</li> <li>● <b>Content</b> - take advantage of the Content Distribution Network within the marketplace ecosystem to capture random visitors and transform them into shoppers</li> <li>● <b>Design</b> - optimise the shop layout to better the conversion rates</li> </ul>	<ul style="list-style-type: none"> <li>● <b>Partner</b> - use the affiliate programs to generate targeted customer traffic</li> <li>● <b>Searches</b> - platform-based SEO and SEA for more search engines</li> <li>● <b>Social Media</b> - set-up your own Social Media Channels</li> <li>● <b>Influencers</b> - standard marketing campaigns can be complemented by social media platforms and KOLs (Key Opinion Leaders) at reasonable cost</li> <li>● <b>Payment</b> - cooperate with payment providers (i.e. Alipay, Unionpay) to generate customer traffic</li> <li>● <b>Reach</b> - make use of the existing customer base to create virality</li> </ul>

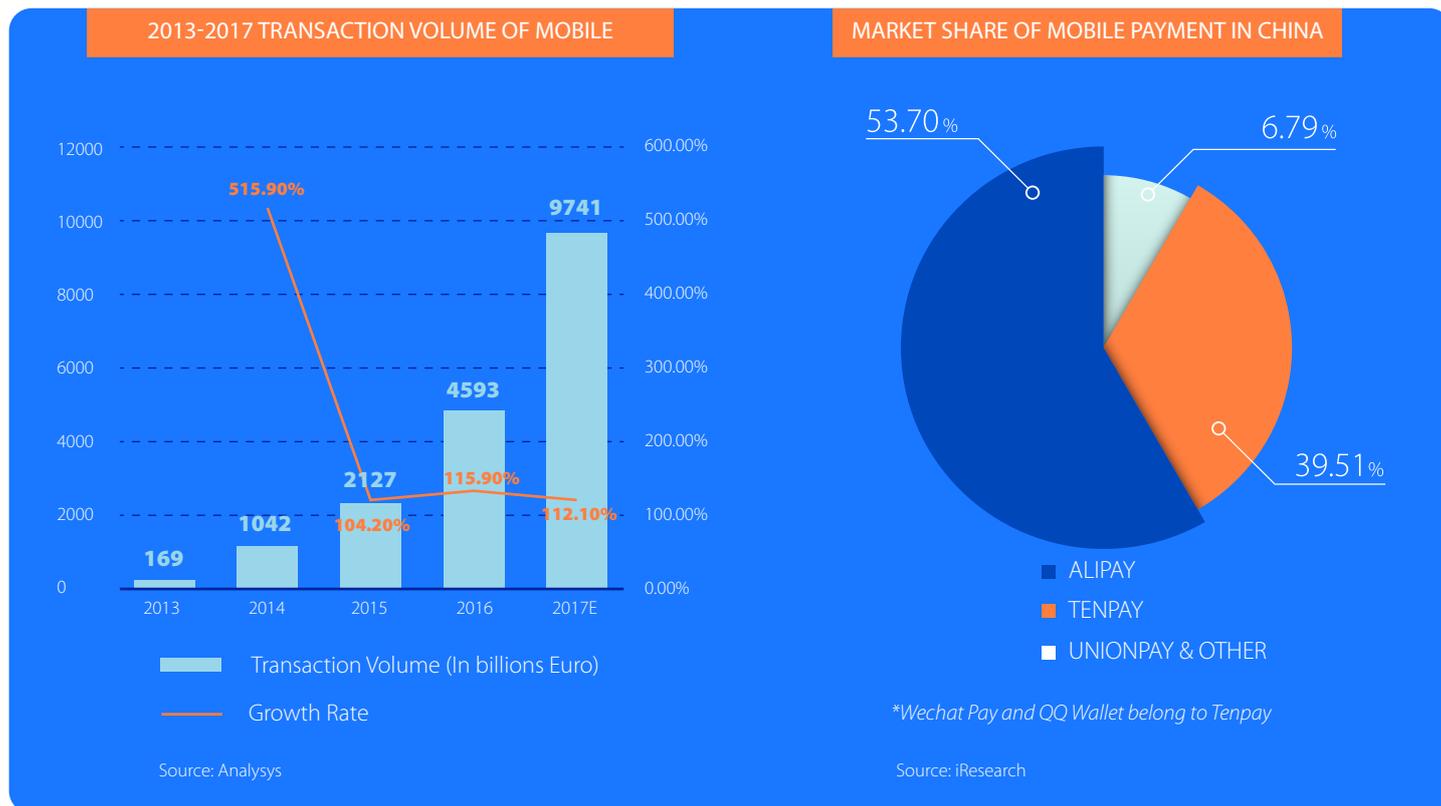
# HOW CHINESE CONSUMERS PREFER TO PAY



## "MOBILE IS EVERYTHING"

"6 out of 10 Chinese Internet users pay by smart phone"<sup>3</sup>

China, with a transaction volume of €9.7 billion, is the largest mobile payment market in the world. According to the Bank of China, 64.7% of Chinese Internet users pay with mobile payment providers. That means 6 out of 10 Chinese Internet users have already paid once by smart phone. One great thing about paying by mobile is that it drives consumers from online to offline, which works well in China. It has been documented that, on 12 December 2016 alone, more than 300,000 Chinese tourists<sup>4</sup> in foreign shops used Chinese methods of payment; this number was much higher than the year prior. See for yourself in the following diagram the steadily rising transaction volume and get an overview of the preferred mobile payment providers.



## WHY IS MOBILE PAYMENT A 'MUST HAVE' WHEN ENTERING THE CHINESE MARKET

- Consumers prefer this method of payment because it is quick, comfortable and safe.
- Utilising mobile payments, retailers save a lot of money because the rates are lower than those of banks.
- Mobile payments usually offer additional marketing opportunities in China.
- Third-party mobile payments allow retailers to send out electronic vouchers that customers can share.

<sup>3</sup>China Internet Watch: <https://www.chinainternetwork.com/18873/more-than-6-out-of-10-china-internet-users-pay-by-mobile/>  
<sup>4</sup>China Tourism Bureau

# WHAT TO CONSIDER WHEN SHIPPING PRODUCTS

In general, there are 2 different options:

- **Direct Shipment:** Warehousing and fulfilment take place outside China. Every order is placed individually and is delivered by international courier.
- **Free Trade Zones (FTZ) in China:** Storage is carried out in warehouses on site, from which the products are also shipped.

Retailers and manufacturers who want to sell to China generally choose one of these two methods or mix both.

## DIRECT SHIPMENT

### UPU Postal Parcel

The Universal Postal Union (UPU) regulates the cooperation of various postal authorities and parcel service providers across national borders and language barriers. The Chinese Postal Service (China Post Group) is also connected here and takes care of delivery over the "last mile". At present, the Chinese customs authority is examining approximately less than 10% of postal packages. All checked parcels inspected are subject to postal tax.

### B2C Direct Shipping

B2C direct shipping is a formal e-commerce import model. Each purchase requires 3 protocols (order, payment, delivery) to be synchronized with the Chinese customs system before the parcels arrive at customs. These 3 protocols are necessary for order, payment and delivery.

Most of the time, customs clearance is taken care of by the selected forward freight company or service providers. Retailers who sell to China are not normally directly responsible for this.

Advantages of Direct Shipping	Disadvantages of Direct Shipping
<ul style="list-style-type: none"><li>👍 <b>Affordability</b> - lower upfront costs and less capital occupation</li></ul>	<ul style="list-style-type: none"><li>👎 <b>Slow</b> - long delivery times cause customer dissatisfaction</li></ul>
<ul style="list-style-type: none"><li>👍 <b>Variety</b> - more extensive product range for consumers</li></ul>	<ul style="list-style-type: none"><li>👎 <b>Long-term Costs</b> - high logistics costs long-term</li></ul>
<ul style="list-style-type: none"><li>👍 <b>Simplicity</b> - easy to start, since warehouse and fulfilment processes basically don't change</li></ul>	<ul style="list-style-type: none"><li>👎 <b>Fulfilment</b> - requires fulfilment capabilities on the part of retailers</li></ul>
<ul style="list-style-type: none"><li>👍 <b>Trustworthiness</b> - Chinese consumers prefer products from abroad with proof of authenticity</li></ul>	<ul style="list-style-type: none"><li>👎 <b>Taxes</b> - high tax rates for direct shipping</li></ul>

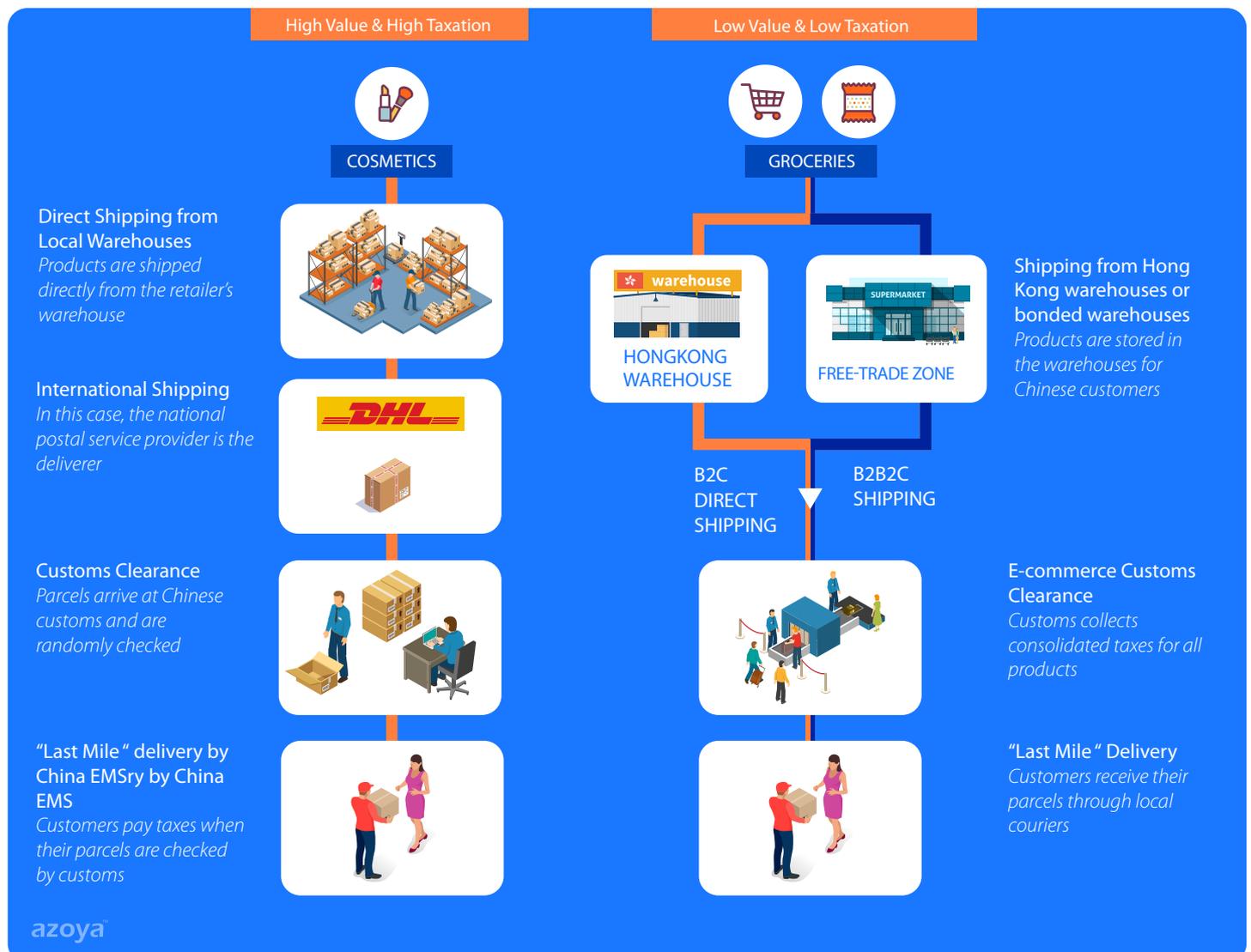
## FREE-TRADE ZONE OR B2B2C

The first free-trade zone was introduced in Shanghai in 2013. Here, fewer bureaucratic hurdles and looser regulations are intended to make it easier for foreign companies to gain a foothold in the Chinese economy. In this model, the principle is “stock first, order later”, in which large quantities of foreign goods are stored in special customs control areas within the Chinese territory.

- Free-trade zone warehouse
- Automatic real-time customs clearance
- Suitable for manufacturers and e-commerce retailers specializing in popular products

Advantages of Free-trade Zones	Disadvantages of Free-trade Zones
<ul style="list-style-type: none"> <li> <b>Speed</b> - short delivery times</li> <li> <b>Easy access</b> - fast customs clearance</li> <li> <b>Best-sellers</b> - suitable for “coveted goods” or goods of high weight or low value</li> </ul>	<ul style="list-style-type: none"> <li> <b>Regulations</b> - regulations in free-trade zones in China change often</li> <li> <b>Quantity</b> - requires high turnover, which increases storage risk</li> <li> <b>Cost Intensive</b> - high investment costs</li> </ul>

The cross-border logistics route can be influenced by various factors, including product category, level of taxation, product value, product characteristics and much more. Below is a general guide for retailers to design their cross-border logistics route to China.



# ARE YOU READY TO EXPAND TO CHINA? OUR CHECKLIST

The following check-list points out important factors you should take into account before selling to China.

## PRODUCTS

*Before you start selling in China, it is important to find out about the popularity of the products you want to sell, and thus the demand. Selling less popular products or niche products can be very risky. Selling unknown brands in China can also be very expensive and risky in terms of marketing activities. Instead, one could start selling more sought-after products and gradually supplement less well-known products or private labels.*

- Which product category would I like to focus on?
- Are the products in this category already known in China and have potential?
- Do I want to sell my own brands? If yes, what will my marketing budget be for China?
- Am I flexible enough to broaden my selection of products with those products that are popular in China?
- Do I have a bricks-and-mortar shop with traffic from Chinese tourists? If yes, what possibilities are there that these offline shoppers become online shoppers in China?
- Do I concentrate only on sales or do I want to build my own brand in China?

## ORDERS & FULFILMENT

*Fulfilment in China can be very difficult as orders often come bundled after previous marketing campaigns. The process from receiving the parcel to the logistics company must take no longer than 3 days. That's why your logistics processes need to be highly efficient during peak-times. Other points to be considered are stock levels and the build-up of stock, because highly popular items and items that are advertised in campaigns must be readily available and in stock.*

- Am I able to stock a sufficient number of products when there is a sudden increase in interest in a product, e.g. during a special brand-name marketing campaign?

- How many parcels can I fulfill per day?
- How flexible is my fulfilment regarding my packaging process? Packages to China could be in need of extra packaging material for international transport.
- Is my storing facility large enough to store further products? Or are there ways to enlarge the facility?
- How long does it take to replenish a product that has sold out?

## PRICING

*Chinese customers are price-sensitive and they always tirelessly look for the best offer.*

- Are the prices of my products competitive on the Chinese market?

**!** A benchmark check could be a good idea.

If I have a German and a Chinese website, Chinese customers will probably compare prices and might be disappointed if the prices on the Chinese website are very different from the German one. However, a small price rise is acceptable.

- What added value can I offer Chinese customers? Why should Chinese customers buy from my website?
- Do I offer preferred payment methods that make it easy for Chinese consumers to order?

## E-COMMERCE

*A well-functioning online shop in Germany is a good basis for expansion into China.*

- Do I have enough profit margin to cover the additional costs of cross-border e-commerce?
- Are product fees and images digitally available?
- What is my domestic margin and threshold for the margin when selling to China?
- Do I have the necessary IT resources available in-house?

## LEGAL

*Before you sell in China, you should enquire whether your products are already registered and known to the Chinese customs authorities. If your desired products are not yet sold on the Chinese market, you should allow sufficient time to obtain approval and registration.*

- Do I need permission to sell my products cross-border to China?
- Do I have to carry out an authorization process for the online sale of my products to China?

If products are being sold for the first time on the Chinese market, you require product and brand registration. Products that have already been released can be checked on [sfda.gov.cn](http://sfda.gov.cn).

## CONCLUSION

Selling products from Germany to China has never been easier. With cross-border e-commerce it is now possible to reach Chinese customers who now seek high-quality products from abroad, which have not been available to them before.

But because the market is so different from any western market, retailers need to prepare before entering the world's largest e-commerce market. One can only be successful with good preparation. This white paper doesn't provide answers to all the questions that arise, but does provide some initial guidance on what retailers need to consider.

## MARKET ENTRY

*Deciding to enter the market is a strategic decision and should be well thought out. Analyse the different entry options based on your capacities and possibilities to place your products.*

- Marketplace or your own shop?
- Do I have to build up in-house Chinese know-how or do I outsource the Chinese business to a local service provider?

For an own website, the server for the Chinese webshop has to be near China - otherwise the performance is not good enough and there are too many time outs.

## MARKETING

*Please note that your marketing activities are tailored to the channels and localized to the Chinese market.*

- What is my maximum marketing budget?
- Who is my target group?
- How many shipping-free campaigns can I afford per year? Do I want to offer free shipping?
- Do I need to have a social media presence?
- Where do I find my customers and how can I retain them?

With the checklist, we have created a first guide. You should be able to answer these questions before you take a closer look at the market and its opportunities. In the best case, you are looking for a local partner who not only knows the Chinese e-commerce market and its consumers, but can also react much faster to changes in trends and consumer behaviour in connection with these trends. Retailers and brands from Germany have very good opportunities to build up a sustainable business in China and grow with it.



### About Händlerbund

As the largest online trade organization in Europe, Händlerbund is an important voice in the e-commerce industry and also a valued partner. The association fosters an open exchange between merchants and service providers to support and strengthen digital, stationary and cross border trading helping to provide for a viable and lucrative future in a sustainable manner as well as broadening the horizons for the future. Through European representation of interests and pooling several services, the Händlerbund actively shapes the branch – together with its members and partners.

*Further information is available here: <http://www.haendlerbund.de/en>*



### About Azoya

Azoya is a leading e-commerce solutions provider with the goal of bringing foreign retailers to China via cross-border e-commerce. The company is proud, through exclusive agreements, to provide contact with a large number of foreign retailers in China. With its comprehensive range of services and dedicated professional team, more than 35 foreign retailers from 11 countries have already placed their trust in the company, including La Redoute, the largest online retailer of women's clothing in France, and Feelunique, the largest online premium beauty retailer in Europe.

*Further information is available here: <http://www.azoyagroup.com/>*