



DIGITAL CHINA

SUCCESSING IN THE WORLD'S LARGEST E-COMMERCE MARKET

Business Sweden

DIGITAL CHINA

SUCCEEDING IN THE WORLD'S LARGEST E-COMMERCE MARKET

Business Sweden would like to acknowledge the information shared by Swedish companies present on the Chinese market.

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中国联通



老凤祥银楼

Metaxa

PENG

91F
咪子甜甜

8F
巴西烤肉
BrazilBBQ · B · Q

6-7F
好乐迪KTV

5F
梳源乡
足浴 熏蒸 汤庄
XUNYUAN XIAOYANG

4F
九州吧

3F
人行骨节王

阿来途餐厅

海韵居酒屋
4F

必蒸骨

巴西烤肉
EBCB

吉野家
YOSHINOYA



EXECUTIVE SUMMARY

Business Sweden's report "Succeeding in the world's largest e-commerce market" provides an in-depth look at China's unique digital marketplace and offers guidance for small & medium sized Swedish companies that are looking to enter the B2C e-commerce market in China.

Simply put, China's e-commerce market is booming. As the largest online market in the world, China represented 40% of all e-commerce globally in 2016. Furthermore, 70% of domestic retail growth in China came from online channels during that same year. Online shopping has simply become the norm in China for many consumers and product categories.

While the Chinese e-commerce market has huge potential, it is also a completely unique online landscape. China's comprehensive internet censorship, popularly known as "The Great Firewall of China", has banned many of the most popular internet services and social media platforms from Western providers, such as Google and Facebook. This has led to China developing their own ecosystem of digital services, in which the commonly known international companies' services are replaced by, often evolved, Chinese equivalents. The foundation of the domestic digital ecosystem has been spearheaded by three Chinese internet giants; Baidu, Alibaba and Ten-

cent (collectively known as BAT). Each of the three dominating certain segments of the digital landscape:

- ▶ **Baidu** holds the dominant position in search; their search engine *Baidu Search* and map service *Baidu Maps* accommodate almost 700 million monthly active users
- ▶ **Alibaba** dominates the e-commerce market through their platforms; *Alibaba.com* (B2B), *Taobao.com* (C2C), *Tmall.com* (B2C)
- ▶ **Tencent** leads the social networks and online gaming community through their platforms; *QQ.com*, *WeChat*, *Qzone* and *Weibo*

The unique online environment combined with the rapid growth and evolution of the China e-commerce market poses a number of unique challenges that Swedish brands in China must adapt to. Probably the most significant difference between the Chinese B2C e-commerce market and the rest of the world is the extensive use of B2C-platforms. In China the majority of online purchases take place on the Tmall.com and JD.com who together account for over 80% of China's online shopping. As consumerism is relatively new in China, the typical Chinese consumer tends to be more careful than the Western consumer and often feel more secure when buying off established platforms compared to

individual brand websites. This is also reflected through the close link between e-commerce and social media. Chinese consumers rely heavily on reviews and word of mouth recommendations for making online purchases. Furthermore, the Chinese online shopper requires a higher standard of online customer service, such as online chat service, often favoring being guided through the offerings and the purchasing process before committing. As a result of these factors Swedish companies entering the Chinese e-commerce market have to adapt their digital strategies accordingly.

This report has been established to help guide Swedish SME companies on how to enter and become successful on China's e-commerce market. It is based on Business Sweden research and experience as well as interviews with several companies with presence in China. Our recommendations from this report are summarized in six Guiding principles across three key steps of the journey (see model below). With reference to Guiding principle 2 – Selecting business model

– the report further presents the implications of the most commonly used business models by Swedish companies on the China e-commerce market, namely:

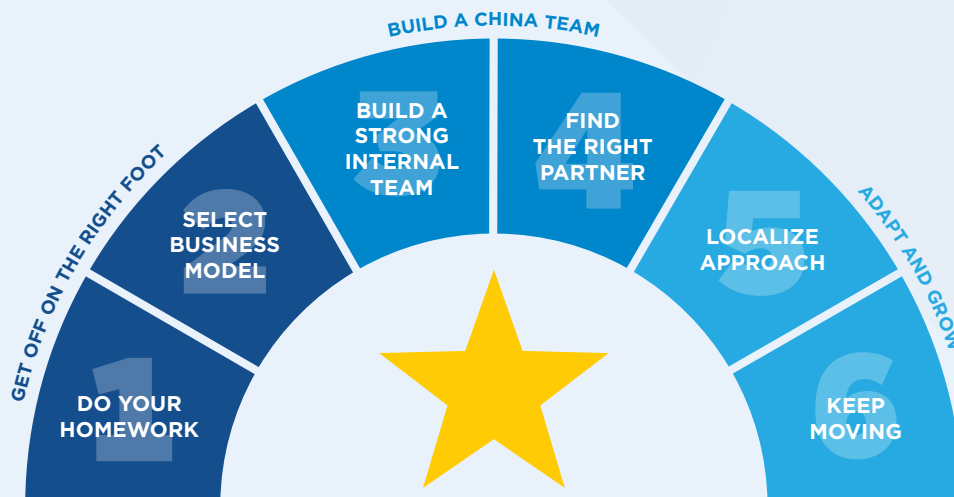
- ▶ Unofficial presence
- ▶ Presence on official domestic platforms via a partner
- ▶ Own flagship store on global platforms
- ▶ Own flagship store on domestic platforms

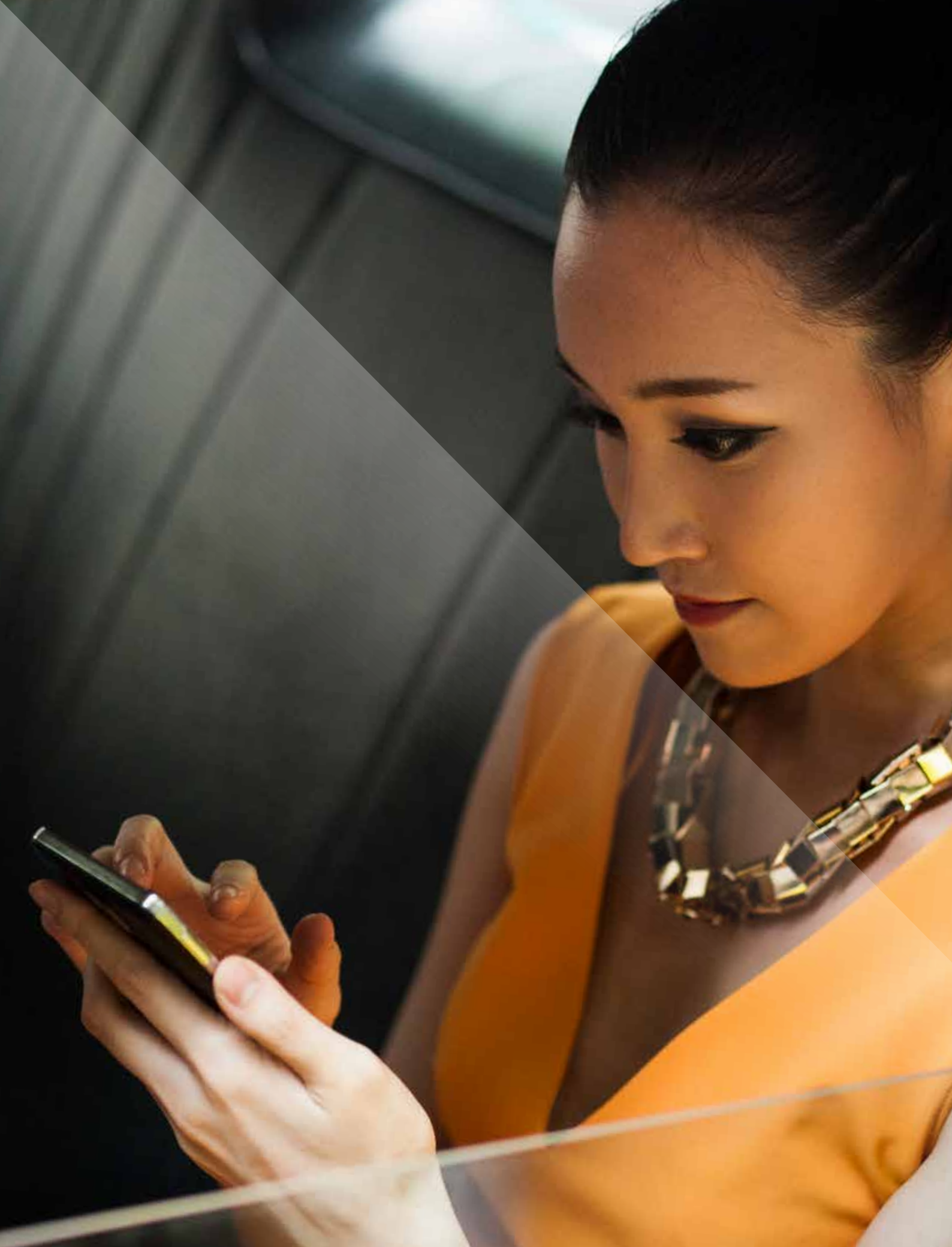
In summary, while the allure of the Chinese e-commerce market is significant and should be considered by many Swedish SMEs, there are challenges that need to be addressed. It is critical to recognize and embrace the cultural, technological and regulatory differences between the Chinese and Western online landscapes. At Business Sweden, we hope that this report will provide important insights and guidance for a Swedish company looking to embark on the China e-commerce journey.

“
IN OTHER COUNTRIES, ELECTRONIC COMMERCE IS A WAY TO SHOP. IN CHINA, IT'S A LIFESTYLE.
”

JACK MA
Founder of Alibaba

Business Sweden's six fundamentals for online sales in China





DIGITAL CHINA

1.4

billion people

600

million smartphone users

Largest online market in the world, online sales of

5.2

trillion CNY (40% of all global e-commerce)

65%

of GDP growth is driven by consumption

7%

Annual GDP growth 2016

Mobile payment is the preferred method for

80%

of the population

AT A GLANCE

85%

of online purchases are done using a smartphone

90%

of online retail is made on third party platforms (56% of online retail is made on the online platform Tmall)



BEIJING

770

million 4G users (more than the United States and Europe combined)

Every 60 seconds,

14 000

online product reviews are written

4

million search queries are made and

11

million online text messages are sent

Online retail constitutes

16%

of total retail

INTRODUCTION

BACKGROUND

Despite slowed growth rates Chinese consumption is growing faster than ever. In fact the contribution to GDP growth from consumption in 2016 was close to 65% in comparison to less than 30% in 2008 when Chinese growth was at its peak. The growth in consumption is largely led by the rapid growth and intense innovation of the Chinese digital consumer market. China today has the world's largest e-commerce market and all gauges indicate further strong growth. As we have seen in other areas, emerging markets can sometimes leapfrog developed markets and more rapidly shift to new technologies and business models as they lack the old legacy structures. The digital marketplace in China is one of these examples, where innovation and change is fast not only in relative terms but has already surpassed its Western counterparts.

ABOUT THE REPORT

The size and growth of the Chinese e-commerce market holds large potential for Swedish small-to-medium sized companies. However, the complexity of the market in terms of a different eco-system, different consumer behaviors and challenging regulatory landscape can be deterring. In this report we will provide an introduction to the digital market place in China, how it has developed and more specifically investigate the opportunities for Swedish small-to-medium (SME) sized companies.

The report is based on Business Sweden's 20-year experience in China, in-depth subject analysis as well as interviews performed with Swedish companies present on the Chinese e-commerce market. The report consists of three sections. The first section is an introduction to China's unique digital market place. Section two explores the differences compared to Western markets and the challenges that these bring. Section three outlines critical elements for entering and succeeding on the Chinese e-commerce market.

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THE WORLD'S LARGEST E-COMMERCE MARKET

Just ten years ago only 7% of the Chinese population used the internet. In 2016, China is home to the largest internet population in the world with over 700 million internet users and an internet penetration ratio of around 50%. Furthermore, the digital market place has become more sophisticated and spans areas such as social media, e-commerce, payments and online-to-offline services¹.

MASSIVE AND BOOMING

To understand the scale of e-commerce in China it is important to not only look at the size of the internet user base, but also how digital services are becoming increasingly integrated into everyday life. Evidence of just how digitally integrated life in China includes the continuous growth of social networks, e-commerce reaching record new levels on a yearly basis and a growth in mobile payments faster than anywhere else².

In 2013, China became the largest e-commerce market in the world surpassing the United States. In 2016 Chinese e-commerce represented over 40% of all global e-commerce³. The large global market share is largely driven by volume of purchases, in fact one out of seven Chinese consumers makes an online purchase every day, and four out of seven at least once a week, that's about three times more than the average for global consumers⁴.

Within this digital lifestyle looms more than just shopping. In fact, every sixty seconds in China, 14.000 reviews are written, 4 million search queries are made and 11 million messages are sent⁵. The widespread use of social media is realized by the vast user base of the two largest mobile instant-messaging applications in China, WeChat and QQ. WeChat is the largest with almost 940 million monthly active users. An important driver is the rapid adoption of the smartphone. In 2011, only three years after the launch of the first smartphone on the Chinese market, the smartphone user base in China had already reached 100 million users.

Explosive growth in e-commerce a reality

For apparel & footwear in China:
-100 billion USD in e-commerce
26% of retail sales online

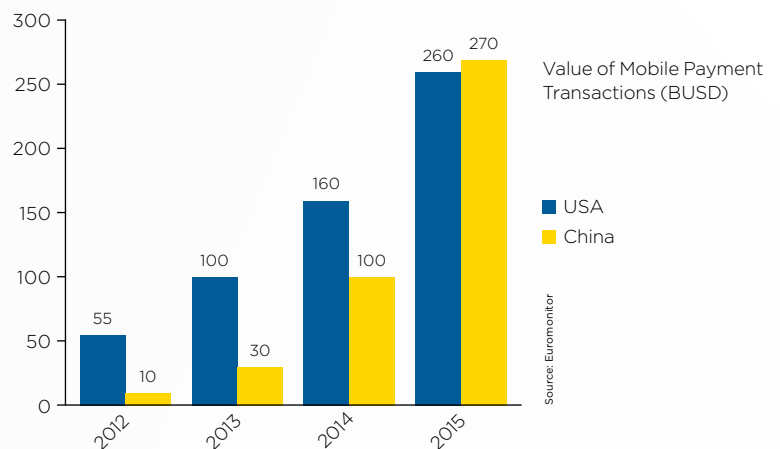


In 2016, over 60% of all households possessed a smartphone and there was almost one mobile phone subscription per citizen, constituting the largest global market for 4G services⁶. In China, the mobile phone is truly key to all digital activities. 90% of all internet users accessed internet through their mobile devices in 2016⁷ and 80% chose mobile payments as their preferred method of payment. In fact, in 2016 less than 25% of all payments made by Chinese consumers were made with a credit card, while 37% were e-payments⁸. In contrast, credit cards payments in Sweden made up 80% of all payments, while only 7% of purchases being made by e-payment that same year⁹. It is important to note that common credit card providers such as VISA and MasterCard have not gained much traction on the Chinese market. Instead, the only Chinese domestic credit and debit card provider *Union Pay* dominates. In practice this means that any Swedish company with the intention of selling goods or services to Chinese consumers must offer China domestic payment solutions.

Previously we have described the Chinese digital landscape as vast and with unprecedented growth. However, the Chinese digital market distinguishes itself from others in yet another very important aspect. Unlike many other countries around the world, the digital market in China is not dominated by the well-recognized international social networks, e-commerce plat-

forms or search engines used in the rest of the world (there's no Facebook, Amazon or Google). Instead, China has built a complete domestic ecosystem of digital services in which the commonly known international companies are replaced with Chinese equivalents. Swedish brands entering the Chinese market has to apply a locally adapted digital strategy rather than replicate of the successful digital strategies back home.

In 2015 China became the world's #1 Mobile Payment Market



BRIGHT PROSPECTS FOR CONTINUED GROWTH

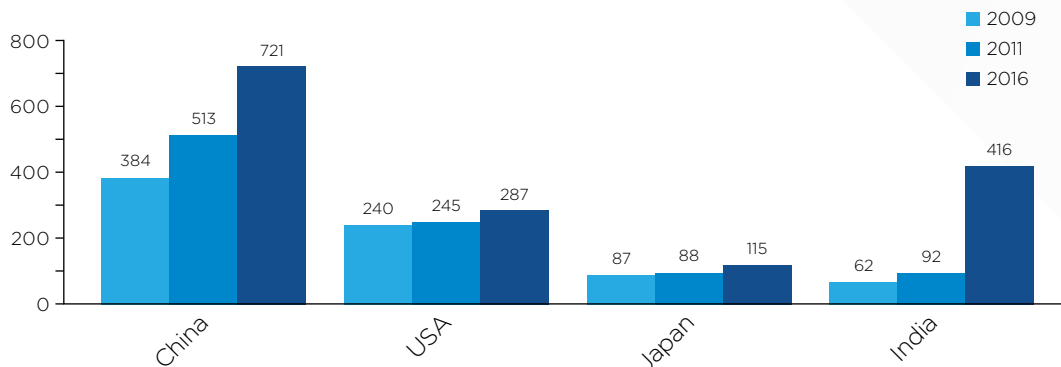
As indicated in the prior sections, the Chinese online market is simply massive. China has over 700 million internet users, where 90% of the country's 600 million smartphone users use their mobile device to access internet. This is more than The U.S, Japan and India combined and represents more than a quarter of all smartphone users worldwide. Furthermore, China already has 770 million 4G users¹⁰, more than the United States and Europe put together, which is a contributing factor to the massive growth of e-commerce.

A main growth driver behind China's e-commerce explosion is the massive emerging middle-class. This can be illustrated both by the large scale of China's 1.4 billion population¹¹, as well as the rapid increase in purchasing power and salary growth¹². Salaries have grown at an annual average rate of 13%¹³, effectively tripling, in the last decade. The result is a middle-class that has grown from 5 million households in 2000, to 225 million in 2016, with another 50 million expected to be added by 2020¹⁴.

In 2016 online retail almost superseded 16% of total retail. As traditional offline retail channels are struggling to keep up, more than 70% of the retail growth came from online channels in 2016¹⁵.

To put the sheer scale of China's e-commerce into perspective, let's use Alibaba's annual "Singles' Day" shopping event as an example. The term Singles' Day originates from Nanjing University and was initially celebrated as day for gift sharing at various universities in Nanjing during the 1990's. It got the name "Singles' Day" because the date consists of four "1's", but also references the single status, as a day for single people to simply treat themselves. Singles' Day was then adopted by the e-commerce giant Alibaba in 2009 to mark an annual one-day online shopping festival with discounts to boost sales on that specific day. Alibaba has since turned the day into a huge commercial event with a Single's Day Show featuring guest appearances buy popular athletes and performance artists, such as Kobe Bryant and Katy Perry. The best Western comparison to this event would be Black Friday and Cyber Monday in the United States, however restricted only to online sales¹⁶. On November 11th 2017, Single's Day generated a gross merchandise value of goods sold on its marketplaces of a whopping 220 billion SEK, and in only 2 minutes into the day sales had already reached USD 1 billion. The 2017 sales figure was about five times that of the worldwide Black Friday sales. Worth noting is also that over 90% of orders placed on Single's Day in 2017 came from a mobile device¹⁷ (as a contrast, around 50% of Sweden's total e-commerce revenue in 2016 was generated from a mobile device).¹⁸

Figure 3 - Number of internet users in selected markets



Source: CNN International

DOMINATED BY LOCAL GIANTS

The foundation to the domestic digital ecosystem has primarily been built by the three Chinese internet giants, Baidu, Alibaba and Tencent, collectively referenced as BAT. Each of the three dominates specific segments of the digital market landscape. Baidu holds the dominant position in search, Alibaba in e-commerce and Tencent in social networks and online gaming. Due to their dominance these companies very much dictate the market terms through direct control of most channels relevant for online sales, payments or marketing.

The competition between the three companies is fierce and each of them continuously makes active movements to strengthen their position and venture into new areas. Their strategies are both horizontal and vertical in the pursuit for new customers and user data, for example by entering into new business areas while monopolizing it by integrating their own software solutions. To further ensure that users stay within their proprietary environments, Alibaba, Tencent and Baidu apply so called “Walled Garden” strategies; i.e. making it more difficult to integrate each other’s services with one another. As an example, Baidu searches are not very well linked to Alibaba’s e-commerce platforms. Moreover, Tencent and Alibaba have set off on parallel internationalization quests and the two companies are entering new markets in Asia as well as Europe and elsewhere.

Tencent

The first one to enter the digital market in China was Tencent, established already in 1998. Since then Tencent has taken the leading position in social networks and online games. Important services found in Tencent’s portfolio include the computer based instant messenger Tencent

Single’s day 2017 in numbers



Source: Alibaba

QQ, similar to MSN Messenger, and the web portal, QQ.com. QQ.com is China's second most visited website with 980 million monthly visits (November 2017). Perhaps the most important service in Tencent's portfolio is the mobile chat application WeChat. With close to 940 million monthly active user accounts, WeChat holds the dominant position in social media in China. Since the start, WeChat has undergone a thorough business extension and has challenged the typical boundaries of a communication platform. From initially being a pure mobile chat service, WeChat now offers several integrated services such as e-commerce, payments, location based services, as well as brand accounts. With over 10 million merchants connected to the application and 200 million users with linked bank accounts, the application is crucial for a company doing business in China¹⁹. A company that recently realized the value of the Wechat

payment solution is Starbucks who rolled out collaboration in 2,500 of their stores in China. Other foreign retailers who have already done the same include KFC and Uniqlo. Apart from social networks and gaming, Tencent Holding also owns a 15% stake in the B2C e-commerce platform JD.com, the biggest competitor to Alibaba Group's B2C e-commerce platform, Tmall.com²⁰.

Tencent also holds the most popular music streaming service in China – QQ Music. Recognizing Spotify as a foremost competitor and vice versa, the two companies revealed in December 2017 that Spotify and China's Tencent Music Entertainment (QQ Music) will buy minority stakes in each other. Neither the value of the deal nor the new shareholding sizes were disclosed, but reports have suggested they will both be taking a 10% stake²¹.

Baidu, Alibaba and Tencent (BAT) – an overview

	BAIDU	ALIBABA	TENCENT
Core business	Search (Baidu Search)	E-commerce (Alibaba.com, Taobao.com, Tmall.com, Tmall Global)	Social and gaming (QQ.com, WeChat, Qzone, Weibo)
Other services offered	Cloud (Baidu Cloud) Encyclopedia (Baidu Baike) Discussion forum and blog portal (Baidu Space) Maps (Baidumap) Payments (BaiduWallet) Web analytics (Baidu Tongji)	Cloud (Aliyun) Maps (AutoNavi) Payments (Alipay)	Payments (WeChatPay) Search (Soso) QQ Music (Music)
Year of establishment	2000	1999	1998
Founder	Robin Li	Jack Ma	Pony Ma
Monthly active users	665 million (Dec 2016) 341 million Mobile map users (Dec 2016)	549 million mobile users across B2C and C2C platforms (Taobao, Tmall and Juhuasuan) (2017)	938 million (WeChat) 866 million (QQ) 338 million (Weibo)
Revenue (2016)	USD 10.2 billion	USD 23.0 billion	USD 21.9 billion
Market value (Nov 2017)	USD 80 billion	USD 480 billion	USD 500 billion

Source: Business Sweden Analysis



Alibaba

A year after Tencent was started, the now super famous entrepreneur; Jack Ma founded Alibaba.com with the vision of connecting Chinese manufacturers with overseas buyers. 17 years later, the Alibaba Group offers a complete eco system of e-commerce platforms; making it “the largest retail economy of the world”. Through its platforms it facilitates sales between businesses (Alibaba.com), between consumers (Taobao.com) and between businesses and consumers (Tmall.com and Tmall Global). Regardless of platform, the core of the business model remains the same; sales are done through a third party. Whether that third party is a private person or a multinational, the Alibaba Group normally doesn’t own any of the inventories. The business model has proven to be highly successful and made Alibaba.com the world’s largest e-commerce platform for business-to-business sales, Taobao.com the largest C2C market

place in China and Tmall.com China’s largest platform for business-to-consumer sales²¹.

Tmall.com was established as a complement to Taobao.com with a dedicated purpose of selling high-quality goods. Unlike Taobao, Tmall only allows registered trademarks to be sold on its platform and only companies with the right to sell these trademarks have the possibility to open webstores. The last addition to the e-commerce platform portfolio, Tmall Global, was launched in February 2014. Tmall Global enables foreign brands to sell directly to domestic Chinese consumers without domestic presence.

Since the start in 1999 Jack Ma’s initial focus on e-commerce has expanded to include enabling functions for e-commerce such as cloud solutions, logistics and mobile payments plus ventured into quickly growing industries such as entertainment. Alibaba’s venture arm has also invested heavily in both domestic and foreign companies. Examples of such companies include



WHEN CHINESE TOURISTS COME TO FINLAND AND SEE THEY CAN USE A FAMILIAR AND SAFE PAYMENT METHOD, THERE IS A GREATER MOTIVATION TO SHOP



ALEXANDER YIN
CFO at ePassi



The world is adapting - Alipay expands to Finland

Since late October 2016, Chinese tourists have been able to use the Alipay mobile app to make purchases in over 100 shops, restaurants and hotels in Finland as a result of collaboration between Alipay and Helsinki-based ePassi. Finland attracts over 550,000 Chinese tourists every year and the average Chinese tourist spend on average 650 euros during their visit. It is ePassi’s belief that this could be higher with a more familiar Chinese payment method (since most Chinese do not use Western credit cards). In addition, the ePassi-Alipay service also provides shopping advice and allows the user to find shops and restaurants.²²

Sina Weibo, “China’s Twitter” and Youku Tudou, “The Youtube of China” and the Southeast Asian e-commerce platform Lazada among many others. The Alibaba Group also holds China’s most frequently used online payment solution, Alipay, direct competitor to Tencent’s WeChatPay. In 2016, Alipay processed USD 1.7 trillion worth in digital transactions and Tencent’s We chat pay not far behind at USD 1.2 Trillion worth of transactions²³.

Baidu

The third and last of the three internet giants, Baidu, was founded back in 2000 and is now one of the largest internet companies globally with more than 660 million monthly active users. A number of web related services can be found in Baidu’s service portfolio including Baidu Search, the most used search engine in China with a 80% market share, and other related cloud and data analytics services. Similar

to Alibaba and Tencent, Baidu has also entered the digital payments market and its BaiduWallet payment solution is currently gaining some more traction in the market.²⁴

From an e-commerce perspective, the use of Baidu in China should however not be viewed as an equivalent to Google in a Western context. While keyword advertising is core to the e-commerce business model also in China, the consumers usually search for products directly on platforms such as Tmall and JD.com that in turn provide their own search engine optimization offerings. Instead, Baidu is important from an overall brand perspective as it can be the go-to service for consumers doing additional product and brand research, an aspect of great importance in China.



WeChat – The digital one-stop shop

WeChat, known as “Weixin” in Chinese, has only been around since 2011 but has already become the one-stop shop for digital entertainment and errands. Without having to ever leave the application users can talk to friends via instant messages or calls and video, share daily moments on personal feed, transfer money between each other and pay for goods and services at physical and online stores. WeChat also enables users to pay for bills, arrange food deliveries, book tickets, store their loyalty cards and more. To a Swede, WeChat is basically the equivalent of having Facebook, Whatsapp, Instagram, Swish and a personal credit card all in one application.

CHINESE DIGITAL SERVICES AND APPS

- an overview

SOCIAL & GAMING



WeChat

Mobile chat application with several integrated services: payments, e-commerce, location based services, deliveries, loyalty cards, branded accounts and more.

Similar to: Whatsapp, Facebook, Swish



Meipai

Short video streaming.
Similar to: Snapchat



RenRen

First generation of social networks in China and typically called "Facebook of China" but struggling to capitalize and becoming more of an online gaming port.

Similar to: Facebook



Youku

Online video streaming.
Similar to: YouTube



Sina Weibo

China's largest microblog network.
Similar to: Twitter



QQ and QQ.com

Instant messaging service including online games.
Similar to: Messenger

OTHER



Zhihu

Question and answer website.
Similar to: Quora



BaiduMap

Location search.
Similar to: Google Maps



Baidu Search

China's most used search engine.
Similar to: Google Search

E-COMMERCE



Taobao.com

China's largest C2C e-commerce platform.

Similar to: E-bay.com



Tmall.com

China's largest B2C e-commerce platform.

Similar to: Amazon.com



Alibaba.com

World's largest B2B e-commerce platform.



JD.com

China's second largest B2C e-commerce platform.

Similar to: Amazon.com



Baidu Wallet

Mobile payment solution.



WeChatPay

Payment solution integrated in WeChat application.



Alipay

China's most used mobile payment solution.

Similar to: PayPal



QQ Music

China's most popular music streaming site.

Similar to: Spotify



Dianping

Reviews, coupons and food delivery site.

Similar to: Yelp

GREAT POTENTIAL FOR SWEDISH COMPANIES IN SEVERAL SEGMENTS

China's economy is in a transition state going from being manufacturing and export oriented to more diverse where services and consumption make up a larger share of GDP. China is already home to the world's largest middle class but as a share of the total population this group is still relatively small. The potential business opportunities enabled by increased buying power, changing preferences, urbanization and improved connectivity are immense. The online shopping behavior has transformed along the development of the e-commerce industry, a shift mainly driven by the younger generations. This entails a shift in demand from offline to online, and from basic domestic necessities to more premium products, which often are from foreign brands. Furthermore, the types of goods and services bought online in China are quickly becoming much more diverse.

In 2011 the top 5 product categories represented 83% of all online sales, while in 2015 the equivalent ratio was just over 50%. Considering the change in consumption and demand and the growth of e-commerce in China there are a few product categories worth highlighting with especial high demand for foreign brands, namely:

- ▶ Fashion and apparel
- ▶ Consumer electronics and appliances
- ▶ Baby products and toys
- ▶ Health, beauty and personal care
- ▶ Food and beverages
- ▶ Pet products
- ▶ Furniture and home decorations

Fashion and apparel

The largest product category in terms of sales in 2016, representing 20% of all online sales. The category is expected to remain the most popular and continue to grow over the coming years as more brands enter the market offering more options, styles and products.

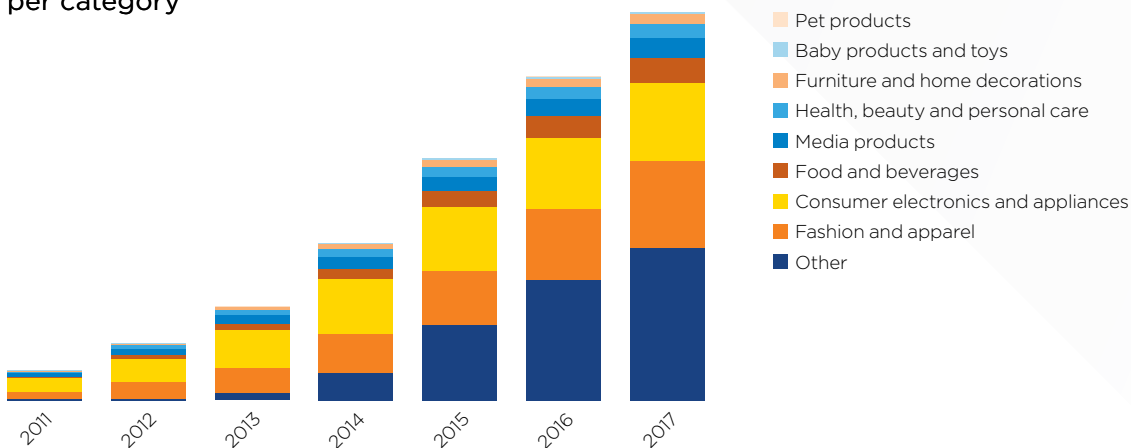
Consumer electronics and appliances

One of the first categories to really take off online, representing nearly half of all online retailing in China in 2011. The coming five years, consumer electronics is expected to keep its position as the second largest category.

Baby products and toys

Chinese parents have become increasingly concerned about the safety of domestic products,

Figure 4 - E-commerce market share per category



Source: Euromonitor

partly as a result of past domestic quality scandals. Instead they often turn to foreign brands which are generally regarded as safer. Furthermore, the abolishment of China's one-child policy in late 2015 is expected to boost birth numbers. The younger generation of parents are generally more willing to spend money on baby products than older generations, and can more often afford to do so. They tend to want the best products available for their children and are conscious about health and safety.

Health, Beauty and personal care products

Though health products are still generally expensive, it is most definitely on the rise as Chinese consumers are paying more attention than ever to their health. Beauty and personal care products are among the top purchased products on cross-border e-commerce platforms. With a wide product assortment online, the category has become popular for Chinese consumers seeking for foreign products not offered in the local market. However, the competition from other international brands is fierce.

Food and beverages

In the last five years, the food and beverage category has experienced a rapid increase in

online sales, growing on average 70% annually since 2011. With increasing demand for quality and convenience as well as growing health awareness, the online food and beverage segment is forecasted to continue growing at a high rate.

Pet products

Home to nearly 60 million pet cats and 30 million pet dogs, China ranks top three in the world for pet cat and pet dog ownership. However, traditionally in China, few pet owners have spent significant sums on products for their pets. Instead, they have made these items themselves at home. Among the younger generations consumption of pet products is growing rapidly. In fact, the last five years the category for pet care products were among top three categories in terms of growth and is expected to remain a top growth category.

Furniture and home decoration

One of the fastest growing categories overall. Considering the size of the market together with the fact that purchases of home care products increase significantly when Chinese households enter the upper-middle class the future prospects are promising²⁵.



**IN ORDER TO SELL IN CHINA,
YOU NEED TO UNDERSTAND CHINA.
LOCAL ADAPTATION OF THE
MARKET STRATEGY WAS CRUCIAL**



BRAND MANAGER CHINA,
SEMPER (HERO)



Success case, Semper: Finding your niche and exploiting the gap

Semper built part of their success in China as a response to the infant milk scandal that took place in 2008. The scandal involved Chinese milk and infant formula adulterated with melamine and resulted in severe loss of confidence in domestic infant products. Semper managed to capture the demand as a healthy, premium brand for infant milk powder. Using the 60% market share in Sweden as an important selling point Semper has managed to build a highly respectable brand name in China, and a strong online presence.

DIFFERENT LANDSCAPE, DIFFERENT CHALLENGES

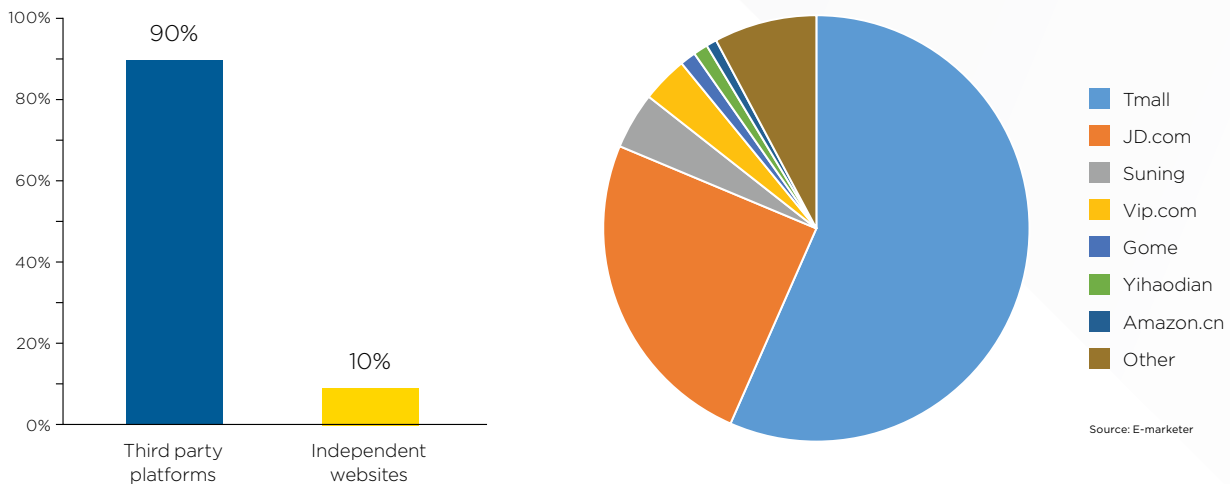
The unparalleled development of China's e-commerce market together with the different Chinese online environment poses a number of challenges for a foreign newcomer. In this section we will discuss a few of these challenges as well as potential strategies to mitigate the effects of these.

HARD TO NAVIGATE FOR NEWCOMERS

Probably the most significant difference between the Chinese B2C market and the rest of the

world for an online retailer is the extensive use of B2C-platforms. In Sweden and Europe it is most common that consumers shop directly from the brand website or from your favorite e-store. In China the majority of online purchases take place on the Alibaba platforms and JD.com. Together, Alibaba and JD account for over 80 % of China's online B2C space. While Alibaba Group, with its trio of Alibaba, Taobao and Tmall sites, remains China's undisputed e-commerce heavyweight, both actors holds unique positions in the online market space. The large market share of Alibaba and JD means that these actors

Figure 5-6 - Share of sales on the China e-commerce market



Source: E-marketer

holds great control of the e-commerce market. They can decide on the demands to be put on the actors active on their platforms such as size and brand recognition, cost for running a platform store, sales quotas to remain on the platforms and requirements for taking part in campaigns (e.g. Single's day). Another spectrum is the difficulty to differentiate oneself on one of these major B2C platforms. The customization possibilities are limited, why marketing through other channels such as social media (e.g. WeChat) is a critical ingredient for brand building and growing sales.

As an example of the power that these platforms hold we'll use Tmall Global as an example:

- ▶ Registration on Tmall Global requires a one-off security deposit
- ▶ There is annual fee and a commission fee and a commission fee ranging from 0.5 to 5 % (depending on the product category)
- ▶ After signing up to Tmall Global, the foreign company must open an Alipay account to be able to receive payment, this will add an additional 1 % service fee for each real time transaction

Hosting a European based website and target the market in China will likely cause access issues due to the "Great firewall of China". Common ramifications are lengthy loading times, poor user experience and even complete blockage. To host a domestic website you need an Internet Content Provider (ICP) license. There are two types of licenses, depending on if it's a commercial or non-commercial website. Requirements for obtaining an ICP license include an established Chinese company and for commercial websites a Joint Venture (JV) with a Chinese company²⁶.

DEMANDING AND SAVVY CONSUMERS

The impact of Social media

Social media is growing of greater importance to the average Chinese. This is no different compared to the Western world. However, due to the relative newness of the internet in China,

a notable difference is that many Chinese have mostly experienced the internet through social media. As a result many Chinese consumers make no distinction between social media and "rest of the internet", which arguably makes social media more powerful in China.

Furthermore, Chinese users prefer instant messaging apps and services over text messaging and e-mail. Chinese internet users spend on average 4 hours per week on instant messaging services (double the time to that of US internet users). This means that time spent on social media, like WeChat, is longer and more frequent than anywhere else in the world. This is a key reason why traditional marketing approaches do not have the same affect in China. Foreign companies must instead tap into the social media platforms to communicate with their current and future customers.

When it comes to communication between consumers, e-commerce in China is extremely social, and there's a tight link with social media sites such as Weibo and WeChat. Consumerism is relatively new in China and Chinese consumers rely heavily on reviews and word of mouth recommendations to make decisions on what to buy. In fact, Chinese shoppers rank their friends' and other customers' recommendations – both online and offline – as the most important factor in their online buying choices. As a result the review systems in China are more advanced. For example on Tmall, consumers can rate the accuracy of product descriptions, the speed of delivery, and their satisfaction of the customer service. In turn, Tmall promotes products with higher scores by giving them more exposure. Hence, social engagement and shopping behaviors are much more intertwined in China²⁷.

Regardless of which channel retailers deploy, consumer engagement and social media are key themes for all. Companies can utilize social media in China not only to launch, sell and promote their goods, but also to research their target market, engage with consumers and monitor online conversations.

Enhanced localization is required

The importance of localization cannot be understated on the Chinese market overall and certainly not when it comes to e-commerce. If you don't understand the Chinese e-commerce consumers and fail to strategize for them, chances are you will be unsuccessful in marketing your product and ultimately be edged out.

One of the most common challenges that have been expressed by the respondents in this study is the attempt of trying to apply a global online strategy to the Chinese market. The pure fundamental difference of the online landscape and the different requirements and expectations of the Chinese online consumer is simply too vast. Respondents in this study have frequently mentioned local partners or local staff as key in re-working and translating a global strategy to fit the Chinese market. Below are a few differences worth taking note of and adjusting for:

- ▶ All marketing material, website language and other communication substances must be in Chinese. The English language skills are still poor in most of China and not communicating in the local language advocates exclusion. Localizing content is also crucial for inspiring trust – Chinese consumers like the companies they interact with to reflect their local and regional values. Furthermore the Chinese consumer tend to be interested in the story behind the brand, values and tradition.
- ▶ High-resolution images clearly demonstrating the product from all angles, rather than a spectacular setting, is likely to appeal more to the Chinese consumer. The Chinese e-consumer is normally careful to avoid the fake/low quality products, thus quality photos with rich features are appreciated.
- ▶ The Chinese online consumer is generally more patient and educated before making a purchase. While Western consumers tend to want the executive summary, the Chinese consumers prefer more comprehensive information and digging into long and detailed product descriptions to make their

own conclusions and summarizations. So all available information about the product (dimensions, features, advantages etc.) is required.

Support before, during and after shopping

In addition to the ample information about the product, a live online chat is essential for e-commerce in China. In some cases Chinese shoppers are worried about fake products and want to be able to communicate directly with the seller to ensure the origin of the product. In other cases the culture of bargaining is expected also online which a live chat can enable. At the time of this report, most of the major e-commerce sites and platforms have adopted a live chat service and many offer real-time assistance 24 hours a day, 7 days a week. Studies show that Chinese shoppers are more comfortable shopping on sites offering live chat assistance as it offers more flexibility and immediate assistance.

After shopping the Chinese e-consumer likes to review the product and expect other after sales service. As an example, many e-consumers expect to be contacted by the seller soon after delivery regarding satisfaction of the delivery and quality of the merchandize. As much as 40% of China's online shoppers read and post reviews on products, which is significantly higher than in Sweden. As previously discussed, the average Chinese consumer rate what other shoppers and friends say about the product very highly.



UNIQUE SELLING POINTS (USPS) ARE VIEWED DIFFERENTLY IN CHINA COMPARED TO THE WEST. MORE IS SIMPLY MORE. “WASHABLE” BECOMES “WASHABLE, REUSABLE, CONVENIENT AND PRACTICAL”



FOUNDER, AIRINUM

RAPID PACE OF CHANGE

The classic Heraclitus quote; “The only thing constant is change” is well fitting for the general global online development, but maybe in particular for the China online market. The change on the China online market is happening fast and from many different angles.

A constant innovation driven by the larger platforms

The popularity of e-commerce in China together with the extensive use of e-platforms has allowed companies like Alibaba and JD to collect a much larger amount of e-customer data compared to online retailers in other countries. This data helps to develop Chinese e-commerce even faster, thus furthering the already established global leadership. Examples of such advances include:

- ▶ **E-platforms actively engage with the online retailers:** Both Alibaba and JD have started programs that aim at sharing customer data with individual online retailers to help them increase sales. Increased sales for the individual online retailers mean larger revenue and profits for the platforms. A concrete example is Tmall analyzing big data on apparel online sales to help fashion brands on their platform plan where to locate their offline stores²⁸.
- ▶ **Leading edge product development:** In July 2016 Alibaba unveiled its first smart car, a collaborative project between Alibaba and Chinese auto manufacturer SAIC. The rentable smart car will leverage Alibaba’s various e-commerce functions in order to help drivers search for everyday things such as parking spaces and gas stations. Drivers will be able to



THE BIGGEST CHALLENGES IN CHINA HAVE BEEN CULTURAL AND LINGUAL. A MORE LOCALIZED GO-TO-MARKET APPROACH PROVED TO BE ABSOLUTELY CRITICAL



DIRECTOR OF E-COMMERCE,
ZOUND INDUSTRIES

Case study: Zound Industries

With copies of Urbanears and Marshall headphones being spread in China before Zound Industries introduced them on the market, the company decided to launch their official products online in 2016. The choice fell on the larger established platforms, such as Tmall, JD and Amazon. Having established a good relationship with a global online partner during previous successful online launches in other markets, Zound industries chose to employ the same partner for their launch in China. However due to the different landscape, the previously successful partner was struggling. After some time of slow progress the collaboration was terminated in favor for a local counterpart. Within three weeks after employing the Chinese online partner, Zound industries products were available online in China. The local approach was further strengthened by hiring a local Chinese country sales manager. The store management is performed by a Chinese partner who also provides customer service.



zoundindustries

make e-payments through Alipay and the car will assign a unique ID for each driver and be able to make individual recommendations on things such as music and restaurants. Furthermore, drivers will also be able to take selfies with a detachable 360-degree camera that comes with the car²⁹.

- ▶ **Advanced marketing content:** In 2016, Macy's took part in its first Singles Day by working with Alibaba on a virtual reality experience. In late October, Alibaba started selling cardboard VR headsets for 1 yuan (about 1.30 SEK) on Taobao. From November 1–11, consumers could use them with Taobao's app to virtually stroll through Macy's famed New York flagship store. On Single's Day, the discounts that help make the shopping bonanza so popular were also incorporated into the virtual-reality shopping trip³⁰.

The horizontal and vertical expansion

Where many Western tech companies aspire to grow globally, China's equivalents have long preferred to grow horizontally instead entering new markets in China. The horizontal expansion, or evolution of e-commerce in China, can be traced back to Alibaba's first platform Alibaba.com that was launched in 1999. Alibaba.com is a pure B2B-platform that has developed into a one-stop shop for sourcing. Alibaba then moved on to the C2C-market with Taobao and following its immense success later to the B2C-market and Tmall. The aforementioned fierce competition between the BAT companies and their active movements in all segments of the Chinese digital market landscape (organically and through acquisitions) has furthermore broadened the companies' portfolios.³¹ Examples of the next step of the evolution include Alibaba's film company, the closely Hollywood linked Alibaba pictures (with titles such as Mission Impossible and Star Trek in its portfolio), as well as Alibaba engaging in financial services through Alipay and recently also offering credit to high-potential retailers thus filling a role similar to that of a credit institutions.

Examples of vertical integration include the platform's deepening of the B2C-market through specialized platforms and functions for popular categories. Another is further expanding into

Asia with the \$1 Billion acquisition of the Indonesia based e-commerce giant Lazada in 2016. Alibaba is also pushing its own AliExpress site to buyers in emerging e-markets such as Russia and Brazil. AliExpress, which ships goods directly from Chinese sellers to foreign markets, actually became the biggest shopping site in Russia in 2014³².

A constant change in regulations and compliance procedures

The requirements for e-commerce change rapidly. And changes are often quick and unannounced. Some changes are initiated by the e-commerce platforms themselves but the more radical changes are usually issued by the central government. One example that caused considerable debate and uncertainty in 2016 was a new rule for cross-border e-commerce known as the "Positive list". The Positive list is a list of goods that regulates what can be sold by cross-border e-commerce into China. The list includes 1293 items in total, covering food and beverages, clothing, footwear, home appliances, cosmetics, health-care products, medical devices etc. However, a number of health food products, specialty foods, medical devices and first-time imported cosmetics will require special registration. The exact rules for goods not on the Positive List are ambiguous and the ultimate effects of the list remain to be seen.

Some regulatory conditions have remained fairly constant however, for example the legal requirements for doing business as a foreign player on the domestic platforms. Below are some examples of such requirements:

- ▶ Application for your own Tmall store requires a Chinese business registration document.
- ▶ Local payment options require a Chinese bank account, which in turn requires a Chinese business registration
- ▶ Import requires a local Chinese entity to act as an importer, or to work via an import agent in China
- ▶ Setting up a Chinese webstore requires an ICP registration, which also requires a Chinese business registration and a local Chinese contact point



SIX FUNDAMENTALS FOR ONLINE SALES IN CHINA

In this section we introduce a six-step guide with recommendations on how to prepare for, build and execute your China online strategy. Furthermore, we will discuss the most relevant online business models for Swedish SMEs and take a closer look at a few strategic elements that we believe may increase the chances for online success.

GET OFF ON THE RIGHT FOOT

1 DO YOUR HOMEWORK

Understand the market composition

Make sure you understand the online landscape of China. Invest in understanding the different e-commerce platforms, social networks, search engines, video sites and payment functions. If you have no prior experience of the Chinese market,

Business Sweden's six fundamentals for online sales in China



it may be wise to employ help from someone with market experience.

Asses your niche

The size of the Chinese online market has led to fierce competition between both local and international brands. It is important to assess the market climate for you product and assess how you should compete. Perform an analysis of the online market to determine what need your product fulfils, who the consumers are and if there are any substitute products and competitors.

Understand your Consumer

Investigate Chinese consumer preferences. Are there any differences compared to your current markets, e.g. due to other conditions (like infrastructure or language) or in a matter of taste or preference. Is it necessary to make any changes to your product before launching it in China?

2 SELECT BUSINESS MODEL

Evaluate your options

Make sure you understand the options available to you; platform vs. platform, cross border shipping vs. domestic setup, own store vs. third party, different partner models etc. (a few selected options will be discussed more in-depth in the next chapter).

Build a business case

Assess the investment of your online efforts and projected sales to determine how much you need to sell and the time frame of your return. Make sure you can sustain your presence in China long enough to become profitable.

Assess your capabilities

You will need partners – assess what type of partners you need for your business model, e.g. for logistics and warehousing, online store management, sales and customer support, marketing and social media presence.

BUILD A CHINA TEAM

3 BUILD A STRONG INTERNAL TEAM

Define the set-up of your local team

Regardless of a partner model, you need a strong local connection. This may be in the form of local employees and management, an agent and/or a customer service provider. Your operations in China will likely require continuous support, make sure that you dedicate the necessary resources at your Swedish headquarters for continuous support, engaging with partners and continuously following up on progress.

It is important with flexibility and an understanding from management that decisions need to be made quickly. This may require a higher level of autonomy in the local organization in China compared to other markets.

Be agile

China poses a fast changing business climate. Campaigns and other marketing events often need to be launched with short notice. It is important to have be flexible and an understanding from management that decisions need to be made quickly and thus often with relatively high autonomy in the local organization.

4 FIND THE RIGHT PARTNER

Once you have defined the type of partners you need, the next step is finding the respective partners that match the qualifications.

Building a trusting and meaningful relationship with your partners is important. A good relationship means a partner who is willing to invest in learning about your product and prioritize your business. Vice versa your partner should be rewarded for good work. If the partner collaboration is not living up to expectations maybe it is time to quit the partnership or find additional partners. For store management partnerships on well-established platforms, e.g. on Tmall and JD, the recommendation is to check ratings for other stores hosted by the potential partner – typically you should look for ratings at 4.8 and up.

VOICES OF ESTABLISHED PLAYERS

A common misconception by Swedish companies is that a successful market launch in China means pushing margins and lower prices. It is however seldom that a foreign brand can compete in the low cost segment, hence a successful strategy might be to maintain or increase margins and go-to-market as a premium brand.

ADAPT AND GROW

5 LOCALIZE APPROACH

The different online landscape and the Chinese consumers' different approaches to online shopping require localization of your online strategy; Market content and initiatives has to be translated, adapted and expanded to fit the Chinese market. Expect to devote resources not just for translating existing material, but for creating new content.

Furthermore the Chinese consumer is typically more interactive, e.g through an online chat (contact forms are not well received in China and most likely will get very few responses). Many Chinese consumers expect to be guided through the purchasing process and to be able to ask several questions before making a purchase. The availability and efforts of the customer care team may be the difference between a sale and a customer walking away.

Offering the appropriate payment options is also an important factor. As previously mentioned in this study, mobile payments, and in particular Alipay and WeChat Pay, serve as the primary method of payment rather than credit cards.

Adapt to the Chinese sales calendar for a localized approach. While Western marketers gear up for the big pre- or post-Christmas shopping days of the year, Black Friday and Cyber Monday, the Chinese shopping calendar looks different. As previously mentioned in this report the importance of "Singles' Day" can be used as an example. To put it into perspective, interview respondents state that sales for them during Single's Day can amount to a quarter of their total annual sales – that is 3 months of sales, in one day.



WHICH PARTNER WILL PRIORITIZE YOUR BRAND? THE BIGGEST AND MOST GLOBAL PARTNER MIGHT NOT BE THE BEST CHOICE



BRAND MANAGER CHINA, SEMPER (HERO)

6 KEEP MOVING

The rapid change in the Chinese online market requires constant attention and the ability to quickly adapt your online operations. Work closely with partners, your local team and platform representatives on how to tweak your offering or model accordingly. Examples of how movements in the Chinese e-commerce market climate distinguishes itself from other markets include:

- ▶ Regulatory changes can happen overnight. This can be viewed as a result of the fast growth of e-commerce that has left the regulatory landscape lagging. Instead of the government setting the standards, the premise has been set by the entrepreneurs. In an effort to increase governmental control, new regulations can be invoked at a moment's notice.
- ▶ Technological advancements are faster than anywhere else. The dominance of e-commerce in China drives a quicker development and adaptation of new technology. One example is the use of Artificial Intelligence in customer service. For example, the high availability of customer data has resulted in advanced Chinese "Chatbots" enabling Chinese online retailers to increase efficiency.



IN CHINA THE CONSUMERS SIMPLY WANT MORE DETAILS TO GET A FEEL FOR THE COMPLETE PRODUCT AND BRAND. FOR INSTANCE WE HAVE PHOTOS OF THE PACKAGING AND THE INSTRUCTION MANUAL IN OUR PRODUCT DESCRIPTION ON TMALL



DIRECTOR OF E-COMMERCE, ZOUND INDUSTRIES

VOICES OF ESTABLISHED PLAYERS

The effort of the local operations, i.e. local partners and employees, is the most commonly mentioned critical factor for online success. Trying to do too much may result in inefficiencies and unnecessary missteps. A commonly highlighted factor for success is hiring a local manager and allowing for a larger degree of autonomy. As an example, many of the responding companies have chosen to apply a more generous online return policy in China to secure higher online customer ratings

DEMOGRAPHIC SEGMENTATION OF THE CHINESE ONLINE MARKET

80%

Well-educated

Almost 80% of online shoppers in China have a high education

(undergraduate, graduate or masters)

8000

Middle class

80% have a monthly income of CNY 8,000 or more.

89%

High tier citizen

In 2015, online shopping penetration ratio reached 89% in high-tier cities, compared to 62% in low-tier cities

60%

App savvy

60% use two or three shopping applications when shopping online



Home shoppers

Both mobile and desktop shoppers predominantly shop from home

Source: Business Insider

FOUR BUSINESS MODELS TO CONSIDER

One of the most important initial decisions for online sales in China is choosing what business model to use. In this section we will discuss a few selected options that we believe are the most relevant for a Swedish SME.

Which business model to use depend on a wide range of factors. Examples of key questions that need to be considered are:

- ▶ What are the regulatory implications for the business models available for your product?
- ▶ What is a realistic scenario for sales volume and revenue and thus a reasonable financial commitment in terms of investments?
- ▶ What logistical set-ups are available for transportation of the products to the consumers?
- ▶ Will you have a subsidiary legal entity in China or will the transaction require partners?

The financial aspect alone is crucial, especially if aiming for the larger platforms, as fees, deposits, commissions and requirements on sales volume and revenue can make the business case unviable, not least for smaller firms. Hence, it is important to consider the different options; some require significant investments while others require more limited funds and offer quicker alternatives.

While there are many possible strategies, we will illustrate four different and relatively common models that we believe are the most relevant to consider for an SME looking to enter the Chinese e-commerce market. In order of the typical commitment required in terms of costs and time these are:

- 1 “Unofficial presence”: Using channels such as Taobao or WeChat where individual Chinese consumer or small store operators can independently sell your products
- 2 Presence on official domestic platforms via partner
- 3 Own store on established global platforms
- 4 Own store on established domestic platforms

As the requirements for each model is different they might not all be obtainable for every company. Several variations exist, but these four provide a good overview of the general models available to foreign companies. A thorough analysis is required to make the right choice, but below descriptions of each option can provide an initial understanding of the demands as well as pros and cons of the different models.

1 UNOFFICIAL PRESENCE VIA TAobao, WECHAT OR SIMILAR

Swedish companies with a limited budget that solely aim to provide Chinese consumers with an option to purchase their products in China can use channels such as Taobao and/or WeChat. This requires a local Chinese private person’s registered phone number and a CNY 1,000 deposit. However, this option does not offer “official brand” presence, such as setting up a flagship store in the name of the brand, since trademark registrations or legal presence in China is not required for these channels. In effect, these are consumer-to-consumer (C2C) channels by private store owners. Due to this low-regulated setup, counterfeit products as well as faked user comments are common, making it difficult to control brand image. Moreover, the product inventory has to be managed and kept by the store owner in China. However, in terms of delivery and payment options, this can still be preferred by Chinese consumers compared to ordering from a global foreign website. This option should be viewed as a potential stepping stone to the China online market before moving on to an official presence.

2 PRESENCE ON OFFICIAL DOMESTIC PLATFORMS VIA PARTNER

Companies with the ambition of entering one of the major platforms, but having limited financial resources, can aim at identifying a local partner that already has an operational multi-brand store on Tmall or that is willing to set up a flagship store for your brand. This will enable consumers to find your products on China's largest online platform. Naturally there are both upsides and downsides to being present on a multi-brand store. Other brands may draw traffic to the store which may lead to more consumers learning about your brand and products, but it also means that the brand will be mixed together with other brands which may lead to less exposure, loss of brand image control and limited attention during marketing activities.

Having a flagship store will give your brand an official store on Tmall, thus with the potential of being perceived as more legitimate. The costs for setting up a flagship store by the partner however will likely mean higher reimbursement to the partner. Starting on a multi-brand store via partner is probably the most viable option for most Swedish SME companies.

3 OWN STORE ON ESTABLISHED GLOBAL PLATFORMS

Companies with a trademark registered outside of China (e.g. in Sweden), can set up their own branded flagship store on global platforms such as Tmall Global or JD International. The major upside of these global platforms is that they do not require a Chinese legal entity or trademark and can be up and running fairly quickly, at least in theory. Account for approximately 10–12 weeks to get all the necessary certificates and register at the platform. However, as you most likely will need one or more partners to arrange for logistics, labelling etc., Business Sweden's experience is that a realistic timeline is closer to 8–12 months or longer. A downside to consider is that these global platforms are more expensive than their domestic counterparts and often have higher demands on longevity and sale minimums.

When these platforms were introduced, slogans such as “100% foreign original authentic, 100% foreign merchants, 100% domestic return” were used and the global platforms were considered more legitimate than their domestic equivalents. However today, with many international and premium brands established on the domestic platforms this is hardly the case anymore.

SELLING VIA YOUR OWN WEBSITE

It is rather uncommon for Swedish companies to sell directly via a local Chinese website, with the exception of global multinational corporations such as H&M and IKEA. One reason is the cost and requirements for obtaining the needed licenses, but mostly because it's not a preferred shopping channel for the Chinese consumer who generally trust and prefer the established platforms more. Moreover, consumers are accustomed to using mobile apps via Alibaba or JD platforms, and often feel uneasy paying directly via a brand's website. Hence, purchasing directly from a website is often a last resort for the Chinese consumer and is normally only preferred if prices are significantly lower or if the products are not available on any other platform.

If running an international website, aforementioned obstacles are slow loading times and the risk of the Chinese consumer not being able to reach your site due to the “Great firewall of China”.

In regards to terms and regulations we will use the Tmall platforms, the largest platforms in China, as reference. To open a flagship store on Tmall Global the following must be fulfilled:

- ▶ The owner has to be a formal representative of the brand or have exclusive authorization documents provided by a formal representative of the brand
- ▶ The company has to be run for over 2 years and annual sales must be more than US\$10 million.
- ▶ Proof of origin and Chinese custom certificates are required
- ▶ Products have to be labelled with product information in Chinese
- ▶ Products must be sent within 72 hours after the order is placed and delivery should be completed within 8 working days to the end-consumer
- ▶ Return address in mainland China is required (warehousing solutions in Hong Kong or China's Free Trade Zones are common with this setup)

For a closer comparison between Tmall and Tmall Global, please see table at the end of this chapter.

4 OWN STORE ON ESTABLISHED DOMESTIC PLATFORMS

While the presence on domestic platforms is cheaper than on global counterparts, a flagship store on a domestic platform generally requires a larger initial financial investment as it requires a legal presence in China. An established foreign Chinese company entails run costs in terms of employment as well capital requirements in the form of registered capital that needs to be tied to the Chinese company. Furthermore, you need to have a registered trademark in China to have a flagship store on domestic Tmall. If you do not already have it registered, this means that you have to go through the approximate one-year process for trademark registration before you can start selling on the platform. You also need to set up a Chinese corporate bank account. The upsides however include; a cheaper online presence in the long run (compared to global platforms), improved closeness to end-customers, shorter lead times, faster responses for support and returns and a potential for lower end-prices. As has been mentioned, this should normally be viewed as a next step after establishing a stable revenue stream through one of the prior discussed options.

Tmall vs Tmall Global – An overview

SETUP	TMALL CHINA	TMALL GLOBAL/HK
Consumer Target Legal Entity and Tax Registration Corporate Bank Account Warehouse Trademark Shipment and Delivery	Mainland China Within China Within China Within China Registered in China Within China	Mainland China Outside of China Home Country Bank Account Outside China/Bonded Warehouse Any Country Cross-Border
FEES		
Commission on Sales Consumer Protection Fee (one-time) Technical Maintenance Fee (annual)	2-5% CNY 30,000-150,000 CNY 30,000-60,000	3-6% CNY 150,000-300,000 CNY 30,000-60,000
IMPORT TAX IMPACT		
Custom Duties VAT Income Tax Personal Parcel Tax	Yes Yes Yes No	No No No Yes

Source: Alibaba

THE TIMELINE FOR BECOMING OPERATIONAL DIFFERS DEPENDING ON APPROACH

The time for becoming operational on the Chinese e-commerce market varies significantly depending on approach. Not only does the timeline for setting up the different business models vary, but as preconditions and requisites deviate between models, one approach might entail a significantly longer aggregated timeline due to requirements such as a Chinese subsidiary or trademark.

In terms of official brand presence (i.e. excluding channels such as Taobao and Wechat) the quickest approach is typically to enter an existing multi-brand store on domestic Tmall. This mainly entails identifying and evaluating a suitable partner and formalizing an agreement. The typical time for this is approximately 2–4 months. While there are no requirements on a Chinese trademark, it is however essential to verify that no one

else has the right to that trademark in China. Furthermore it is strongly advised to start the trademarking process in connection to ensure that no one else can register the trademark once the brand is available on the market.

Tmall Global allows a foreign company to set up its own flagship store without an established Chinese company. Starting a store on Tmall Global is theoretically possible to do in 6–8 months if every aspect of the process runs smoothly and seamlessly. Business Sweden's experience is however that a more realistic timeline is ~12 months before being fully operational.

A domestic Tmall flagship store is quick to set-up under the circumstances that there is a Chinese subsidiary and a registered China trademark. Account for 3–5 months. If you need to set up a foreign legal entity (6–8 months) and have a registered Chinese trademark (12–18 months) however, naturally the timeline will be notably different.



AS A SMALL PLAYER WE STARTED SMALL. FOR AIRINUM SPEED WAS MOST IMPORTANT – SO WE CHOSE THE FASTEST OPTION AND JUST ROLLED WITH IT. WE NEEDED OUR PRODUCT OUT THERE ON THE MARKET.



FOUNDER, AIRINUM



Success case, Airinum: The quick market launch

Airinum manufactures high-end next generation pollution masks. The founders of Airinum recognized that there was a gap for every day-use-masks designed to be comfortable and stylish. Following careful research of the Chinese e-commerce market, Airinum decided that urgency was more important than financial muscles and brand awareness. Airinum thus chose to market their product in China as fast and cost efficient as possible using WeChat and a partner-owned store on Taobao. All content is produced, and adjusted for the Chinese market by Airinum themselves, while a partner is hired for the back-end work.

To draw attention to the product, Airinum used “Youku celebrities” as a marketing mean and in the process reached over 700,000 followers. The long term plan is to use WeChat mainly as a marketing channel and then distribute the product via Tmall and JD.

THE ROAD TO SUCCESS IN DIGITAL CHINA

In summary, China's digital market place is large, complex, multi-faceted, rapidly evolving and unlike anywhere else in the world. The unique landscape and cultural differences can pose significant challenges and demand a steep learning curve. However being aware of the differences and learning to adapt them, they are by no means insurmountable obstacles.

While this report provides an introduction to the marketplace; a company looking to enter the market must be prepared to invest sufficient time in understanding and planning for how to enter and become successful on the market. Knowing what needs your product fulfills, what the unique selling points are and who the customer is, are all crucial factors for effective marketing. If you do not have any prior experience of China, partnering up with local experts will accelerate the process and reduce risk.

Furthermore, the importance of choosing the right business model cannot be stressed enough. There is a multitude of different options available that needs careful consideration and assessment before making a decision. A strong team is necessary regardless of the chosen business model.

One cannot simply set up shop and wait for the orders to roll in. Local personnel is key to track the market, adapt content, drive traffic, serve customers and continuously adjust. Not dedicating enough resources may turn out to be a costly mistake. Make sure your investment and commitment reflect the opportunity available.

Finally, while this report has highlighted several of the challenges to be expected when entering the e-commerce market in China we want to end on a higher note by emphasizing the opportunity available for Swedish companies. If you believe that you have a product that is in demand among consumers in China, accessing even a fragment of the massive online market place could dramatically accelerate your international growth.

“

CURRENTLY THERE ARE ABOUT 80 SWEDISH BRANDS ON TMALL, NEXT TIME WE MEET I HOPE THAT THERE WILL BE 800.

”

JACK MA, FOUNDER OF ALIBABA, TO SWEDISH PRIME MINISTER STEFAN LÖFVEN, JUNE 2017

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