Implementing Partners

E-Commerce in China
Tallinn – 15 June, 2017
Get Ready for China!

The EU SME Centre is an EU Commission funded project which helps EU SMEs prepare to do business in China by providing them with a range of information, advice, training and support services.

The Centre is implemented by a consortium of six partners and was established in October 2010. It successfully completed its first phase in July 2014 and has now entered its second phase which will run until July 2018.
E-commerce in China

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Preamble. Estonia to China in numbers
Is it good or bad? Some perspective needed. E.g. Spain/Estonia ratio GDP 50 but ratio exports 25

Source ITC
E-commerce in China
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10 steps to access China’s FMCG market
E-commerce in China
Table of Content

- China in Numbers
- China E-commerce
- Modes of Online Selling
- Setting-up a Shop
- The Chinese Consumer
E-commerce in China

China in Numbers
China in Numbers

China GDP 1978-2015 (billions US$)

- **2015**: GDP reaches 11 trillion USD.
- **2011**: China becomes the second largest economy in the world.
- **1981-2009**: 81% of China’s population freed from poverty (1.25 US$ daily threshold).

_data source_ World Development Indicators, March 2017, World Bank
China in Numbers

Per Capita GDP and Household Consumption Expenditures, 1978-2015

- Purchasing power of Chinese households is 92 times higher than the pre-reform era’s.

- Consumption expenditures increased by 76-fold along the last three decades.

- In Tier 1 cities, average income has by far surpassed the US$5000 per capita threshold.

- Urban Middle Class has been growing fast (2/3 of total urban population in 2012, only 4% in 2000).

- HNWIs more than doubled in the period 2008-2012.

data sources NBS, 2016. McKinsey
China in Numbers

Population, Total (millions)

Population Growth (annual %)

Data source: World Development Indicators, March 2017, World Bank
China in Numbers

Internet users

Total Internet Users - Top 5 countries 2016

- China: 721,434,547
- India: 462,124,989
- USA: 286,942,362
- Brazil: 139,111,185
- Japan: 115,111,595

Data sources: Internet Live Stats
China in Numbers
Internet penetration

Internet Penetration as % of Total Population-2016

- China: 52.2%
- India: 34.8%
- USA: 88.5%
- Brazil: 66.4%
- Japan: 91.1%

data sources: Internet Live Stats
China in Numbers

China Internet and Mobile Internet Users 2010-2016 (million)

Data sources: China Internet Network Information Center
E-commerce in China

An introduction
E-commerce in China
Market Size and trends

China E-commerce GMV 2012-2019e

<table>
<thead>
<tr>
<th>Year</th>
<th>GMV (tn CNY)</th>
<th>% Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>1.2</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>1.9</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>2.8</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>3.8</td>
<td></td>
</tr>
<tr>
<td>2016e</td>
<td>4.7</td>
<td></td>
</tr>
<tr>
<td>2017e</td>
<td>5.6</td>
<td></td>
</tr>
<tr>
<td>2018e</td>
<td>6.5</td>
<td></td>
</tr>
<tr>
<td>2019e</td>
<td>7.3</td>
<td></td>
</tr>
</tbody>
</table>

data source iResearch, 2017
E-commerce in China
Structure by GMV

- B2C
- C2C

Data source: iResearch, 2017
E-commerce in China
B2B market size and trends


- GMV (bn CNY)
- % Growth

Data source: iResearch, 2017
E-commerce in China
B2B major players

- Alibaba: 48.0%
- Global Resources: 27.0%
- JQW: 6.0%
- DHGate: 5.0%
- Hc360: 5.0%
- Made-in-China: 5.0%
- Toocle: 5.0%
- Mysteel: 5.0%
- GMC: 5.0%
- Others: 6.0%

Data source: iResearch, 2017
E-commerce in China
B2C market size and trends

China B2C E-commerce GMV 2012-2019e

GMV (tn CNY) | % Growth
--- | ---
2012 | 0.4
2013 | 0.8
2014 | 1.3
2015 | 2.0
2016e | 2.6
2017e | 3.2
2018e | 3.8
2019e | 4.4

data source: iResearch, 2017
E-commerce in China
B2C major players

- Tmall: 56.6%
- JD.com: 24.7%
- Suning.com: 4.3%
- Vip.com: 3.5%
- Gome.com.cn: 1.2%
- Yihaodian.com: 1.1%
- Amazon.cn: 0.8%
- Dangdang.com: 0.7%
- Jumei.com: 0.5%
- Others: 6.7%

Data source: iResearch, 2017
E-commerce in China
C2C Market Size and trends

China C2C E-commerce GMV 2012-2016

data source iResearch, 2017
E-commerce in China
C2C major players

- Taobao: 90.3%
- Paipai: 9.0%
- Eachnet: 0.7%

Data source: iResearch, 2011
E-commerce in China
How to sell your products
E-commerce in China

Modes of On-line Selling
E-commerce in China
Sales models
E-commerce in China
Domestic sales model: E-retailers

Types of B2C Retailers

A. Retailers on e-commerce platforms
   - JD.com
   - Amazon.cn
   - Tmall.com

B. Vertical B2C F&B E-retailers
   - Fruit Day
   - Yesmywine.com

C. Integrated B2C F&B E-retailers
   - Woman1.com
   - 1hao.com

Data source: EU SME Centre, 2017
E-commerce in China
Retailers on E-commerce Platforms

- Not specialized;
- Offer a wide range of products (apparel, electronics, cosmetics & healthcare, mom products, etc.);
- Target all kinds of consumers;
- Count with a loyal base of customers, attracting more traffic to their websites;
- User experience relies on the vendor.

*data source EU SME Centre, 2017*
E-commerce in China
Vertical B2C E-retailers

- Focus in specific sectors (fruit, wine, etc.);
- Target high end customers;
- High presence of foreign products;
- Focus on high quality products;
- Effective and complete logistics systems;
- Local coverage and not very well known platforms.

Data source: EU SME Centre, 2017
E-commerce in China
Integrative B2C E-retailers

- F&B is not their only focus, but it represents an important part of the sales;
- Target middle and high end customers;
- Effective and complete logistics systems;
- Powerful parent companies with extensive experience in their industry. Powerful control over suppliers;
- Very well-known platforms with high presence of foreign products.
# E-commerce in China

## Platform selection

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>天猫 Tmall.com</td>
<td></td>
<td>京东 JD.com</td>
</tr>
<tr>
<td>日丰 YIFEI</td>
<td></td>
<td>本来 本来</td>
</tr>
<tr>
<td>苹果 Apple</td>
<td></td>
<td>吴晓波 WUXIN</td>
</tr>
<tr>
<td>LG 玫瑰金</td>
<td></td>
<td>中粮 COCO</td>
</tr>
<tr>
<td>1号店 1号店</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### PROS

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>+ Large customers base</td>
<td>+ Sector specific</td>
<td>+ Sector specific</td>
</tr>
<tr>
<td>+ Wider reach</td>
<td>+ Offers MKT integration</td>
<td>+ Control over suppliers and logistics</td>
</tr>
<tr>
<td>+ Most used and trusted</td>
<td>+ Developed Logistics</td>
<td>+ Powerful companies invested</td>
</tr>
<tr>
<td></td>
<td>+ Focus on Quality</td>
<td></td>
</tr>
</tbody>
</table>

### CONS

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>- Not specialised in your product</td>
<td>- Not specialised in your product</td>
<td>- Company has to be established in China and meet legal requirements</td>
</tr>
<tr>
<td>- Many requirements</td>
<td>- Has to be interested on your product</td>
<td></td>
</tr>
<tr>
<td>- Does not manage MKT</td>
<td>- Not well known platforms</td>
<td></td>
</tr>
</tbody>
</table>
E-commerce in China

Direct sales  (The Zara example)

- More flexible than a marketplace
  - Personalised consumer experience
- ICP certification
- Marketplaces enjoy large traffic
  - Costs

Data source: EU SME Centre, 2017
E-commerce in China

Direct sales

Share of On-line Sales in China: Marketplaces Vs Independent Merchant

<table>
<thead>
<tr>
<th>Year</th>
<th>Marketplace</th>
<th>Independent Merchants</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>2004</td>
<td>80%</td>
<td>20%</td>
</tr>
<tr>
<td>2005</td>
<td>88%</td>
<td>12%</td>
</tr>
<tr>
<td>2006</td>
<td>89%</td>
<td>11%</td>
</tr>
<tr>
<td>2007</td>
<td>93%</td>
<td>7%</td>
</tr>
<tr>
<td>2008</td>
<td>93%</td>
<td>7%</td>
</tr>
<tr>
<td>2009</td>
<td>92%</td>
<td>8%</td>
</tr>
<tr>
<td>2010</td>
<td>93%</td>
<td>7%</td>
</tr>
<tr>
<td>2011</td>
<td>90%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Data source: EU SME Centre, 2017
E-commerce in China

Direct sales: two-pronged approach

**Independent Website**
Serves the company need to create brand awareness, to build even closer ties with its own consumers and advise them on future product release.

**Shop in the Marketplace**
To benefit from existing consumer base and capture part of its high transaction volume.

*data source* EU SME Centre, 2017
E-commerce in China
Cross-border e-commerce

CBEC Retail Sales (2014-2020e, billion USD)

<table>
<thead>
<tr>
<th>Year</th>
<th>CBEC Retail Sales (billion USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>30.1</td>
</tr>
<tr>
<td>2015</td>
<td>57.1</td>
</tr>
<tr>
<td>2016</td>
<td>85.8</td>
</tr>
<tr>
<td>2017e</td>
<td>110.7</td>
</tr>
<tr>
<td>2018e</td>
<td>129.1</td>
</tr>
<tr>
<td>2019e</td>
<td>144.2</td>
</tr>
<tr>
<td>2020e</td>
<td>157.7</td>
</tr>
</tbody>
</table>

Data source: Consulate-General of the Kingdom of the Netherlands in Shanghai, 2017
E-commerce in China
Cross-border e-commerce

CBEC Customers (2014-2020e, million)

<table>
<thead>
<tr>
<th>Year</th>
<th>CBEC Customers (2014-2020e, million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>74.6</td>
</tr>
<tr>
<td>2015</td>
<td>128</td>
</tr>
<tr>
<td>2016</td>
<td>181.2</td>
</tr>
<tr>
<td>2017e</td>
<td>220.9</td>
</tr>
<tr>
<td>2018e</td>
<td>248.9</td>
</tr>
<tr>
<td>2019e</td>
<td>271.9</td>
</tr>
<tr>
<td>2020e</td>
<td>291.8</td>
</tr>
</tbody>
</table>

Data source: Consulate-General of the Kingdom of the Netherlands in Shanghai, 2017
E-commerce in China
Cross-border e-commerce

**TOP 10 PURCHASED CATEGORIES ON CROSS-BORDER E-COMMERCE, 2015**
- Health and beauty: 45.7%
- Healthy supplements: 38.6%
- Consumer electronics: 30.6%
- Bags and luggage: 26.1%
- Domestic appliance: 24.4%
- Mum and baby: 39.3%
- Apparel and accessories: 38.0%
- Homeware: 26.6%
- Outdoor: 26.0%
- Toys and gifts: 23.1%

**TOP 8 PURCHASED COUNTRIES OF ORIGIN ON CROSS-BORDER E-COMMERCE, 2015**
- USA: 53.9%
- Japan: 45.7%
- Korea: 35.3%
- Germany: 28.5%
- Australia: 28.0%
- UK: 20.4%
- France: 20.4%
- Italy: 19.6%

_data source_ Oliver Wyman, 2016
### E-commerce in China

#### Cross-border e-commerce

<table>
<thead>
<tr>
<th>Operating model</th>
<th>PLATFORM PROVIDER</th>
<th>SELF-OPERATED PLAY</th>
<th>VERTICAL SPECIALIST</th>
<th>BRAND’S OWN WEBSITE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating model</td>
<td>Providing a platform for foreign brands/retailers to sell products from overseas</td>
<td>Sourcing products from overseas to sell locally, typically through setting up legal entities in bonded areas and managing their own supply chains</td>
<td>Selling overseas products of selected categories to Chinese consumers through its own e-commerce website</td>
<td>Selling overseas products to Chinese consumers through the brand’s international website</td>
</tr>
</tbody>
</table>

| Profit source | Platform service fees + commission from brands/retailers; revenue from marketing tools | Mark-up from wholesale prices from brands/retailers to website retail prices | Mark-up from wholesale prices from brands/retailers to website retail prices |

| Example players | ![Tmall HK](image) | ![全球购](image) | ![京东全球购](image) | ![蜜芽宝贝](image) | ![ASOS](image) |

*data source: Oliver Wyman, 2016.*
E-commerce in China
Selling directly via CBEC bonded warehouse

Cross-Border E-Commerce opens the possibility for EU exporters to sell online directly to Chinese consumers.

Some restrictions hold:
- Only B2C allowed
- There is a list of products allowed. Get the list at [www.eusmecentre.org.cn](http://www.eusmecentre.org.cn)
- Taxes are different than those of General Trade
E-commerce in China
Selling directly via CBEC bonded warehouse

Payment in € goes to Ireland
Chinese consumers buy on a WeChat Shop via Smartphone

data source  EU SME Centre, 2017
E-commerce in China

Setting-up a Shop
# E-commerce in China

## Main Platforms

<table>
<thead>
<tr>
<th>China Main E-retailers</th>
<th>天猫TMALL.COM</th>
<th>JD.COM</th>
<th>TMALL GLOBAL™</th>
<th>京东全球购JD Worldwide</th>
</tr>
</thead>
<tbody>
<tr>
<td>Established in 2008;</td>
<td>• Established in 2004;</td>
<td>• Established in 2013;</td>
<td>• Established in 2015;</td>
<td>• Operated by JD.com;</td>
</tr>
<tr>
<td>Belongs to the Alibaba Group;</td>
<td>• Started as optical store;</td>
<td>• Belongs to the Alibaba Group;</td>
<td>• No Chinese business license needed to open a shop.</td>
<td>• More than 2500 merchants feature on the platform;</td>
</tr>
<tr>
<td>The platform is exclusively dedicated to official brand stores, with about 70,000 brands featured in 50,000 shops;</td>
<td>• Second largest E-retailers in China (B2C);</td>
<td>• Recently acquired Yihaodian (2016).</td>
<td>• 7.8 million SKUs (mother and baby acre, nutrition and healthcare, personal care and cosmetics, etc. etc.)</td>
<td></td>
</tr>
<tr>
<td>Adopts the shop-in-shop model;</td>
<td>• Clothing, household items, and accessories account for the majority of sales.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
E-commerce in China
Pick your platform

data source EU SME Centre, 2017
E-commerce in China
Choose your shop

Flagship Store
- The seller is the trademark owner or possesses exclusive authorisation from the brand owner.

Authorised Store
- The seller is allowed to sell products from one brand or from multiple brands only if they belong to the same entity.

Specialty Shop
- The seller is allowed to sell products of two or more brands that belong to the same product category.

data source EU SME Centre, 2017
## E-commerce in China

### Requirements

- Business licence
- Tax Registration Certificate
- Code Organisation certificate
- Bank Accounts Permits
- Legal representative ID
- Alipay authorisation letter *(for Tmall)*
- Trademark Registration
- Licences, depending on the type of product

- Furthermore, **Tmall** requires that the company be registered in China for more than a year, with registered capital of more than CNY 1 million.
- Additional requirements might apply for some product categories (e.g. F&B).

*data source* EU SME Centre, 2017
## E-commerce in China Costs (F&B)

<table>
<thead>
<tr>
<th></th>
<th>天猫 TMALL.COM</th>
<th>TMALL GLOBAL™</th>
<th>JD.COM</th>
<th>1号店</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Refundable One-time Fixed Cost</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Security Deposit</td>
<td>Flagship+authorized: with TM 50,000 RMB without 100,000 RMB Specialty: With TM 150,000 RMB Without 100,000</td>
<td>25,000 US$ (161,000 RMB)</td>
<td>50,000 RMB</td>
<td>50,000 RMB</td>
</tr>
<tr>
<td><strong>Annual Fixed Cost</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual Platform Fee</td>
<td>30,000 RMB</td>
<td>5,000 US$ (32,000 RMB)</td>
<td>6,000 RMB</td>
<td>9,600 RMB</td>
</tr>
<tr>
<td><strong>Variable Cost</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commission Fee</td>
<td>2%</td>
<td>2-5%</td>
<td>3%</td>
<td>4%</td>
</tr>
<tr>
<td>Operation Agent</td>
<td></td>
<td></td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Commission</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Platform Payment Cost</td>
<td></td>
<td></td>
<td>2-3%*</td>
<td></td>
</tr>
<tr>
<td>Platform Mandatory Promotion fee</td>
<td></td>
<td></td>
<td>0.5%</td>
<td></td>
</tr>
</tbody>
</table>

(*) In the case of Tmall Global, it is necessary to pay 1% extra, due to the cross-border transaction.
E-commerce in China
Timing

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

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

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

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

Launch

4-8 weeks

data source EU SME Centre, 2017
E-commerce in China
Shop examples
E-commerce in China

The Chinese consumer
The Chinese Consumer(s)

<table>
<thead>
<tr>
<th>Share of urban households, %</th>
<th>Urban private consumption, %</th>
<th>Income segment</th>
<th>Projected growth of private consumption, CAGR, 2012–22, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>100% = 256 million</td>
<td>10,048 billion renminbi</td>
<td>Affluent</td>
<td>10.3</td>
</tr>
<tr>
<td></td>
<td>357 million</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>Upper middle class</td>
<td>19.6</td>
</tr>
<tr>
<td></td>
<td>11</td>
<td>Mass middle class</td>
<td>22.4</td>
</tr>
<tr>
<td></td>
<td>54</td>
<td>Poor</td>
<td>-3.3</td>
</tr>
<tr>
<td>2012</td>
<td>54</td>
<td></td>
<td>-1.5</td>
</tr>
<tr>
<td>2022</td>
<td>22</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1 Figures may not sum to 100%, because of rounding; data for 2022 are projected.
2 Defined by annual disposable income per urban household, in 2010 real terms: affluent, >229,000 renminbi (equivalent to >$34,000); upper middle class, 106,000 to 229,000 renminbi (equivalent to $16,000 to $34,000); mass middle class, 60,000 to 106,000 renminbi (equivalent to $9,000 to $16,000); poor, <60,000 renminbi (equivalent to <$9,000).
3 Compound annual growth rate.
Consumer Confidence

Consumer confidence largely unchanged

“My household income will significantly increase in the next 5 years”
Percent of respondents who strongly agree or agree

<table>
<thead>
<tr>
<th>Year</th>
<th>China</th>
<th>United States</th>
<th>United Kingdom</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>57</td>
<td>32</td>
<td>30</td>
</tr>
<tr>
<td>2015</td>
<td>55</td>
<td>30</td>
<td>30</td>
</tr>
</tbody>
</table>

Consumption as growth driver

Final consumption expenditure contribution share to GDP growth at the end of 2015:

59.9%  
(48.8% in 2014)

New Consumption Trends

Chinese Consumer

- Brand Loyalty
- Premium Products
- Away from basic consumption
- Healthy Living
- Family Focus
- Tech Savvy
- Int’l Travel

data sources: EU SME Centre, McKinsey, Economist Intelligence Unit
Shift in Consumption Patterns
Increasing brand loyalty

Trend 1 – Increasingly brand loyal

Only buy brands within my consideration set
Percent

Food & beverages
Personal care
Apparel
Consumer electronics

data sources McKinsey, 2016
Shift in Consumption Patterns
Towards premium products

<table>
<thead>
<tr>
<th>Category</th>
<th>Trade down</th>
<th>Trade up</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cosmetics</td>
<td>4</td>
<td>44</td>
</tr>
<tr>
<td>Spirits</td>
<td>2</td>
<td>36</td>
</tr>
<tr>
<td>Dairy Milk</td>
<td>4</td>
<td>29</td>
</tr>
<tr>
<td>Hair Care</td>
<td>3</td>
<td>26</td>
</tr>
<tr>
<td>Rice</td>
<td>3</td>
<td>25</td>
</tr>
<tr>
<td>Fresh Produce</td>
<td>1</td>
<td>24</td>
</tr>
<tr>
<td>Beer</td>
<td>2</td>
<td>22</td>
</tr>
<tr>
<td>Ice Cream and Other Frozen Dairy Desserts</td>
<td>2</td>
<td>22</td>
</tr>
<tr>
<td>Cookies</td>
<td>4</td>
<td>19</td>
</tr>
<tr>
<td>Juice</td>
<td>2</td>
<td>18</td>
</tr>
<tr>
<td>Frozen Pre-Cooked Meals</td>
<td>4</td>
<td>17</td>
</tr>
<tr>
<td>Bottled Water</td>
<td>6</td>
<td>15</td>
</tr>
<tr>
<td>Carbonated Beverages</td>
<td>3</td>
<td>7</td>
</tr>
</tbody>
</table>

*data sources McKinsey, 2016*
### Shift in Consumption Patterns
Away from basic consumption

#### Shift from products to services

<table>
<thead>
<tr>
<th>Products</th>
<th>2015</th>
<th>Changes from 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>46</td>
<td>-30</td>
</tr>
<tr>
<td>Apparel</td>
<td>37</td>
<td>3</td>
</tr>
<tr>
<td>Health care products</td>
<td>17</td>
<td>1</td>
</tr>
<tr>
<td><strong>Services</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leisure &amp; entertainment</td>
<td>25</td>
<td>8</td>
</tr>
<tr>
<td>Travel</td>
<td>23</td>
<td>9</td>
</tr>
<tr>
<td>Personal care services (incl. spa, massage)</td>
<td>13</td>
<td>5</td>
</tr>
</tbody>
</table>
Shift in Consumption Patterns
Healthy lifestyle

Percent of people who consume

- Juice: 61% in 2012, 63% in 2015
- Carbonated soft drinks: 84% in 2012, 63% in 2015
- Chewing gum: 69% in 2012, 54% in 2015
- Ice cream: 65% in 2012, 58% in 2015
- Western Fast-food: 67% in 2012, 51% in 2015

Shift in Consumption Patterns
Family focus

Being successful means...
Percent of respondents who strongly agree or agree

- **Having a happy family**
  - 2009: 62%
  - 2012: 70%
  - 2015: 75%

- **Being rich**
  - 2009: 47%
  - 2012: 47%
  - 2015: 48%

Going shopping with my family is one of the best ways to spend time with them
Percent of respondents who strongly agree or agree

- 2012: 43%
- 2015: 64%

Shift in Consumption Patterns
New technologies

Channel trends – Online experience catching up

<table>
<thead>
<tr>
<th>Satisfaction with shopping experience</th>
<th>FACIAL MOISTURIZER EXAMPLE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2012</td>
</tr>
<tr>
<td>Cosmetics and personal care store</td>
<td>7.5</td>
</tr>
<tr>
<td></td>
<td>-0.1</td>
</tr>
<tr>
<td>Hyper/supermarket</td>
<td>7.4</td>
</tr>
<tr>
<td></td>
<td>-0.7</td>
</tr>
<tr>
<td>Department store</td>
<td>7.3</td>
</tr>
<tr>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Online store</td>
<td>5.8</td>
</tr>
<tr>
<td></td>
<td>1.2</td>
</tr>
</tbody>
</table>

data sources: McKinsey, Economist Intelligence Unit
Shift in Consumption Patterns
International travels

Percent

Went shopping during holidays 79

Shopping is an important part of my holidays 47

Shopping was consideration factor to choose destination 29
Reach the Chinese consumers

- Know “your” customers: different areas, different age, different gender, different income levels, different tastes;

- Be creative and innovative: know the local social media landscape. Digital Marketing;

- Introducing the “Millennials”: more than 400 mln, ultra-connected, one-child, grew up during economic opening and reforms, extremely social, multi-facets.
E-commerce in China
Table of Content

GENERAL TRADE

CROSS-BORDER TRADE

What you need to know
## General Trade

<table>
<thead>
<tr>
<th>REQUIREMENTS</th>
<th>WHAT IT MEANS?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>There’s a legal entity</strong> in China that imports the product</td>
<td>Find an importer and/or distributor, lengthy process, only apt for large quantities</td>
</tr>
<tr>
<td>The legal entity <strong>pays</strong> to Customs, lands the product in China</td>
<td>Payment upfront. Lengthy procedure. Frequent hassles at Customs</td>
</tr>
<tr>
<td>Duties and taxes are paid <strong>before</strong> the product is sold by the importer</td>
<td>Chinese importers averse to obsolete inventories. Don’t want the risk of poor product performance. Only want first brands</td>
</tr>
<tr>
<td>Duties and Taxes are paid <strong>over</strong> CIF price</td>
<td>Intermediaries add high margins in each step of the supply chain up to consumer, thus leading to high price tag on shelf</td>
</tr>
<tr>
<td>Product can be sold either off-line or on-line</td>
<td>General Trade responds better to B2B than to B2C</td>
</tr>
</tbody>
</table>
## General Trade

<table>
<thead>
<tr>
<th>DUTIES &amp; TAXES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over CIF price</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>ITR + CTR + VATR + (ITR x VATR) (1 – CTR)</td>
</tr>
</tbody>
</table>

**ITR**  Customs Duty  
**CTR**  Consumption Tax  
**VATR**  Value added Tax  

**Example:** 1 bottle of wine. CIF = €10, Total Tax is 48.2%, landed = 10+4.82

<table>
<thead>
<tr>
<th>CIF</th>
<th>€10</th>
<th>Landed €14.82</th>
</tr>
</thead>
<tbody>
<tr>
<td>ITR</td>
<td>14%</td>
<td>0.14+0.1+0.17+(0.14x0.17) = 0.482</td>
</tr>
<tr>
<td>CTR</td>
<td>10%</td>
<td>(1-0.1)</td>
</tr>
<tr>
<td>VATR</td>
<td>17%</td>
<td></td>
</tr>
</tbody>
</table>
General Trade

Bottom line

Chinese Importers
- Even only one simple 20' FCL container means a financial effort of a minimum of tens of thousand euros of **working capital idle** and blocked during several months of transit and sales cycle
- Importers tend not to order goods unless they are certain they can rotate quickly the products, behaving more **like brokers** than like market developers
- Afraid of a working capital shortage, and **expiry** dates of products, they are reluctant to develop the market to the dismay of EU suppliers thus searching always for **famous brands**

EU Exporters
- They believe the product has a correct price in origin. They can't grasp the enormous price increase from CIF to the tag price on the shelf
- Do perceive the negotiations with importers as exhausting, and always spinning around price
- Lack of trust on the goodwill of Chinese importers to really develop the market
- Feeling of those Chinese importers will jump quickly over the next big thing in terms of margins, forgetting the current category they are working on
- Setting up a company in China is far beyond the resources of an average EU SME, which, however, can have a good product for China
The good news

The combination of

- Free Trade Zones
- Cross-Border E-Commerce
- Importers in China becoming much more professional
- A more knowledgeable, savvy, discerning, curious, Chinese consumer

Boosts the demand of more variety, wider assortment, across most of the categories

---

Diagram:

- Time
  - PREMIUM
  - LUXURY
  - QUALITY
  - PRICE
  - CHEAP
  - MASS
  - MARKET
## Cross-Border Trade

<table>
<thead>
<tr>
<th>REQUIREMENTS</th>
<th>WHAT IT MEANS?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>There’s a legal entity</strong> in China that imports the product to a <strong>bonded</strong> warehouse at the Free Trade Zone</td>
<td>Logistics operators and Chinese importers at FTZs know well import procedures and regulations. Verification in advance, speeding up the process, reducing time lapses. Officers from Quality and Inspection (AQSIQ) at hand</td>
</tr>
<tr>
<td>The legal entity goes through Customs procedures <strong>only when there is an online order from a netizen</strong></td>
<td>Importers now want a wider assortment. However still want high rotation products to lower operation costs</td>
</tr>
<tr>
<td>Duties and taxes are paid <strong>when the item is purchased by a netizen</strong></td>
<td>Chinese importers at FTZs <strong>don't have the burden</strong> of Customs taxes and duties</td>
</tr>
<tr>
<td>Duties and Taxes are paid <strong>over the shelf retail price by the netizen</strong></td>
<td>Competition is introduced, wider assortment, a <strong>clearer pricing scheme</strong></td>
</tr>
<tr>
<td>Product can be sold <strong>on-line only</strong></td>
<td>All is <strong>B2C</strong></td>
</tr>
<tr>
<td><strong>Taxes and Duties are different than on General Trade</strong></td>
<td>Beware, this does not mean necessarily a cheaper product on shelf</td>
</tr>
<tr>
<td>Max value of each purchase ~ EUR 250</td>
<td></td>
</tr>
</tbody>
</table>
## Cross-Border Trade

<table>
<thead>
<tr>
<th>DUTIES &amp; TAXES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over <strong>SHELF</strong> price</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
<tr>
<td>$\text{ITR} + \text{CTR} + \text{VATR} + (\text{ITR} \times \text{VATR})$ (1 – CTR)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ITR</th>
<th>0%</th>
<th>Customs Duty</th>
</tr>
</thead>
<tbody>
<tr>
<td>CTR</td>
<td>70% of Consumption Tax for General Trade</td>
<td></td>
</tr>
<tr>
<td>VATR</td>
<td>11.9%</td>
<td>70% of Value added Tax for General Trade</td>
</tr>
</tbody>
</table>

**Example:** 1 bottle of wine. Price online shelf = 333 RMB paid by netizen of which taxes and duties are 20.3%

<table>
<thead>
<tr>
<th>ITR</th>
<th>0%</th>
<th>0+0.07+0.119= <strong>0.203</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>CTR</td>
<td>7% (70% of 10%)</td>
<td>(1-0.1)</td>
</tr>
<tr>
<td>VATR</td>
<td>11.9% (70% of 17%)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>GENERAL TRADE</td>
<td>CROSS-BORDER TRADE</td>
</tr>
<tr>
<td>----------------------</td>
<td>-------------------------------------</td>
<td>-------------------------------------</td>
</tr>
<tr>
<td>CIF Price</td>
<td>10€ = 75 RMB</td>
<td>333 RMB</td>
</tr>
<tr>
<td>Sales Price</td>
<td>333 RMB</td>
<td>333 RMB</td>
</tr>
<tr>
<td>Taxes Paid by Importer</td>
<td>36.15 RMB</td>
<td>0 RMB</td>
</tr>
<tr>
<td>Taxes Paid by Netizen</td>
<td>0 RMB</td>
<td>67.6 RMB (0.20\times333)</td>
</tr>
<tr>
<td><strong>Gross Margin Importer</strong></td>
<td><strong>221 RMB</strong> (333 – 75 – 36.15)</td>
<td><strong>190 RMB</strong> (333 – 75 -67.6)</td>
</tr>
<tr>
<td></td>
<td>Taxes depend on CIF price</td>
<td>Taxes depend on shelf price</td>
</tr>
<tr>
<td></td>
<td>Taxes independent of shelf price</td>
<td>Taxes independent of CIF price</td>
</tr>
</tbody>
</table>
The true price tag, as is perceived now by a more savvy Chinese consumer should be **much lower**, and importers know it.

<table>
<thead>
<tr>
<th></th>
<th>GENERAL TRADE</th>
<th>CROSS-BORDER TRADE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CIF Price</strong></td>
<td>10€ = 75 RMB</td>
<td>180 RMB</td>
</tr>
<tr>
<td><strong>Sales Price</strong></td>
<td>180 RMB</td>
<td>180 RMB</td>
</tr>
<tr>
<td><strong>Taxes Paid by Importer</strong></td>
<td>36.15 RMB</td>
<td>0 RMB</td>
</tr>
<tr>
<td><strong>Taxes Paid by Netizen</strong></td>
<td>0 RMB</td>
<td>36 RMB (0.20x180)</td>
</tr>
<tr>
<td><strong>Gross Margin Importer</strong></td>
<td><strong>69 RMB</strong></td>
<td><strong>69 RMB</strong></td>
</tr>
<tr>
<td></td>
<td>(180 – 75 – 36.15)</td>
<td>(180 – 75 -36)</td>
</tr>
</tbody>
</table>

Taxes depend on **CIF price**
Taxes depend on **shelf price**
Taxes independent of shelf price
Taxes independent of CIF price

Forces of the market in place, a **trial of economic reforms**

As a rule of thumb, General Trade yields more gross margin when **SHELF PRICE > 2.4xCIF PRICE**
Cross-Border Trade

Does it open an opportunity for my business?

It facilitates the entry to Chinese market, mitigating some of the difficulties, such as

- Finding partners, importers/distributors, of General Trade
- Dealing more smoothly with Customs and regulations
- Knowing pre-emptively if product is approved by Customs
- Testing the waters, to scale up later on
- Having an exit strategy, scaling down if needed
- Entering the market through progressive steps
- Having logistics China-wide
- Dealing with returns
- Managing complaints
- Getting paid in EURO in your country of origin
- Dissociating trade from promotion and brand image, you can control the latter two
- Avoid to set up a company and its hassles and costs
- Adapting to a fast changing market
Cross-Border Trade

It has its downside too

- Cross-Border E-Commerce is still considered *a pilot*. It is only B2C
- Balance strong government planning with the free market is not easy, results can be different from what was intended (e.g. corn tariff; e.g. massive changes on categories permitted on April 2016)
- Large online platforms, non favourable payment terms (e.g. JD, 60 days T/T)
- In a data-driven world, the consumer’s information rests on the Chinese side
- List of authorized products that can be traded via cross-border can be changed by government
- Chinese importers enlarge assortments, but do little to promote individual items, hoping for some of the SKUs in assortment explode as a success by itself
- Low rotation annihilates interest of importers, they’ll do little to fix it
Cross-Border Trade

The list of products than can be traded via Cross-Border E-Commerce

List of Products Authorized for Retail Import via China’s Cross Border E-commerce

Translated by the EU SME Centre
April 2016

See the original Chinese list here.

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
<th>Import Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>02101900</td>
<td>Other meat of swine, salted, in brine, dried or smoked</td>
<td>Only e-commerce bonded products</td>
</tr>
<tr>
<td>02102000</td>
<td>Meat of bovine animals</td>
<td>Only e-commerce bonded products</td>
</tr>
<tr>
<td>03061200</td>
<td>Lobsters (Homarus spp.)</td>
<td>Only e-commerce bonded products</td>
</tr>
<tr>
<td>03061490</td>
<td>Crab, Other</td>
<td>Only e-commerce bonded products</td>
</tr>
<tr>
<td>03061619</td>
<td>Cold-water prawns</td>
<td>Only e-commerce bonded products</td>
</tr>
<tr>
<td>03062290</td>
<td>Unfrozen lobsters other than for cultivation</td>
<td>Only e-commerce bonded products</td>
</tr>
<tr>
<td>03062499</td>
<td>Other unfrozen crabs</td>
<td>Only e-commerce bonded products</td>
</tr>
<tr>
<td>03071190</td>
<td>Oysters: Live, fresh or chilled: others</td>
<td>Only e-commerce bonded products</td>
</tr>
<tr>
<td>03073190</td>
<td>Mussels, live, fresh or chilled</td>
<td>Only e-commerce bonded products</td>
</tr>
<tr>
<td>03077990</td>
<td>Frozen, dried, salted or in brine cockles and ark shells</td>
<td>Only e-commerce bonded products</td>
</tr>
<tr>
<td>03079190</td>
<td>Live, fresh or chilled other molluses</td>
<td>Only e-commerce bonded products</td>
</tr>
</tbody>
</table>

Source: EU SME Centre (CBEC list, English)