



China

Cross-Border E-Commerce

Opportunities for Dutch Companies

*Consulate General
of the Kingdom
of the Netherlands
in Guangzhou*

2015

Focal points:

Embassy Beijing
pek-ea@minbuza.nl

Consulate General Guangzhou
gnz-ea@minbuza.nl

Consulate General Shanghai
sha-ea@minbuza.nl

www.zakendoeninchina.org

Dit rapport is geschreven door:

Ruben de Bie, Economic Policy Officer at Consulate General Guangzhou

This series of opportunity reports is a joined effort of the Netherlands Economic Network in China, consisting of the Embassy of the Netherlands in Beijing, the Consulates General in Shanghai, Guangzhou, Chongqing and Hong Kong, and the Netherlands Business Support Offices (NBSO's) in Chengdu, Dalian, Jinan, Nanjing, Qingdao and Wuhan.

Unauthorized use, disclosure or copying without permission of the publisher is strictly

Contents

Foreword

| | | |
|----------|---|-----------|
| 1 | Trends in China's E-Commerce | 5 |
| 1.1 | Growth Market | 5 |
| 1.2 | Business-to-Consumer | 6 |
| 1.3 | Mobile and Social | 7 |
| 1.4 | Cross-Border E-commerce | 8 |
| 1.5 | Opportunities in the Consumer Market | 8 |
| 2 | E-Commerce Landscape | 9 |
| 2.1 | Consumer-to-Consumer | 9 |
| 2.2 | Business-to-Consumer Platforms | 9 |
| 2.3 | Battle of the Giants | 11 |
| 2.4 | Cross-Border Sales Channels | 12 |
| 2.5 | New Policies, New Opportunities | 13 |
| 3 | Online Market | 14 |
| 3.1 | Consumers | 14 |
| 3.2 | Products | 15 |
| 3.3 | Overseas Products | 16 |
| 3.4 | Popular Brands and Countries of Origin | 17 |
| 4 | Basic Steps | 19 |
| 4.1 | Logistics | 19 |
| 4.2 | Tax and Inspection | 20 |
| 4.3 | Sales Channels | 21 |
| 4.4 | Customer Service | 22 |
| 4.5 | Advertising | 23 |
| 5 | Local Developments and Support | 24 |
| 5.1 | Economic Network and Commercial Service Providers | 24 |
| 5.2 | Beijing | 24 |
| 5.3 | Guangzhou | 25 |
| 5.4 | Shanghai | 25 |

Foreword

E-commerce in China is what you call a hot topic. And rightfully so. There are many opportunities in this fast-growing market. The Dutch missions in China regularly receive trade requests from Dutch product providers and IT entrepreneurs about online retail in China. Furthermore, there are increasingly more Dutch digital and logistic service providers active in China, who can provide support in this market, such as the DigiDutch consortium.

The Netherlands is not exactly the worldwide number one when it comes to selling its products over the border, but in China lies the potential to catch up. Currently the Netherlands is in fact already among the Top 10 destinations for Chinese shopping abroad online. Dutch brand owners, wholesalers and other stakeholders are therefore encouraged to further explore the opportunities in the Chinese e-market.

This report specifically targets online retail – the sales of goods to consumers by companies (b2c). Sales to consumers are however only approximately 23% percent of total online trade in China. Hence there are many more opportunities for doing online business in China, such as business-to-business sales (b2b). Not to mention concomitant logistic and digital services! But these are all very different areas of business. Sales of consumer goods are one of the most important fields where Dutch exports in China can profit.

A collective approach can help to spread costs and reach more customers. Interest groups such as the US pork lobby USMEF, and governments of countries such as France, Italy and the United Kingdom have already launched successful e-commerce promotions for their companies, in cooperation with large platforms. South Korea already even has a national pavilion on Tmall and JD. Such initiatives are an interesting example for Dutch companies. Therefore I conclude this opportunity report with the following open question: is there a future for a Holland Flagship Store?

This report has been written thanks to the expertise of experienced entrepreneurs in China's e-commerce. It is my pleasure to thank all the companies that contributed.

Ruben de Bie
Economic Policy Officer
Consulate General of the Netherlands in Guangzhou
Ruben-de.bie@minbuza.nl
+86 20 38132219

1 Trends in China's E-Commerce

The size and growth figure of the Chinese e-commerce market make every entrepreneur's mouth water. This has resulted in fierce competition for online platforms and retailers in China, but there is still space for new products in the right niches. This is where Dutch exports can find their way to the Chinese consumer.

1.1 Growth Market

China is the largest e-commerce market in the world. The Chinese online retail market is almost 40% larger than the US, and together these markets account for more than 55% of worldwide e-commerce. As depicted in Image 1, China's gross merchandize volume (GMV) in e-commerce has gone up from little over USD 7 billion in 2007 to almost USD 425 billion in 2014. The share of e-commerce in China's total retail has risen above 10% in the first quarter of 2015 – a remarkably higher percentage than in the US – and this will grow to 13.6% in 2016. Despite doubts whether e-commerce can spread to less developed areas in the country with equal speed, for now China is still one of the most attractive online retail markets.

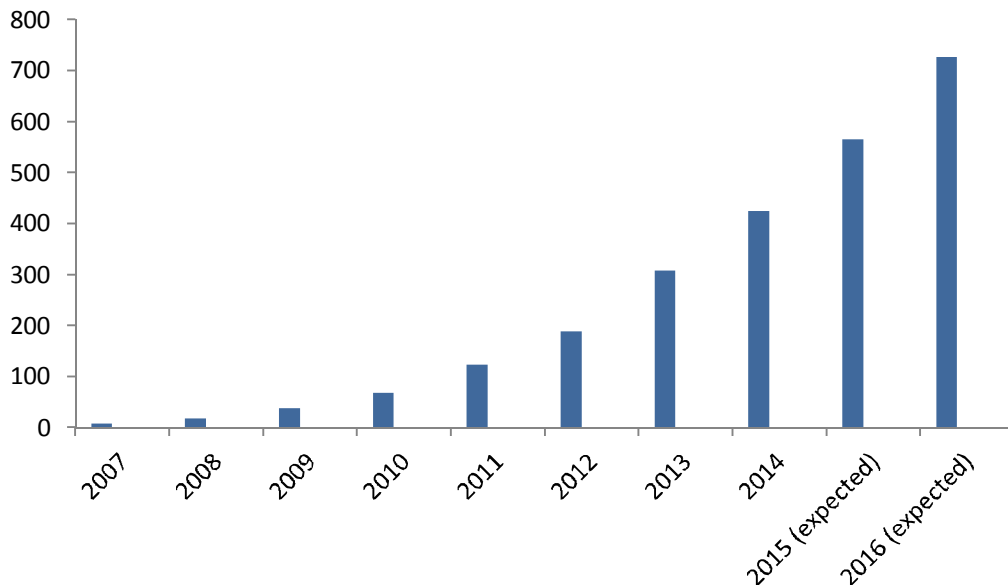


Image 1 Yearly size of online retail in China 2007-2016 in billions USD, by GMV
Source Credit Suisse, iResearch

There is enough space for the Chinese e-commerce market to keep growing in the coming years. Namely China has a much lower percentage of total internet users who shop online than for instance the US, UK and Germany (see Image 2). And the number of internet users in China is also still growing.

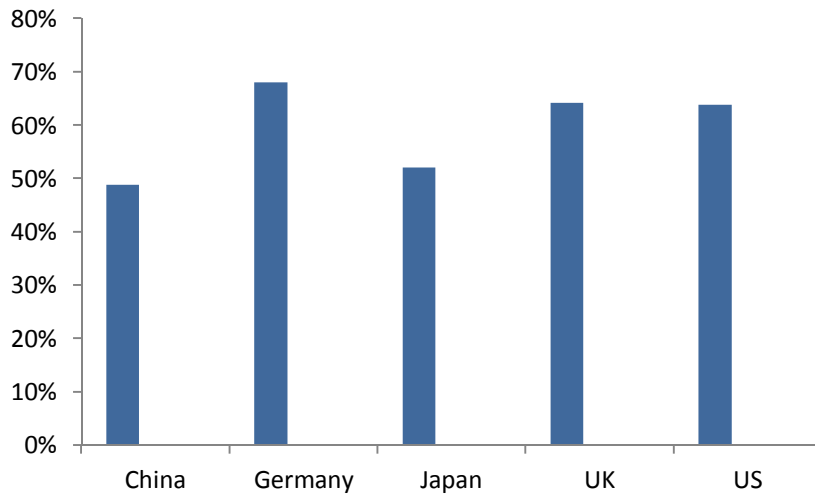


Image 2 Online shoppers as a percentage of total online population
Source CNNIC, IDC

1.2 Business-to-Consumer (B2C)

E-commerce in China is becoming more and more professional and organized. As can be observed in Image 3, in 2010 the vast majority of online sales to consumer was done by individuals (c2c). At the moment already more than half of sales is conducted by registered companies (b2c), and this percentage is expected to keep rising. As such China is currently already the largest market worldwide in terms of absolute b2c sales numbers.

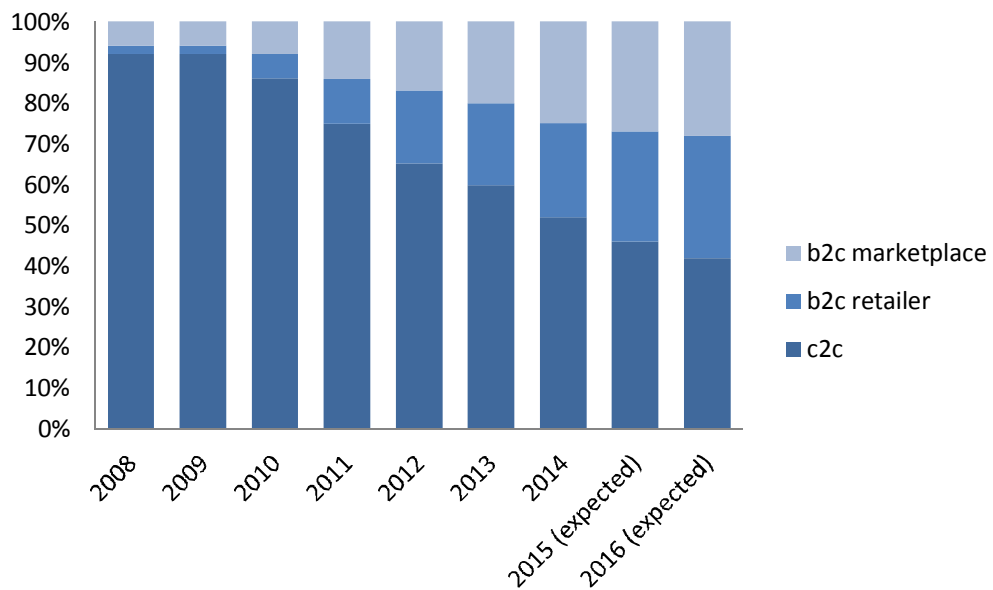


Image 3 Percentage of c2c and b2c of all online sales
Source: Credit Suisse, iResearch

Roughly half of online b2c sales in China is made directly by online retailers, while the other half is generated through shops on online marketplaces. Besides setting up an own online shop on large platforms such as Tmall, product providers can also choose to cooperate with established online retailers (b2b2c). Platforms with own operations and other third parties can help marketing the products for a share of the profit. For this, finding the right partner is very important.

1.3 Mobile and Social

China is shopping increasingly mobile. In 2014 the value of mobile purchases, so-called m-commerce, increased with 293% compared to 2013. With a value of approximately USD 130 billion, mobile transactions accounted for about 30% of total Chinese e-commerce. As displayed in Image 4, the share of mobile commerce is estimated to rise to 53% in 2016. Remarkably, in the Chinese countryside already 64% of online consumers shop via mobile devices – and e-commerce in rural areas has a high volume potential for growth.

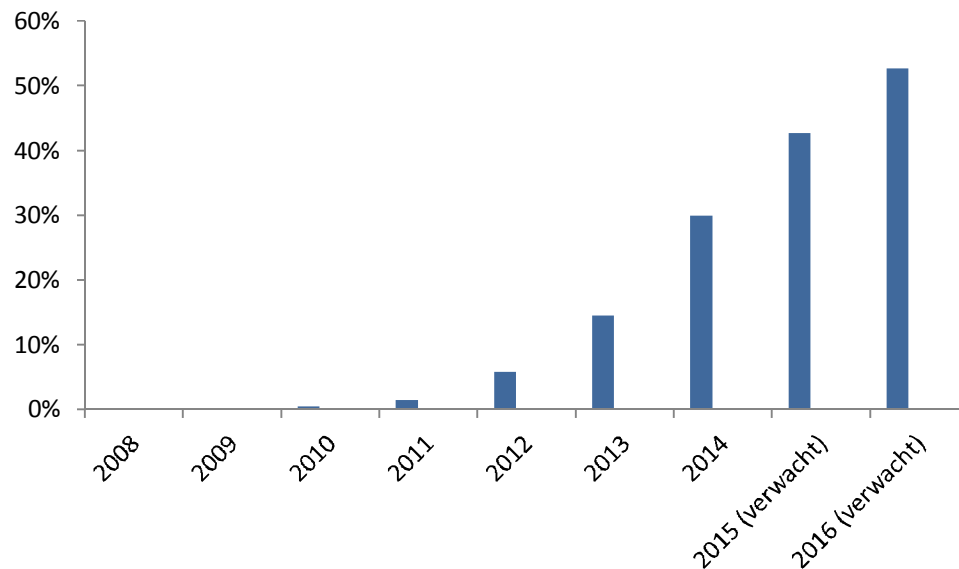


Image 4 Percentage mobile purchases of total e-commerce (GMV)
Source: Credit Suisse, iResearch

The jump in mobile shopping is not surprising, as figures tell us more than 390 million smartphones were sold in China in 2014. This is 32% of the worldwide sales of smartphones, and this trend is still growing. Many in the countryside skip PCs as a tool for internet access, relying almost solely on their smartphone.

Social media also play an important role in the rise of m-commerce. In the first quarter of 2015, there were about 440 million active users of Tencent's mobile instant messaging application WeChat, which has in recent years grown to become the most important social platform. With corporate WeChat accounts, customer service can be provided, and promotions are done in ever more innovative ways. Since recently, even direct sales are possible, through the so-called WeChat Store.

1.4 Cross-Border E-Commerce

Chinese online consumers find their way to foreign products through various channels. For a while, there has been a lively trade on c2c platforms in overseas products, which purchasing agents acquire from abroad without paying import taxes (or which are counterfeits from China). At the moment, official b2c channels are becoming more popular for buying overseas products, which are either mailed directly from abroad or from bonded warehousing in China.

In 2013, 18 million Chinese consumers bought overseas products online, with a total value of approximately USD 35 billion. As such overseas product purchases were equal to 11% of domestic Chinese e-commerce, and this ratio has according to estimates stayed stable. Thus cross-border e-commerce grows along with the rest of the Chinese online market.

1.5 Opportunities in the Consumer Market

Although the growth of the Chinese economy is currently slowing down, it remains impressive. The yearly increase of consumption was still 7.1% in 2014, similar to the growth percentage of the gross domestic product (GDP).

At the moment household consumption only accounts for 34% of total consumption in China, while this ratio is 50-60% for most large economies. The share of household consumption is likely to increase, something the government also strongly supports. According to estimates by McKinsey the Chinese middle class will namely keep growing at a rapid pace, to 45% of the total population in 2022. Therefore the prospects for the Chinese consumer market in the coming years remain sunny.

In the light of food scandals and a relatively poor quality image of domestic brands, Chinese online consumers maintain a penchant for certain foreign products. The most popular categories for overseas products are baby products, cosmetics, fashion, food and beverage, and health products. These are the most obvious areas for cross-border e-commerce in China, but there are a lot more Dutch products with huge potential. In the end, the success of products is mainly determined by the power of individual brands in their own category.

2 E-Commerce Landscape

Online retail in China is characterized by heavy competition and fast developments. Where sales platforms are concerned, Alibaba is dominating the Chinese e-commerce landscape for now. Taobao (c2c) and Tmall (b2c) are by far the largest, in numbers of visitors and sales volume. However, due to heavy competition and expensive marketing on Tmall, cooperating with other b2c channels can generate more direct profit for the product provider. For instance there are product-specific platforms and platforms with new mobile marketing concepts. Moreover, an increasing number of platforms offer support for cross-border logistics, to enlarge their offer in overseas products. The number of options for product providers is expanding.

2.1 Consumer-to-Consumer (C2C)

About half of e-commerce in China still takes place on c2c marketplaces, of which Taobao is by far most important. With a 95% market share, Taobao has not much competition to fear. At the same time, Alibaba's biggest competitor in the b2c field, JD, has recently re-launched the c2c platform Paipai. As of yet not much is known about the performance of Paipai, and even though it is expected that Paipai will grow through cooperation with Tencent, for now it is not a threat to Taobao.

The marketplaces of Taobao and Paipai work with virtual stores, which can be freely opened, but which do require personal registration. Registration is only available for persons with the Chinese nationality. Besides this type of marketplace, there are also advertisement pages, such as JD-affiliated 58 and Ganji, who have built a profitable business with predominantly local classifieds. Posting an ad here does not require store registration.

2.2 Business-to-Consumer (B2C) Platforms

Online b2c sales in China are in the first place driven by the marketplace model. Almost all large b2c shopping platforms largely consist of products which are offered by a third party – brand owner, wholesaler, distributor etc. The best example is market leader Tmall, which accounts for half of China's whole b2c e-commerce. Tmall became big as a marketplace and is mainly driven by products from external providers. Merchants pay on Tmall for store rental fees and marketing costs.



Image 5 Logos of China's main b2c platforms

In the marketplace model merchants have their own virtual store on a platform, and they are themselves responsible for shipping, billing and customer service. On some platforms, shop owners can contract services such as delivery to the platform. The second largest b2c platform, JD, has for instance a developed own logistics system, which shop owners can use for a fee. JD (formerly 360Buy) was initially a pure online retailer of electronics, but has expanded in recent years thanks to its relatively well supported and regulated marketplace. JD's marketplace is integrated in its own product offer, which has equally expanded.

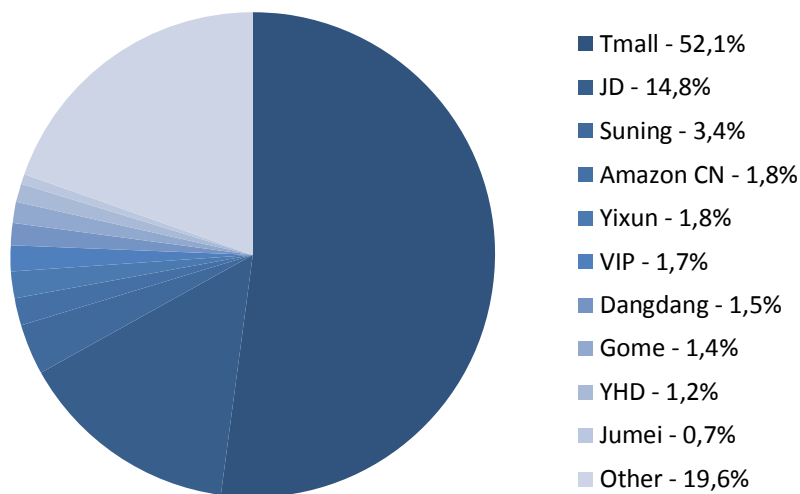


Image 6 China's online B2C market in 2013 (by GMV)

Source: Standard Chartered, iResearch

Many platforms offer their own range of products, for which they keep the whole process of buying and selling in their own hands. In this case, platforms do choose to focus on certain product categories for direct sales. YHD (Yihaodian), in which Walmart has a large share, has created a large market share in online groceries thanks to their own supply. By contrast, Suning controls much trade through direct sales of electronics and appliances. However, on both YHD and Suning there are many other product categories – you can for example find a lot of fashion on both – but these are sold by third parties in accordance with the marketplace model. Other platforms, such as electronics website Yixun (51Buy) operate completely without marketplace, exclusively as a retailer.

Other Chinese e-commerce websites distinguish themselves through their marketing. For instance VIP runs completely on “flash sales,” which means that all products are discounted but only temporarily available. The Chinese smartphone brand Xiaomi has pumped up its sales enormously, by offering only limited amounts of new products on their own channels. In this way Xiaomi generated a sales volume of RMB 22 billion in 2013, which is considerably more than the total sales of Amazon China in the same year. Also other electronics and appliances brands, such as Gome, Haier, Huawei and Lenovo sell a lot through their own websites, because of their strong brand names. Because of this Gome was even able to launch a comprehensive marketplace.

China furthermore has a growing market for smaller online shops, offering specific product categories. These shops each do not have a large share in total online merchandise volume, but they do in the online sales of their specific products. For instance Chinese consumers can order fruit via Fruitday, buy wines through Yesmywine and get their bags from Mbaobao. The rise of mobile shopping gives these shops the opportunity to consolidate the market for their product with their own app. This is why the market share of the 30 largest online shops has shrunk slightly in recent years. The development of more particular tastes among Chinese consumers will give some niche markets the chance to develop their own channels.

2.3 Battle of the Giants

The Chinese e-commerce landscape is not only determined by the direct management of sales channels, but to a large extent also by the companies behind those channels, which cooperate or compete with each other. In fact many websites are not run individually, but make use of each other’s marketing, logistics or payment methods through partnerships. For example YHD is developing Dangdang’s supply of groceries, while Dangdang offers books and media on YHD. There are also acquisitions of e-commerce platforms by other companies taking place, such as the incorporation of Coo8 into Gome. Through this process currently two important fronts have formed in the e-commerce field, which each maintain their own ecosystem. These are market leader Alibaba and the challenging team of JD and Tencent.

Together with Alibaba and Baidu, media giant Tencent forms the top three of biggest Chinese internet companies. Tencent is mainly known from games and social media, such as QQ and WeChat. In the area of e-commerce, Tencent is the parent company of online electronics store Yixun and shareholder of China’s largest classifieds website 58.com. Last year, Tencent acquired a considerable share in JD, to expand its presence in e-commerce at the cost of its arch rival Alibaba.

With social platforms such as WeChat, Tencent controls important marketing channels for e-commerce. It is even possible to open virtual shops on WeChat, so-called WeStores, although the development is still in an early stage. For the development of e-commerce, Tencent can make use of its own, integrated payment method, called WeChat Wallet. Herewith Tencent complements JD’s main strength, which is a developed platform with own logistic facilities. These facilities bring along high costs for JD, but also much growth potential.

Social platforms, payment methods and operational e-commerce together form an ecosystem. In the case of Alibaba, this system consists of the widely used payment system AliPay and social marketing via the partner organization Sina Weibo. Thanks to these integrated systems, the large Chinese e-commerce companies will not lose their influence soon.



Image 7 The two main camps

2.4 Cross-Border Sales Channels

Foreign products find their way to China often yet *not* via official b2c channels. If Chinese consumers do not buy the desired products abroad by themselves or through friends, they often call in purchasing agents, who also sell through c2c platforms such as Taobao. Namely, the grey channels through which many overseas products enter China, do not pass customs inspections, and no import duty is paid. Import procedures are often a hassle and duties can go as high as 50% of the product value, which can make alternative channels very lucrative.

With the current development of cross-border e-commerce, however, official channels are quickly replacing purchasing agents. First, almost all large e-commerce platforms currently have a b2c segment for overseas products. Overseas products displayed on b2c platforms, are sent to the customer directly from abroad or from bonded warehousing in China. Since merchants on these platforms have to be established and authorized abroad, they are considered more trustworthy. Customers are willing to pay a bit more for that. Moreover import procedures and tariffs for postal items have been relaxed somewhat, and the government promises to take more steps on the short term.

2.5 New Policies, New Opportunities

E-commerce is a topic with high priority on the Chinese policy agenda. Over a short period many new rules have been made to facilitate the development of the market, such as the right for consumers to return products under certain conditions. One of the most important result areas is the regulation of foreign trade flows, by promoting official cross-border e-commerce. As such cross-border e-commerce is also connected to China's "One Belt, One Road" foreign policy. New

national-level measures have been promulgated recently (such as documents nr. 56 and nr. 57 of General Administration of Customs), and special Cross-Border E-Commerce Zones have been established in a growing number of cities. Cross-border e-commerce is also a focal industry in the national Free Trade Zones in Shanghai, Fujian and Guangdong.

What is the significance of these new policies in practice? The advantages that current trends in cross-border e-commerce offer for trade toward China, are in the areas of logistics, customs procedures, online shop registration and even offline sales. The Free Trade Zones and Cross-Border E-Commerce Zones offer a combination of bonded warehousing and simplified import procedures. Additionally governments of these zones also set up service platforms, which are meant to facilitate contact with platforms and logistic service providers. In a number of places authorities have even launched own e-commerce platforms, such as Kuajingtong in Shanghai. This makes opening an online shop in China easier.

According to the latest trend local governments also set up "Cross-Border E-Commerce Experience Centers" in bonded zones, which in practice function as duty-free shops. Customers pay the same lowered tax in these shops as they would via cross-border e-commerce, and there are discount offers on certain overseas products. The main online function of these duty-free shops is that the products can also be ordered online, and that digital payment methods can be used. However, foreign product providers can consider opening a (subsidized) offline pavilion in a duty-free zone, to create a brand name and indirect online sales.



Image 8 Recently opened duty-free "cross-border e-commerce shop" in Guangzhou

3 Online Market

Although some experts question how rapidly e-commerce can spread to China’s inlands, the market is still growing and diversifying. Overseas products are popular in a number of bestselling product categories, but mostly form a category in its own right, thanks to separate cross-border channels. The regular domestic market also offers many chances for new brands and products.

3.1 Consumers

Young and urban. The audience which accounts for a majority of online purchases is 20-35 years of age and lives in urban coastal areas. These consumers are constantly in touch with the newest trends and marketing on social media via their smartphones. Alibaba’s famous “Singles Day” sales promotion was initially targeted at this young audience, before it became a national fad. In 2014 a record EUR 750 million of orders were placed on Alibaba’s websites alone on Singles Day (11 November). Roughly half of these purchases were made via mobile devices.

Female. Women are a remarkable majority of the Chinese online shopping audience. In the West women make online purchases slightly more frequently than men, but men generally spend a bit more. In China, female customers account for more than 60% of purchases *and* a higher total purchasing value, while women only constitute 44% of the Chinese online population. The growth of this so-called she-commerce has in part led to the thriving of platforms with maternity and baby products, fashion accessories and cosmetics.



Image 9 Comparison of online purchases by male and female consumers

Another few characteristics of the Chinese online consumer which insiders often mention are: flexible, communicative and increasingly individual. Chinese customers are flexible, because they easily switch between product providers, and often try new brands and products. Chinese customers are communicative, as they prefer frequent contact with the product provider – more than 70% uses customer service before placing an order. Also, they often leave reviews. Finally, Chinese

customers are increasingly targeting purchases which reflect their individual identity, which leads to development of brand awareness and diversification of tastes.

3.2 Products

B2c e-commerce takes an especially large share in the sales of a number of core products, such as fashion, electronics and home appliances. These core products account for more than half of all online retail, as can be seen on Image 10. Other relatively developed categories are cosmetics, baby products, home goods and media products. In addition, recently a lot of improvements are taking place in the area of food and beverage, such as the possibility to deliver fresh produce fast and internationally, resulting in a quick development of this market.

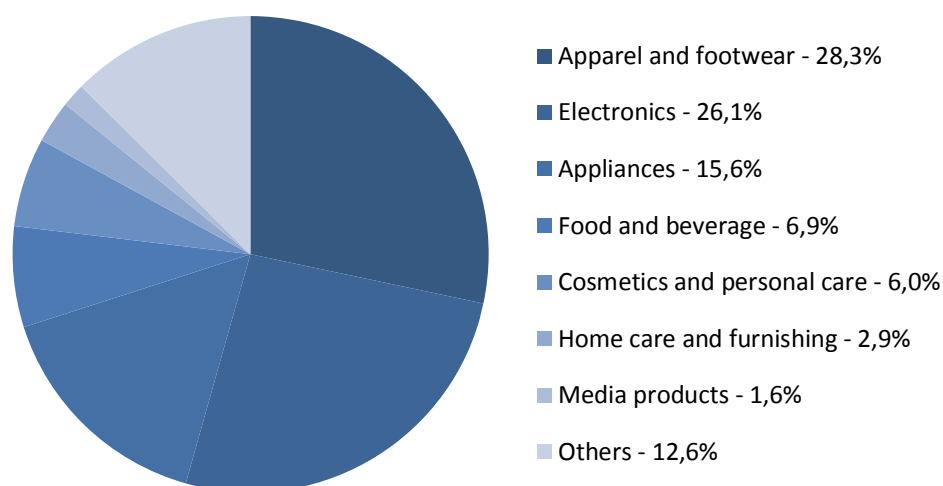


Image 10 Online retail per category in 2013 (GMV)
Source: Euromonitor

The overall consumption in China (Image 11) is to a certain extent an indication of where still lies potential in e-commerce. If one looks at consumption in China, food and beverage stand out as an area in which b2c e-commerce can expand. With the right logistics and marketing a larger part of purchases in food and beverage – a stunning 26% of total Chinese consumption – can take place online. Food and beverage are now only a small part of e-commerce, while e-commerce itself is only a fraction of Chinese consumption. Moreover, according to a recent research by Nielsen, Chinese customers are more willing to do online grocery shopping than consumers in any other country.

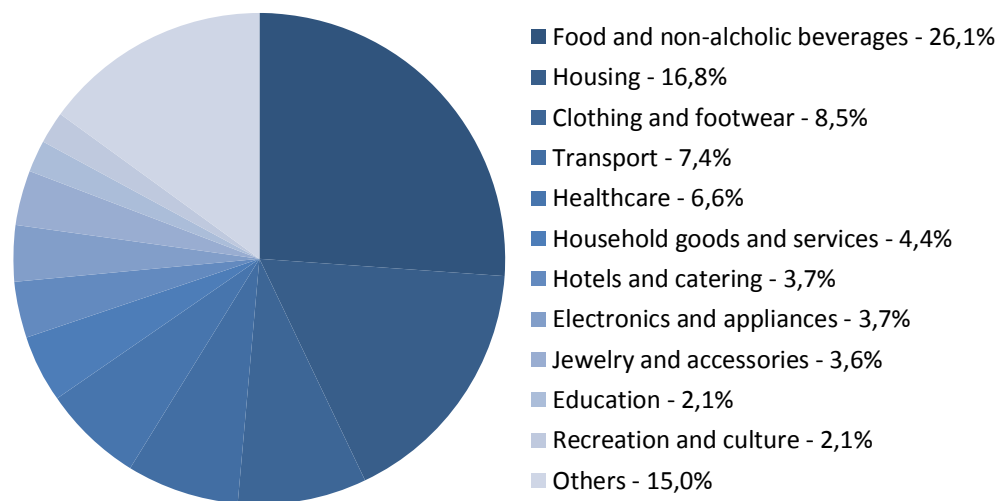


Image 11 Division of total consumption in China in 2013
Source: Euromonitor

A second category, in which overall consumption can give an indication of further growth in e-commerce, is furnishing. While electronics and appliances together accounted for more than 40% of b2c e-commerce in 2013, these products were only 4% of total consumption. Home care and furnishing are a miniscule 3% of e-commerce, while offline sales of household goods and services are actually larger than electronics and appliances. With the expansion of the online shopping audience and the development of individual tastes, e-commerce can in the coming years become an important sales channel for, for instance, interior design products.

3.3 Overseas Products

There is a separate market for overseas products – products which are imported or sent from abroad. Customers are specifically looking for imported products in certain categories. Furthermore, customers quite often purchase imported products from multiple categories at the same time. The cross-border e-commerce market is in fact similar to shopping behavior of Chinese tourists abroad. Now that many e-commerce platforms have a section for products from outside Mainland China, overseas products have become a category in its own right.

The sales figures of Tmall Global (Image 12) show what the bestselling foreign products are. These are baby products, cosmetics, fashion, food and beverage, and health products. Famous brands profit in particular from the market in overseas product, but new foreign brands can often piggyback on their success – especially if the country of origin enjoys a good image in the relevant product category. Second, overseas products are especially popular in those categories where quality, authenticity or safety of products made in China is controversial. The trustworthiness of foreign products is an oft-heard purchasing motivation, and emphasizing trustworthiness is hence a tested sales strategy.

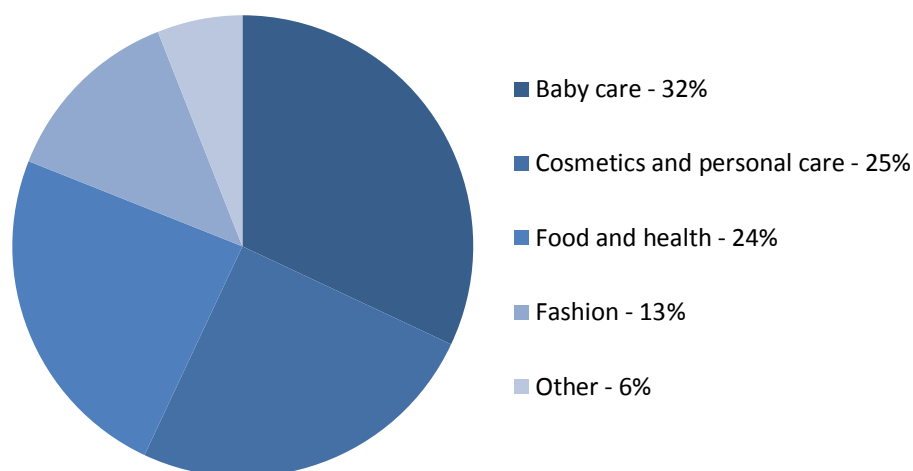


Image 12 Sales of products per category on Tmall Global in 2014
Source: Tmall

3.4 Popular Brands and Countries of Origin

If we take a closer look at the bestselling overseas products (Image 13), it becomes clear which brands and countries of origin are the big players. It is for instance striking that milk powder from the Netherlands is most popular, followed by Australia, Germany and the United Kingdom. Dutch Nutrilon (from Danone) and Friso (from Friesland Campina) top the list. The Netherlands has a good name in the area of baby products, and even brands which are not yet well-known in China can profit from this.

In the area of cosmetics and personal care, brands from western market leaders such as L'Oréal and P&G receive a lot of pressure from Korean brands. The popularity of Korean pop culture plays an important role herein, but also for instance their early move in skin care for men. The market is extremely competitive for most cosmetics products, but early adapters of new trends, such as the rise of crème d'escargot recently, can still make a quick profit. Almost all foreign companies compete at the high end of the market.

| | |
|--------------------------------------|--|
| Baby Products | <ol style="list-style-type: none"> 1. Milk powder 2. Baby food 3. Toys and Maternity Products 4. Diapers |
| Cosmetics & Personal Care | <ol style="list-style-type: none"> 1. Skincare 2. Make-up 3. Perfume 4. Bath products |
| Fashion | <ol style="list-style-type: none"> 1. Bags 2. Women's Apparel 3. Shoes 4. Men's Apparel |
| Food & Health | <ol style="list-style-type: none"> 1. Vitamins, Minerals, Supplements 2. Fresh Produce 3. Pre-Packaged Health & Snack Foods 4. Alcoholic Beverages |

Image 13 The most popular overseas products per category
 Source: Euromonitor, Payvision, Boston Consulting Group

While the big casual “fast fashion” own-brand retailers (such as H&M, Uniqlo, MetersBonwe) have the largest share of the Chinese fashion market, in the cross-border segment it is the slightly higher-end brands which sell well (such as Ralph Lauren, Tommy Hilfiger, Michael Kors). The building of a brand name is very important in this market, while the country of origin is less significant. Therefore, cross-border channels are not sufficient as an entrance strategy for new brands.

Where overseas health products are concerned, brand name is an important factor as well – with especially strong dominance from the US, followed by the UK, Germany and Australia. For food on the other hand, country of origin is an important buying motivation, and hence platforms are eager to cooperate with providers from well-known countries of origin for the product. There have for example been successful online promotions of New-Zealand lamb meat, Canadian lobster and fruit from Southeast Asia.

4 Basic Steps

E-commerce is an important sales channel, but is by no means independent from sales and marketing in the offline world. It is important for entrepreneurs to first figure out how e-commerce fits into their overall strategy for the Chinese market. The presence that a company has in China, determines for instance the possibilities on e-commerce platforms. Companies without a Chinese entity for one, can only open their own shop on cross-border platforms, and Chinese third parties prefer to collaborate if the foreign product or brand is somewhat known.






The strategic importance of e-commerce varies from company to company. For famous brands, opening an official flagship store on a cross-border platform can be an effective tool against parallel trading. By contrast for smaller brands, cooperation with large retailers on regular Chinese b2c platforms can yield higher results in terms of name building and direct sales. In addition, for setting up cross-border online sales in China the following basic costs are important to consider.

4.1 Logistics

Setting up a chain of operations is the core of retail business, and the same goes for e-commerce. Thanks to recent developments it is now possible to offer products directly to Chinese online consumers, and send them from abroad. Foreign product providers can also use bonded warehousing in China. If you have an interesting product, platforms are very willing to help out with logistics, but this does of course not come for free.

Storing in China or shipping directly from the Netherlands? Although the willingness to wait is decreasing under the pressure of competition in delivery time, Chinese generally accept a longer waiting time for orders from abroad. In the eyes of the consumer, direct shipping from abroad can even be a sign of trustworthiness. A delivery time of two weeks is not unusual, which makes it easy to work with pick & pack in the Netherlands. However, the costs of direct shipping from abroad are significantly higher than when shipping bulk quantities. For high turnaround volumes storage in China is advisable, to decrease operational costs, logistics costs and turnaround time. This does require IT integration for the exchange of order and customer information to print labels.

Which shipping services are available? In practice providers of online sales to China can choose from the following logistic options:

-  Express – Directly to the consumer
-  Post – Directly to the consumer
-  Airfreight – As cargo to warehousing in China
-  Seafreight – As cargo to warehousing in China
-  Trainfreight – As cargo to warehousing in China

The reason to choose for one of these options depends on the shipping volume, the desired turnaround time and costs for transport and storage. For a smaller volume it is more logical to ship via express or postal services. Express is faster, but expensive. Post is slower, but very affordable. For a larger volume post is often even cheaper than airfreight, because postal services calculate actual weight, while air freight works with volumetric measures.


For bulk volumes airfreight and seafreight are often the best option. The most usual constructions in this case are airfreight in combination with warehousing in the Netherlands, or seafreight with warehousing in Hong Kong or Mainland China. Recently however more companies have started supplying warehousing in China from the Netherlands by air. For e-commerce this method is more often preferred, due to the shortened turnaround time, and because air freight costs are within bounds.

Trainfreight is the newest shipping option, which is rapidly developing. Transport from the Netherlands to the Chinese heartland via the Eurasian railway takes approximately 13 days, which is roughly 3 times as fast as seafreight. Big cities in the hinterland, such as Chengdu, Chongqing and Wuhan have high potential for further developing cross-border e-commerce, and Chongqing has a Cross-Border E-Commerce Zone with bonded warehousing. Currently about two thirds of containers being transported back from Europe to China is empty, and for entrepreneurs this can lower the costs.


4.2 Tax and Inspection

When bonded warehousing is used, the goods come in bulk tax-free to the warehousing, and duties are only paid per individual shipment. For individual shipments from bonded warehousing, as with direct shipments from abroad, there are specific import tariffs on luggage and postal items. Practically all Chinese e-commerce platforms demand that the seller takes responsibility for any import duties that need to be paid. However, since recently no taxes are levied if the

calculated tax is less than 50 RMB per package. The tariff for most product is 10%, but can go as high as 50%.

 10% - Shoes, bags, furniture, food

 20% - Textile, appliances, watches, bicycles





 50% - Cosmetics, alcoholic beverages

Compared to regular trade, shipment via cross-border e-commerce channels eases the so-called CIQ (China Inspection and Quarantine) product inspection. For packages up to 1000 RMB no CIQ is required. If the package consists of only 1 article of more than 1000 RMB, officially no inspection is required, but these orders are often still kept longer, especially if the value is higher than 5000 RMB. The CIQ services also require products which are sent from bonded warehousing to be already present in China through regular trade. Furthermore, for shipments from abroad and bonded zones there is a list of prohibited and restricted goods.

4.3 Sales Channels

The Chinese e-commerce landscape is ruled by comprehensive platforms, which for an important part run on a marketplace model, with virtual shops from external sellers. Opening an online shop on a large platform, or collaborating with an online retailer who is present on large platforms, is the most obvious step. Only companies with a Chinese entity can open a store on regular b2c platforms, while only companies with a foreign entity can open a shop on cross-border platforms.

Tmall is the biggest online b2c platform, and therefore presence on Tmall is an important step. Even its competitor Amazon has a shop on Tmall. However, since Tmall is so important for generating sales and brand awareness, it can make high demands and charge high rental fees. This is also true for some other large platforms, and especially cross-border channels. According to experts, the following costs should be accounted for when opening a cross-border online shop.

| | | |
|---|-------------|---------------------------|
|  | Deposit | 20 000 – 40 000 EUR |
|  | Rental fee | 5 000 – 10 000 EUR p/year |
|  | Logistics | 5– 20% of product value |
|  | Transaction | 1– 1,5% of product value |

The question is if the most well-known cross-border channel, Tmall Global, also generates most sales of overseas products. Insiders say only a small percentage of shops on Tmall Global is profitable, partially because of competition and high marketing costs. Therefore it is crucial to have a good look at alternative channels.

Many platforms now have cross-border marketplaces where foreign companies can open a shop. Equally important though are the opportunities in b2b2c sales, by working together with online retailers. All e-commerce platforms have their own retail branch, which can provide access to the market. Distributors and wholesalers can form a bridge to multiple platforms. In case of b2b2c cooperation, it is important to carefully select third parties, for which access to the right channels and licenses are important criteria.

Finally, it is also possible to sell via an own website or app, but this requires strong external marketing and own localized web development. Moreover, foreign websites are often slower to reach in China. At the same time, companies with a Chinese entity can only offer products on a website hosted in China, if that is included in the activities allowed according the business license. In that case, the company also needs to provide or apply for an "internet content provider license."

4.4 Customer Service

Chinese e-commerce customers make high demands from the seller. Direct contact is very important, as the high percentage of customers which uses customer service before making a purchase shows. In practice, the minimal availability of Chinese-language customer services is 16 hours per day, 7 days per week. Integrated online messaging programs are most commonly used.

Besides direct contact, customers also have increasingly higher demands for other services. There is for instance strong competition in the area of logistic service provision, which has led customers to expect cheaper and faster delivery. For overseas purchases returning undesired items becomes possible more often, especially for shipments from bonded warehousing in China.

4.5 Advertising

The most important form of advertisement for e-commerce in China is offered by the platforms themselves. Just as in a mall, promotional activities can also help attract customers to a platform. For that reason, platforms, especially the smaller ones, are glad to collaborate with providers of interesting products to produce temporary promotions. Platform can of course also be paid to advertise products on certain pages and search terms.

Naturally there are many more marketing channels available, which are relevant for e-commerce. First, social media are an important channel, and WeChat offers many new possibilities. Also the video website Youku, the forum Douban and search engine Baidu can come in handy for advertising. Furthermore, email remains a widely used marketing channel that has a more formal character than for instance social media. Finally, also offline advertisement with QR-codes can be an effective strategy in China. Which marketing channel is most feasible for e-commerce in China, depends on the target audience, the target result, the product and other factors such as budget. The most important step is to have a concrete image of these factors.

5 Local Developments and Support

Although doing business is increasingly non-local thanks to online transactions, various regions in China nevertheless differ markedly when it comes to e-commerce. For making contact with Chinese e-commerce platforms and media, the most developed metropolitan areas on the mainland are especially relevant: Beijing, the Yangzi River Delta (around Shanghai) and the Pearl River Delta (around Guangzhou). International logistic possibilities are mainly present in Hong Kong, Beijing, the Free Trade Zones and Cross-Border E-Commerce Zone cities. In the countryside, especially to the west, logistics is actually undeveloped and expensive. For that reason, urban coastal areas still by far have the largest share in the e-commerce market. This is even more true for overseas products.

5.1 Economic Network and Commercial Service Providers

The network of Dutch missions is everywhere in China where e-commerce is already an important sector, and also in many places where e-commerce is still developing. More than in most countries, the government plays an important role in China for making business contacts on the right level. The Dutch economic network in China helps companies by making connections with potential trade partners.

In the area of e-commerce the economic network can deliver matchmaking with well-known platforms and experienced service providers. There are even a number of Dutch companies active in China, which offer technical support of e-commerce and online marketing. Dutch entrepreneurs who are considering to sell their products to China through (cross-border) e-commerce are encouraged to directly contact the missions.

5.2 Beijing (Embassy)

Beijing is after Shanghai the largest e-commerce market of China. Sales to customers in Beijing are estimated to account for 12% of the total e-commerce volume in China in 2015.

As the capital of China, Beijing possesses developed infrastructure for delivery in the region and for international logistics. Especially in terms of airfreight Beijing is an important node. According to official figures, more than 20 million packages sent from abroad passed customs in Beijing in 2013, and this number has increased since. This makes Beijing an important hub for incoming cross-border e-commerce.

Beijing is home to the headquarters of a great number of e-commerce companies, such as JD, Dangdang and Gome. The relevant authorities on national level are also located here. That is why many import e-commerce developments have started in Beijing, such as the establishment of the Chinese e-billing system and the online export tax refund system, through cooperation of government organizations with companies.

5.3 Guangzhou (Consulate General)

The size of the e-commerce market in the province Guangdong is almost equal to Beijing, with more than 11% of China's e-commerce volume. As the economic center of the province, the 9 municipalities of the Pearl River Delta account for the lion's share of this consumption.

The cities Guangzhou and Shenzhen play an important role in e-commerce in China, especially where international logistics and trade are concerned. Both cities have Cross-Border E-Commerce Zones, which are part of the Guangdong Free Trade Zone. There is bonded warehousing available near large maritime ports and airports, with an integrated online customs procedure. According to the authorities the import procedures have been minimized to 1 working day only. Furthermore, the Pearl River Delta has a lot of transit routes for products via Hong Kong.

Guangzhou hosts offices of most platforms, and the headquarters of VIP and Grandbuy. In Shenzhen an especially high number of companies is established in areas like media and big data, such as Tencent. Additionally cross-border e-commerce enjoys strong support of the government in Guangdong. There are, as in other regions, subsidized local platforms and service centers, and especially the tax-free "cross-border e-commerce" shopping zones develop here quickly.

5.4 Shanghai (Consulate General)

Shanghai is the largest e-commerce market in China. Sales to customers in Shanghai are estimated to account for more than 13% of the total e-commerce volume in China in 2015. The cities around Shanghai, referred to as Yangzi River Delta, are also very important for e-commerce as a market, logistic hub and as a center for Chinese platforms.

Shanghai has a large cross-border e-commerce logistic center in the Free Trade Zone. However, the neighboring city of Hangzhou is competing strongly with Shanghai. Hangzhou has recently been announced to be the only Cross-Border E-Commerce Zone with national-level status. Moreover, experienced entrepreneurs say that the facilities in Hangzhou are further developed.

The development of Hangzhou in various aspects of e-commerce is not surprising if you know that the headquarters of Alibaba are located there. Another city in the Yangzi River Delta which is important for e-commerce is Nanjing, where Suning is based. Shanghai itself has a large number of e-commerce companies as well, such as YHD. Furthermore, foreign enterprises in the Shanghai Free Trade Zone are allowed to fully own an online marketplace, which has led Amazon China to establish here. In other regions this requires a joint venture partner.

**Embassy of the Kingdom of the Netherlands**

4 LiangmaheNanlu
Chaoyang District, Beijing 100600
Tel: + 86 10 8532 0200
E-mail: pek-ea@minbuza.nl

Consulate General Shanghai

10/F Tower B, Dawning Center, 500 Hongbaoshi Road
Changning District, Shanghai 201103
Tel: + 86 21 2208 7288
E-mail: sha-ea@minbuza.nl

Consulate General Guangzhou

Teem Tower, 34/F, 208 Tianhe Road
Guangzhou 510620
Tel: + 86 20 3813 2200
E-mail: gnz-ea@minbuza.nl

Consulate General Chongqing

54/F, Yingli International Finance Centre, 28 Minzhong Road
Yuzhong District, Chongqing 400012
Tel: +86 23 6399 7000
E-mail: cho-az@minbuza.nl

Consulate General Hong Kong

Room 2402B, 24/F, Great Eagle Centre, 23 Harbour Road
Wanchai, Hong Kong SAR
Tel: + 852 2599 9200
E-mail: hon-ea@minbuza.nl

NBSO Chengdu

6/F, West Building, La De Fang Si,
1480 Tianfu Avenue, Chengdu, 610041
T. +86 (0)28 8511 4047
E-mail: nbsochengdu@nbsochengdu.com

NBSO Dalian

4910 World Trade Center, 25 TongXing Road
Zhongshan District, Dalian 116001
Tel: + 86 411 3986 9998
E-mail: nbsodalian@nbsodalian.com

NBSO Jinan

Room B1, 3/F, Building 2, Shuntai Plaza 2000 Shunhua Road
Jinan, 250101
Tel: + 86 531 8606 5138
E-mail: nbsojinan@nbsojinan.com

NBSO Nanjing

Suite 2316, Building B, 23/F, Phoenix Plaza
1 Hunan Road, Nanjing 210009
Tel: + 86 25 8470 3707 / 8470 3708
E-mail: nbsonanjing@nbsonanjing.com

NBSO Qingdao

A-2505, Top Yihe International, 10 Hong Kong Middle Road
Shinan District, Qingdao 266071
Tel: + 86 532 6677 7515 / 17
E-mail: nbsoqingdao@nbsoqingdao.com

NBSO Wuhan

Tower I, Room 1306, 568 Jianshe Avenue
Wuhan 430022
Tel: + 86 27 8576 6511
E-mail: nbsowuhan@nbsowuhan.com