



The Cross-border eCommerce (Haitao) Opportunity in China

Understanding the Chinese consumer and
strategies for international retailers to succeed in
China's booming online shopping market

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Appendix: About Our Research

China is now the world's largest online shopping market, overtaking the United States in 2015. Driven by rising levels of personal wealth and high Internet connectivity, Chinese consumers are on track to spend over US\$1 trillion online in 2018.

A notable trend in China's online shopping ecosystem is the strong preference of many Chinese online shoppers to buy from overseas brands and retailers through cross-border online shopping. Known as *haitao* or CBEC (cross-border eCommerce), this model is becoming ever-more popular, as Chinese consumers gain awareness of overseas brands, and often trust international brands more than local ones. Simply, it involves a Chinese consumer placing an order online with an overseas-based online retailer, who ships the product from outside the Chinese border following placement of the order, or from bulk pre-imported stock located in a warehouse in a free trade zone (FTZ) in China or Hong Kong.

The cross-border model offers an alternative to general trade in selling to Chinese consumers, and is particularly appropriate for overseas brands and retailers that lack the scale to establish physical operations in China.

Typically, overseas brands and retailers have sold cross-border into China through online marketplaces offered by China's eCommerce giants, such as Alibaba and JD.com. While this is the best-known model, there is no "one size fits all" approach for brands and retailers. The lower margins, difficulties in gaining visibility, and low level of sales can leave many retailers unsatisfied with the marketplace model. Increasingly, Chinese cross-border shoppers are looking beyond marketplaces, and are shopping on retailer or brand owner standalone direct-to-consumer (D2C) online stores, which offer them a greater level of personal engagement and a more authentic online shopping experience.

Therefore, retailers and brand owners need to consider the best approach to selling online into China. The complexities and challenges involved in selling into China mean the "one size fits all" approach is no longer appropriate to meet market demands. As a result, individual retailers and brand owners need to carefully determine which model is likely to work best for them.

In this report, review how online shopping in China is evolving, and the attitudes of brands and retailers selling online into China. We analyse the alternative cross-border sales models available to brands and retailers, and indicate how the use of a marketplace may not always be the best solution for international companies in engaging with Chinese online buyers.

In particular, brand owners and retailers are increasingly looking to build the direct engagement with customers that cross-border buyers in China are seeking, and that marketplaces typically do not enable. However, as brand owners and retailers look to develop standalone online stores, they also need to invest in a range of capabilities that will allow this strategy to succeed. Most brand owners and retailers recognise that they still have a long way to go in this journey.

We undertook research with a sample of 1,000 individuals in China who regularly shop online cross-border (the Consumer Survey), as well as interviewing 100 international brand owners and retailers in Australia, New Zealand, the US, Canada, and the European Union (the Retailer Survey) to understand their strategies, expectations and experiences of online sales into China.

Respondents were drawn from a range of categories, including mum and baby, beauty, cosmetics and personal care, health and wellness, food and grocery, and fashion. The Appendix provides further details of the study samples.

ONLINE SHOPPING IN CHINA

China's online ecosystem and infrastructure lay the foundations for its online shopping market. With over 730 million Internet users, China is by far the largest online market in the world. Half-a-billion Chinese now shop online, and with smartphone penetration at over 80% a vast number of individuals are also shopping using their mobile device.

China has more online shoppers than the US, United Kingdom, and Australia combined, and with online sales now at over 16% of total retail sales, China is second only to the UK in online shopping penetration.

Table 1: China's Online Ecosystem Compared to Selected Countries, 2017

	China	US	UK	Australia
Internet users	733 million	245 million	62 million	21 million
Social media penetration	57%	66%	66%	60%
Smartphone penetration	82%	86%	87%	90%
Online shoppers	500 million	217 million	43 million	12 million
Online sales as percentage of total retail sales	16.6%	8.9%	18.0%	7.5%

Source: ITU; Ericsson; Invesp; Wearesocial; Frost & Sullivan estimates

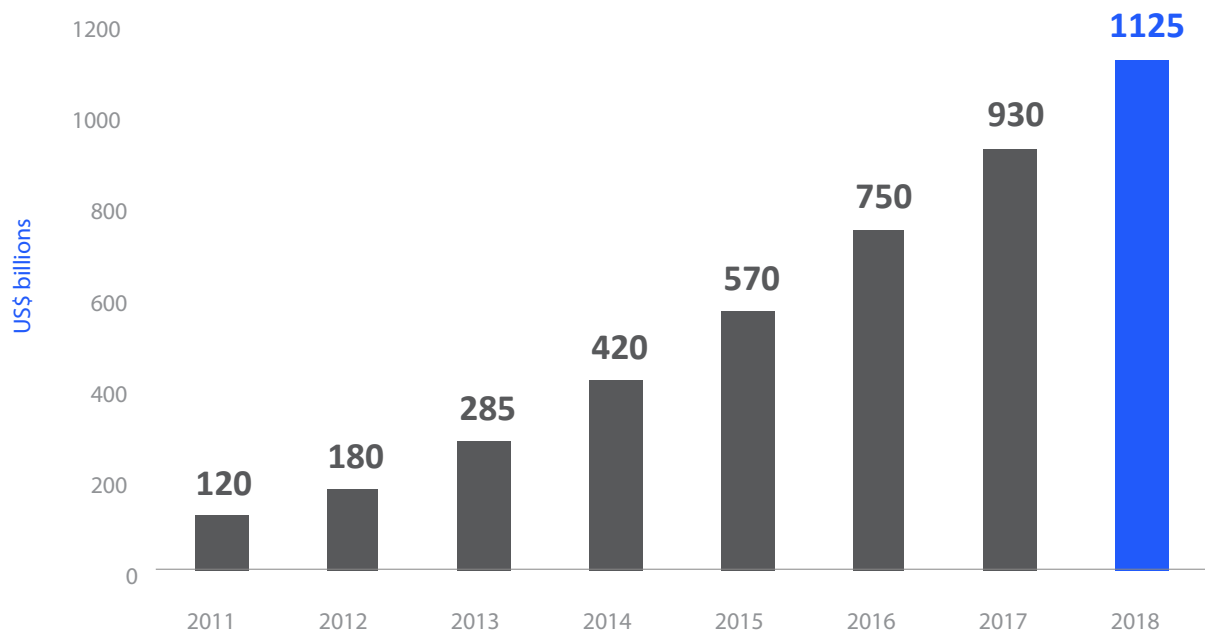
Expenditure on online shopping in China hit over US\$930 billion in 2017, and is likely to exceed US\$1 trillion this year. With annual growth of almost 40% in recent years, China is not just the world's largest online shopping market, it is also one of the fastest growing, and accounts for almost half of total global online shopping sales.



Online Shopping

Our definition of online shopping includes the purchase of physical merchandise that can also be bought through retail outlets. Hence, we exclude services purchased online, such as travel, financial services, and event tickets.

Figure 1: Online Shopping Expenditure in China, 2011–2018

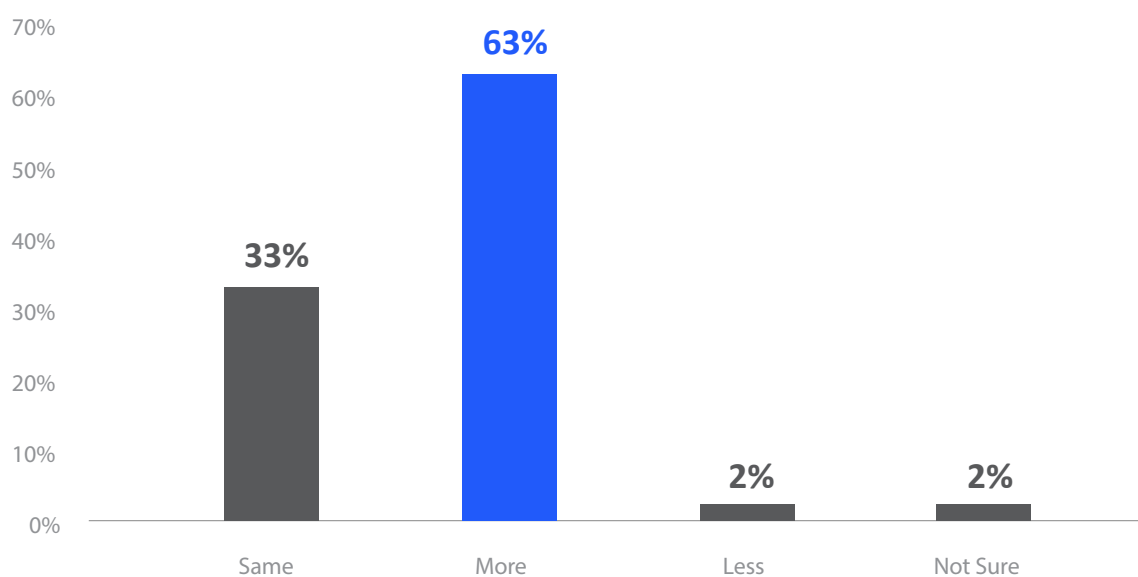


Source: Frost & Sullivan

Our research indicates that, on average, Chinese online shoppers are expected to spend about RMB16,100 (US\$2,410) on online shopping in 2018, with the majority planning to increase their online spending over the next year.

Significant growth is coming from consumers in China's four Tier 1 cities (Beijing, Shanghai, Guangdong, Shenzhen), where 72% of online shoppers expect to buy more online over the next 12 months, and 27% of online shoppers currently spend at least RMB2,000 a month (US\$320 a month), compared to 15% of online shoppers living elsewhere.

Figure 2: Consumer Expectations on Online Shopping Expenditure Over the Next 12 Months



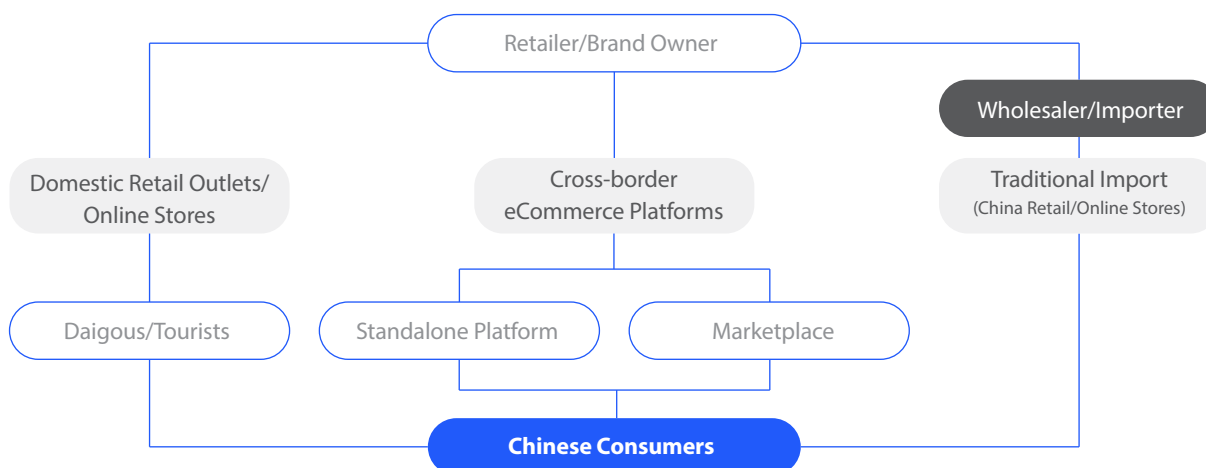
Source: Frost & Sullivan Consumer Survey

CROSS-BORDER – A GROWTH DRIVER FOR ONLINE SHOPPING

Overseas retailers and brand owners have a range of options for selling to Chinese consumers. Broadly, these can be divided into three approaches: selling through domestic retail outlets or online stores to daigous (personal shoppers) and Chinese tourists (i.e., the sale is made outside China although the product is

subsequently sent or taken to China); selling through a cross-border eCommerce platform, including both a standalone online store or marketplace; and traditional import, that involves importing into China and selling through physical and/or online stores. The options are illustrated below:

Figure 3: Options for Selling to Chinese Consumers



Source: Frost & Sullivan

Retail outlets outside China (e.g., in the retailer or brand owner's home country) can be a surprisingly viable option for reaching Chinese consumers. This is not just a result of the enormous and rapidly growing number of Chinese outbound tourists (which reached 127 million in 2017)¹ for whom shopping is a crucial facet of an overseas trip. China also has the unique daigou model, in which Chinese individuals (either tourists or residents overseas) buy products in physical stores to order, and then send them to consumers in China.

Daigous purchase products in supermarkets, pharmacies or specialist stores, then package and send them to their customers in return for a commission, with most transactions facilitated through China's WeChat social media platform and Taobao vendor stores. There are an estimated 100,000 to 200,000 daigous in Australia alone.² The daigou model has flourished since the early 2000s.

The second approach involves cross-border eCommerce platforms, where Chinese consumers place orders online with the product shipped by the retailer or brand owner from outside China (postal model) or pre-imported stock held in bonded distribution centres (DCs) located in FTZs in China or Hong Kong. These platforms can include a retailer/brand owner's standalone direct-to-consumer (D2C) online store, use of a Chinese marketplace platform

such as Kaola, TMall Global or JD.com, or a global eCommerce platform such as Amazon. Under this model, the retailer/brand owner sets up an online store on the marketplace, with the Chinese consumer ordering and paying through the platform.

Currently, VAT is lower than the standard rate through this model, and import duties are also lower than for general trade. Two import approaches are used: "stock first, pay later", where a brand owner or retailer ships products in bulk to a bonded warehouse, dispatching only after customer orders in China; and "order first, deliver later", in which the product is only shipped to the consumer from outside China on receipt of an order.

Finally, retailers and brand owners can sell through the traditional import model, selling either directly through their own outlets or independent retailers. Sales in China can be through traditional physical retail outlets, online stores or both. Also known as general trade, this model carries the highest import duties as well as sales tax. Retailers and brand owners also need to establish a legal and physical presence in China, which can be a complex and time-consuming task.

The taxation, duty, and regulatory requirements are complicated and differ by the import model used, as summarised below.

¹China Travel Guide, 2017 China Tourism Facts & Figures.

²Nielsen, Breaking Borders: The Daigou Opportunity, October 2017

Table 2: Taxation, Duty, and Regulatory Requirements

Model	Regulation	Taxation
Domestic retail outlets/online stores	Treated as a personal shopper transaction when sent to China by daigou. No product registration required; ID authentication required; no more than 6 SKUs; value limit RMB1,000/order.	15% postal tax born by end customer, no China VAT.
Cross-border eCommerce platform	Goods bulk imported through bonded warehouses in FTZs or dispatched from outside China on receipt of orders. Impacted by Positive List.	Via direct postal clearance – 15%-60% postal tax born by customer. Via bonded clearance – 11.2% Consolidated Tax (25.5% for cosmetics)*.
Traditional import	Classified as General Trade. Only registered products can be imported and sold.	Import tariff (standard 15%, the rate varies according to HS Code and trade treaties) and VAT levied: 16% standard rate.

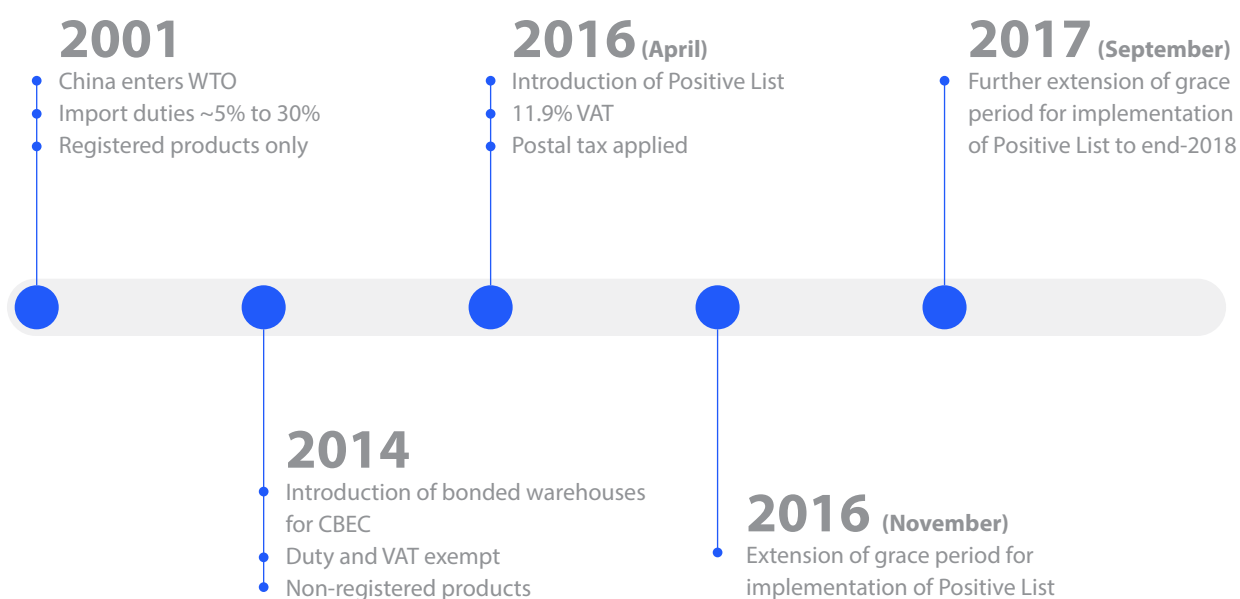
Source: Frost & Sullivan; Consolidated Tax Adjusted After May 1, 2018 VAT Reduction

Products imported and sold into China are affected by registration requirements as well as the Positive List established in 2016, a list of product categories that can be imported into one of 15 approved bonded warehouse zones across China or shipped from an overseas distribution centre linked to Chinese Customs authorities. These bonded zones were first introduced in 2014, and allow duty-free imports. Use of cross-border eCommerce platforms can, if the personal postal model is used, obviate the need for product registration and allow the sale of products not on the Positive List.

Use of these platforms can also allow import tariffs to be avoided, and VAT can be lower than the standard rate. Cross-border eCommerce is therefore encouraged by the favourable regulatory and taxation regimes currently in place.

Although the introduction of the Positive List may impact cross-border online shopping, its implementation has already been delayed by the Chinese government.

Figure 4: Timeframe for Regulatory Changes Related to CBEC



Source: Frost & Sullivan

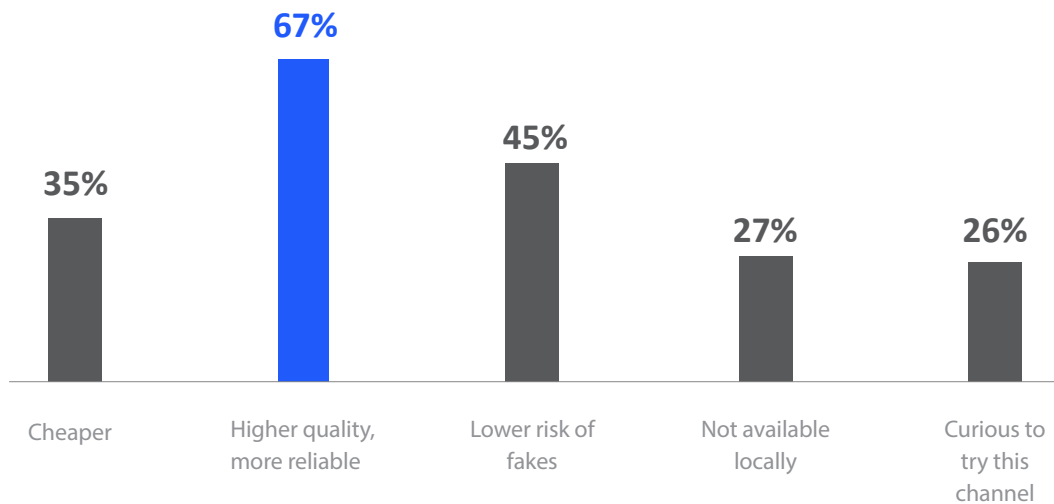


Our research indicates that about one-quarter of Chinese online shoppers are now buying through Haitao,³ with an estimated 125 million Chinese consumers purchasing through this channel in 2017.

On average, the Haitao shopper is spending RMB5,300 a year (US\$848 a year) on products bought through this channel, with the total Haitao expenditure in China reaching US\$105 billion in 2017. By way of comparison, this level of spending is almost eight times larger than the total consumer eCommerce spending in Australia (US\$13.6 billion).⁴

With nearly 60% of Haitao buyers expecting to purchase more over the next 12 months, and only 2% likely to spend less, cross-border eCommerce is projected to see continued growth in China. This is primarily driven by the widespread perception that products bought from overseas vendors are of higher quality and more reliable than domestic goods, and the lower risk of buying fake products is also a major incentive for Haitao purchasers.

Figure 5: Main Reasons for Buying Through Haitao



Source: Frost & Sullivan Consumer Survey; multiple selections allowed

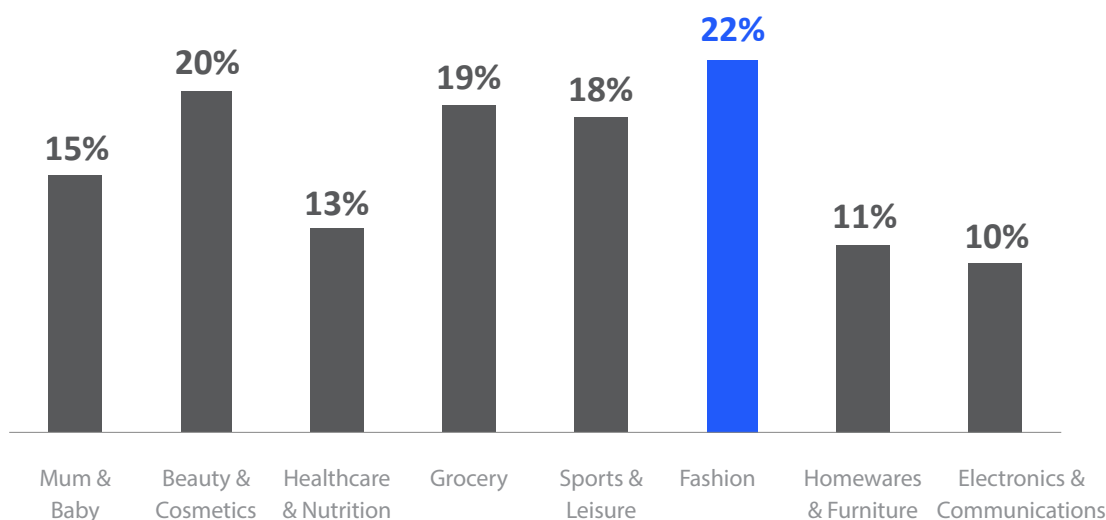
³Defined as having made at least one Haitao purchase in the past month.

⁴Spending on physical goods through eCommerce estimated at A\$17.7 billion (US\$13.6 billion), Australia Post – Inside Australian Online Shopping, 2017

While cross-border eCommerce is common among both genders, women tend to be bigger spenders than men. Approximately 35% of women spend at least RMB1,000 a month (US\$160 a month) through Haitao, compared to 24% of men. The average Haitao spending by women, at RMB6,100 a year (US\$976 a year) is almost 20% higher than for men.

Haitao purchasers buy a variety of products, but the most common are fashion as well as beauty and cosmetics, with 22% and 20% of Haitao buyers purchasing products in these categories at least monthly. Conversely, home-ware and furniture and electronics and communications products are much less frequently bought through Haitao.

Figure 6: Percentage of Online Shoppers Buying Products through Haitao at Least Once per Month, by Category

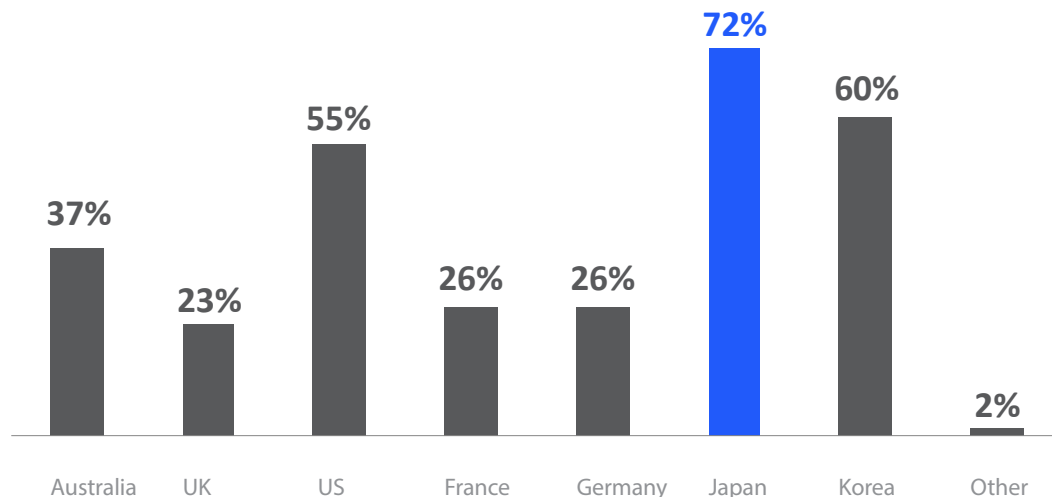


Source: Frost & Sullivan Consumer Survey

Haitao buyers typically purchase online products from suppliers in several countries. According to the survey, most common origin countries are Japan, Korea, and the US, with 72%, 60%, and 55% of Haitao buyers purchasing from vendors in these countries respectively in the past year.

There are, however, distinct differences between male and female Haitao buyers in terms of their preferences for vendor origin. Our research shows that female buyers more strongly favour Asian countries, notably Japan and Korea, while men have a stronger preference for Australia, the US, and Germany.

Figure 7: Preferred Vendor Origin Countries for Haitao Buyers

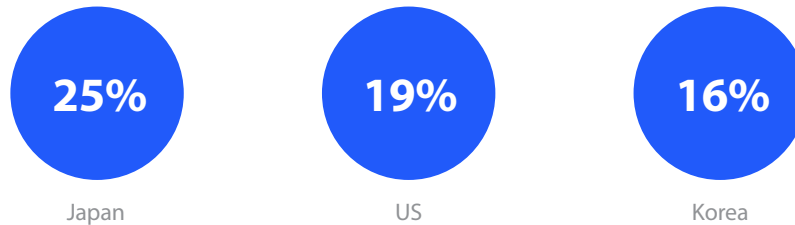


Source: Frost & Sullivan Consumer Survey; multiple selections allowed

Haitao buyers tend to have the most confidence in products bought online from Japan and the US, with 25% and 19% of buyers respectively ranking these countries as number 1 or 2 for vendor origin. Male buyers tend to have significantly more confidence in the US, while female buyers have a relatively stronger preference for Korea.

Despite a strong capability in online sales and several globally-competitive online retailers, the UK is ranked lower by Chinese online shoppers, likely reflecting a lack of focus on China by UK-based retailers and brand owners.

Table 3: Origin Countries that Haitao Buyers Have Most Confidence in (Number 1 and 2 Choice)

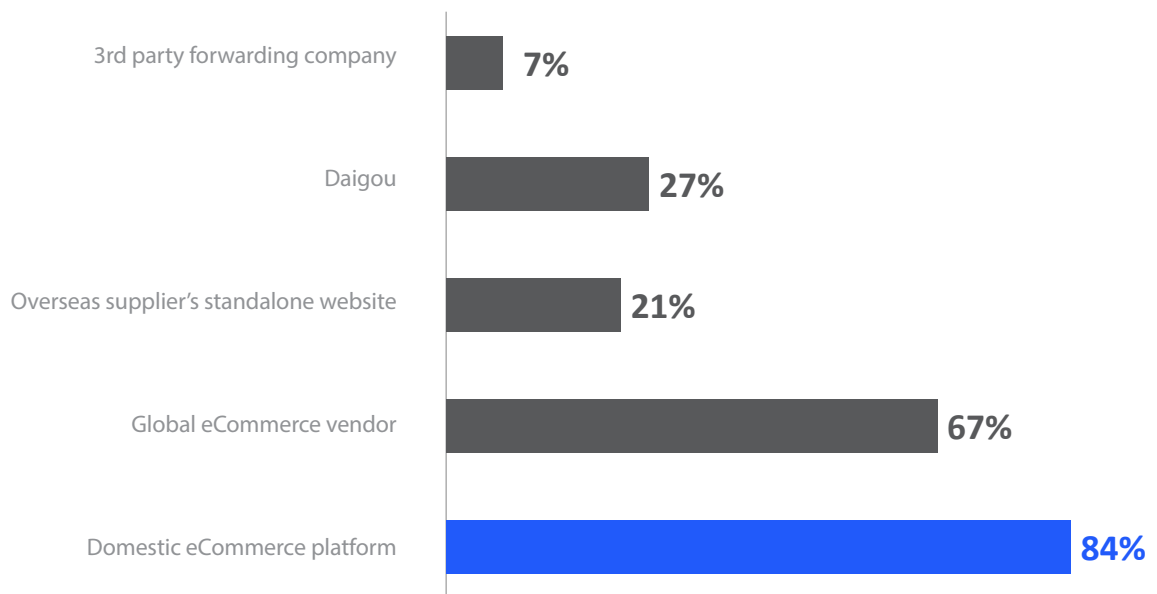


Source: Frost & Sullivan Consumer Survey

The eCommerce platforms most commonly used by Chinese consumers for cross-border transactions are Chinese marketplaces such as Kaola, TMall Global, and JD.com, with 84% of cross-border shoppers using these platforms in the past year. Use of global eCommerce

retailers, such as Amazon and Rakuten, is also fairly common at 67%. Cross-border shoppers are, however, much less likely to use an overseas supplier's standalone D2C website (21%), although females (24%) are more likely to use this channel than males (18%).

Figure 8: Use of eCommerce Platforms for Cross-border Purchases, Past 12 months



Source: Frost & Sullivan Consumer Survey; multiple selections allowed

For cross-border shoppers, the choice of eCommerce platform is based on several criteria, but the most important factors are the range of payment options offered and good website performance. For men, fast delivery features rank high on the list, whereas for

women the availability of Chinese language customer support is a key criterion for platform selection. Women buyers are also more interested in the availability of relevant and interesting content (e.g., articles, blogs) on the vendor's platform than are men.

Table 4: Most Important Criteria in the Choice of Platform for Cross-border Transactions

Men	Women
Range of payment options	Range of payment options
Fast delivery to Mainland China	Good website performance
Good website performance	Chinese language customer support

Source: Frost & Sullivan Consumer Survey

Chinese cross-border shoppers can be significantly influenced by opinion leaders – such as bloggers and celebrities – in making purchase decisions. For retailers to succeed in China's crowded online marketplace, this drives a need for a social media strategy designed to

encourage endorsements and recommendations from influential figures. Well-known bloggers feature high on the opinion leaders' list, particularly fashion/luxury bloggers that have significant influence over both male and female cross-border shoppers.

Table 5: Main Opinion Leaders that Influence Cross-border Shoppers

Men	Women
Fashion/luxury bloggers	Fashion/luxury bloggers
Industry experts	Beauty bloggers
Culture/music bloggers	Culinary/food bloggers

Source: Frost & Sullivan Consumer Survey

Our consumer research confirms the attractiveness, but also the uniqueness, of China's cross-border shopping market. Cross-border eCommerce offers a huge opportunity for overseas retailers, with 125 million consumers spending over US\$100 billion in total in 2017. Growth is expected to continue strongly, with two-thirds of cross-border shoppers happy with their cross-border shopping experience and likely to spend more in the next year. With the average cross-border shopper already spending almost US\$850 a year, this may well exceed an average of US\$1,000 in 2018, confirming the high growth available in this market.

Chinese shoppers are already using cross-border platforms to buy across a broad range of product categories – with fashion, beauty and cosmetics and food products topping the list. Driven by a widespread perception that products purchased from overseas vendors are of higher quality and are more reliable than those bought domestically, and wary of the potential of buying fake goods locally, Chinese consumers are favouring online retailers from overseas countries, including other Asian sources, such as Japan and Korea, and vendors from Australia, the US, and Western Europe.

While the market opportunity for international brands and retailers is clear, it is also crowded and highly competitive, with many unique aspects when compared to other global markets. Chinese consumers, for example, are turning to marketplace platforms to make cross-border purchases. However, for retailers, building consumer awareness in these crowded platforms can be challenging, and the level of sales can often disappoint.

The influencing factors in platform choice for Chinese cross-border shoppers include the importance of a range of payment options and good website performance. That stated, Chinese consumers are also heavily influenced by both peer and opinion leader recommendations and endorsements, driving the need for effective communications and social media strategies to create consumer awareness and brand attention.

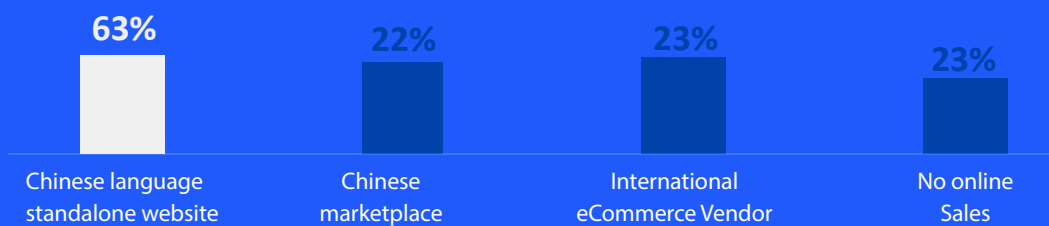
Our survey findings suggest that for Chinese online shoppers price is less of a factor for international brands than it is for domestic purchases. For cross-border transactions, shoppers are increasingly interested in the authenticity of a brand and the story it offers. Brand heritage and storytelling are important for these buyers as the eCommerce market evolves. This is driving growth opportunities especially for brand owners and retailers operating a standalone online model.

CROSS-BORDER SALES – A VIABLE MODEL FOR INTERNATIONAL RETAILERS?

The global retailers we interviewed can be divided into two broad groups – those with existing physical retail outlets in China and those without. Those without physical retail outlets in China (about 50% of our sample) are currently mainly selling into China through online channels, although several also have significant daigou business in their domestic markets.

Overall, over three-quarters of retailers, including those with physical stores in China, are currently selling online into China, including through Chinese marketplaces, global eCommerce vendors, and standalone online stores. Retailers commonly see China as a market with high potential, with 81% viewing China as an attractive market opportunity, and almost 90% planning to enhance their online sales capability into China.

Figure 9: Means of Selling Online into China

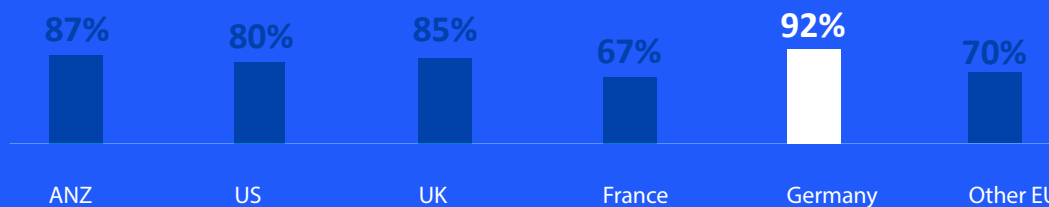


Source: Frost & Sullivan Retailer Survey; multiple selections allowed

Online sales are the primary approach retailers use to expand sales into China, with 41% of retailers planning to increase sales only through online sales, and a further 18% through a combination of online sales and opening additional physical stores in China.

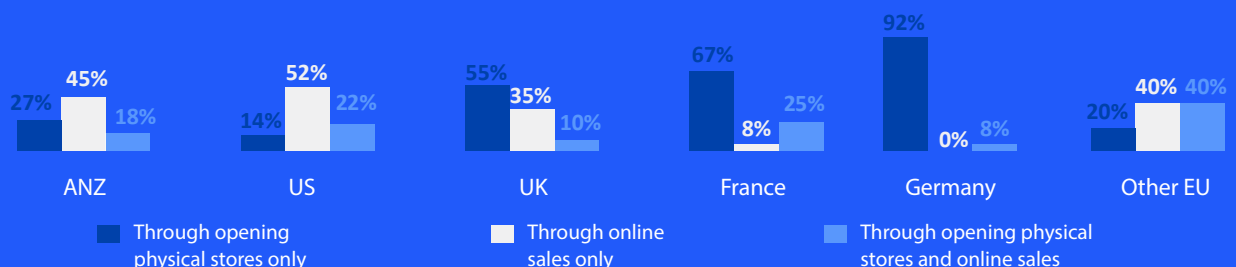
However, there are significant differences in the approach based on the nationality of the retailer. Retailers in France, Germany, and other EU countries are more likely to favour opening additional physical stores, whereas, for ANZ and US retailers, online sales are the preferred approach.

Figure 10: Percentage of Retailers that See China as an Attractive Opportunity, by Country



Source: Frost & Sullivan Retailer Survey

Figure 11: Primary Approach by Retailers to Increase Sales in China, by Country



Source: Frost & Sullivan Retailer Survey

Our research identifies a range of challenges retailers face in building online sales in China, and particularly in developing a strong online brand. The issues are more acute for retailers that adopt an online-only approach in China, i.e., retailers without physical stores.

So while cross-border online sales may seem an attractive opportunity, in reality, online-only retailers are often struggling to achieve the success they are hoping for through cross-border sales.

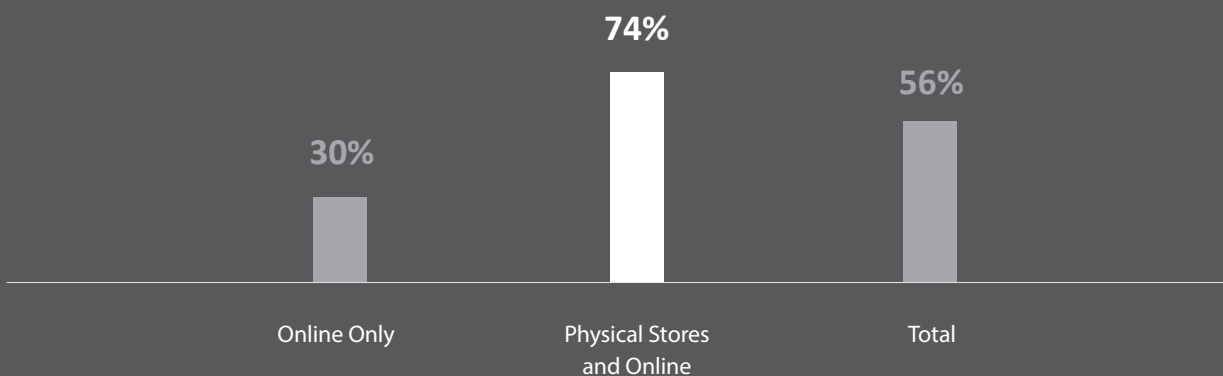
CHALLENGES INTERNATIONAL RETAILERS FACE IN ONLINE SALES

Overall, slightly over half of retailers are currently satisfied with the level of online sales to consumers in China. However, this masks a significant difference between retailers with physical stores in China and those adopting an online-only sales model. Almost three-quarters of retailers with physical stores in China are satisfied with the current level of online sales, while only 30% of retailers pursuing an online-only approach are. This is a result of two main factors – firstly, for retailers with physical stores the online channel tends to be an extension of their physical distribution network in China, with lower expectations for sales through the online channel than for online-only retailers.

For physical store retailers, the online channel can often be used more as a way to drive traffic to their stores. Secondly, physical retailers are likely to derive substantial benefits from the brand promotion their store network creates, making customers more likely to recognise and place trust in their online brand.

For online-only retailers, however, the online channel is their only platform for engagement with Chinese consumers, and in most cases, it has yet to yield satisfactory results.

Figure 12: Percentage of Retailers Satisfied with Current Level of Online Sales in China



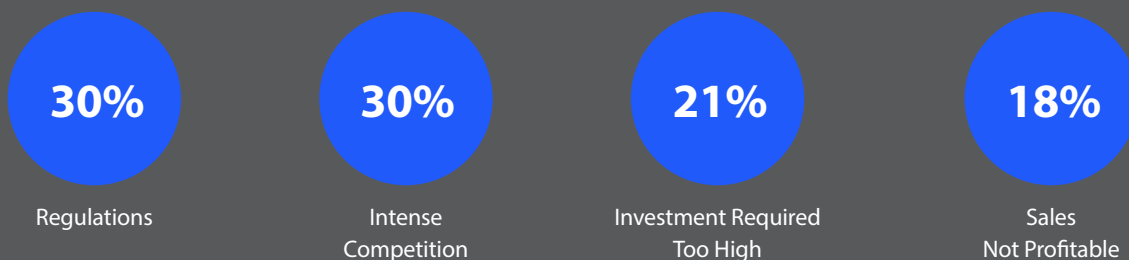
Source: Frost & Sullivan Retailer Survey

Retailers and brand owners point to a range of challenges they face in China, however, two main factors stand out. The regulations governing online sales in China are seen as confusing and prone to unexpected changes; and the China market is viewed as highly competitive, with a myriad of domestic and overseas retail brands competing for consumer attention.

In this context, retailers and brand owners highlight issues in keeping up-to-speed with regulations governing online sales in China and creating brand awareness in such a crowded market.

Other challenges retailers we interviewed reported include the high level of investment required to build an online brand in China, and that online sales in China ultimately turn out to be not particularly profitable.

Table 6: Top Four Challenges Faced by Retailers and Brand Owners in China



Source: Frost & Sullivan Retailer Survey

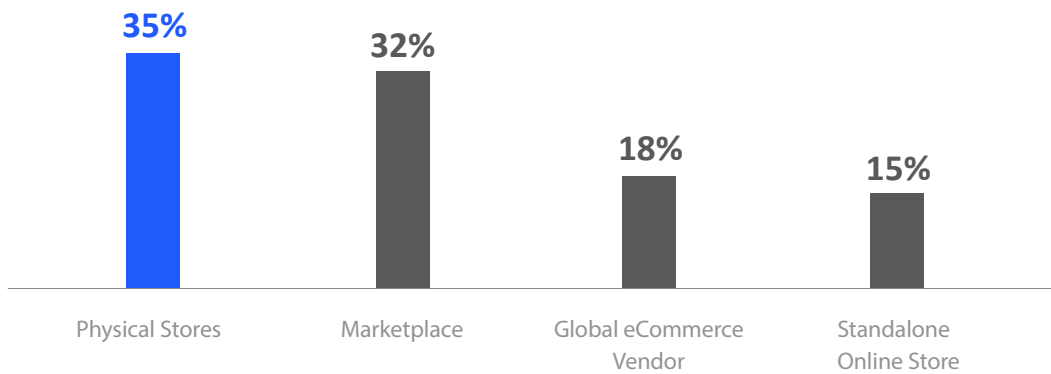
WHAT DO RETAILERS EXPECT FROM CHINA?

For international retailers, the online channel is primarily a way to grow sales, although a minority also uses it to generate brand recognition or test the market in China before a more sustained entry. The latter two objectives are mainly among physical store retailers, who often view the online platform as an adjunct to their physical store network. Overall, 59% of retailers see the online channel principally as a means to generate more sales in China.

As mentioned above, retailers can use a variety of approaches to sell into China, including physical stores

and online sales through Chinese marketplaces, global eCommerce retailers or standalone online stores. Our research identified that just over one-third of retailers see physical stores as their main sales channel in China (particularly for Europe-based retailers) and just under one-third use a Chinese marketplace as their primary sales channel (mainly the case for ANZ and US-based retailers). Global eCommerce vendors and company-owned online stores are relatively less important for retailers.

Figure 13: Main Sales Channels of Retailers in China

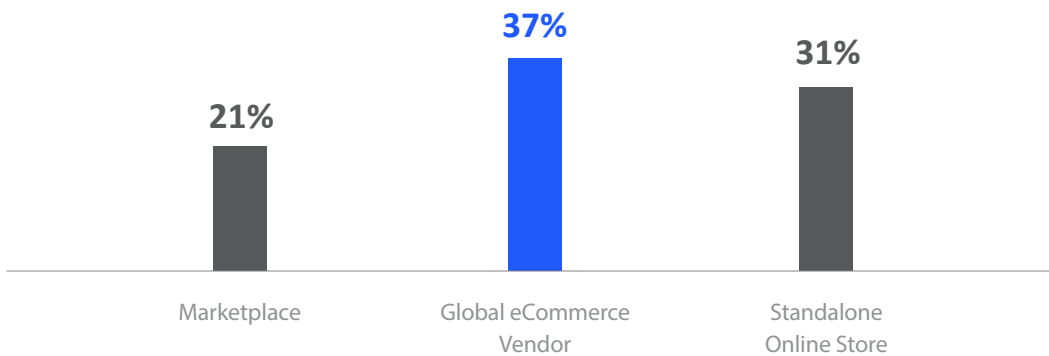


Source: Frost & Sullivan Retailer Survey

While retailers mainly using physical store networks are largely satisfied with their online sales in China, most online-only retailers (70%) are not satisfied. Consistently across online-only retailers using different eCommerce approaches, satisfaction tends to be the lowest among those using Chinese marketplaces.

Only 21% of online-only retailers that primarily use Chinese marketplaces are currently satisfied with their online sales in China. Even for those using global eCommerce vendors or company-operated standalone online stores, satisfaction is below 40%.

Figure 14: Percentage of Retailers Satisfied with Online Sales in China, by Main Platform



Source: Frost & Sullivan Retailer Survey

So while Chinese marketplaces may be the easiest way to set up an online sales channel into China, they are often disappointing users with the results. Use of a Chinese marketplace may not necessarily be the best approach for

an international retailer looking to sell into China over the long term. Instead, retailers and brand owners need to take a broader view and determine the best approach for their unique circumstances.

ARE MARKETPLACES THE ONLY ANSWER?

Chinese marketplaces such as Kaola, TMall Global, and JD Worldwide effectively offer online shop fronts for international retailers and brands looking to sell online into China. While they can offer the easiest way to establish an eCommerce platform, retailers we interviewed also point to a range of challenges in using these platforms. The main advantages and disadvantages of each online entry approach are summarised below.



Table 7: Online Sales Models in China – Advantages and Disadvantages

Model	Advantages	Disadvantages
Standalone online store	Direct customer access	Longer to set up
	No commission – higher net margin	Higher online store maintenance costs
	Allows competition on value not price	
	Brand perception not influenced by marketplace	
Marketplace	Quick to set up	Lack of direct customer access
	Pull effect from marketplace brand	Platform commissions up to 15% eat into margins
		Upfront costs to establish marketplace store
		High levels of competition
		Increasing competition based on price
Global eCommerce retailer	Can be rolled out in multiple countries	Lack of direct customer access
	Quick to set up	Commissions eat into margins
	Pull effect from eCommerce retailer brand	Upfront costs to establish online store

Source: Frost & Sullivan

The challenges with the use of Chinese marketplaces illustrate why a majority of the retailers we surveyed are not satisfied with what the marketplace model currently delivers. In response, international retailers are investing in improving their capability to conduct standalone

online sales into China, according to survey findings. Despite this investment, however, there remain significant gaps between the capability retailers need to serve customers in China directly and where they currently stand.

THE CAPABILITY GAP FOR RETAILERS

Our research shows that many online retailers are looking to move away from reliance on marketplaces towards a D2C model, using standalone websites and fulfillment operations. However, in many cases, retailers recognise the need to enhance their capabilities to succeed in the online market in China. Only 20% of retailers believed that their current online capabilities are adequate to thrive in China, while the vast majority saw a need for improvements.

The move to standalone online sales and away from marketplaces involves a change away from competing mainly on price for easy-to-compare products towards providing a differentiated offering. This differentiation is as essential in the way the brand is presented as in the physical aspects of the product.

Chinese consumers are mainly influenced by the way a brand presents itself, as well as through endorsements by peers, celebrities and bloggers. Our interviews indicate that many retailers and brands, particularly from ANZ, the US, and Germany, are planning to enhance their capabilities to communicate and influence Chinese online shoppers.

UK, French, and other EU retailers, however, seem less developed in their online capabilities in China with a greater focus on basic steps such as introducing a Chinese-language website.

Table 8: Main Focus Areas to Develop Online Capability in China, by Country of Retailer

<p>ANZ</p> <p>Establishing warehouse/DC in China (63%)</p> <p>Enhancing Chinese language content (38%)</p> <p>Introducing Chinese language customer support (25%)</p>	<p>France</p> <p>Enhancing advertising for Chinese consumers (67%)</p> <p>Introducing Chinese language website (67%)</p> <p>Introducing Chinese language customer support (33%)</p>
<p>US</p> <p>Enhancing Chinese language content (45%)</p> <p>Improving digital marketing (43%)</p> <p>Tailoring product range more closely to Chinese consumer needs (43%)</p>	<p>Germany</p> <p>Enhancing social media strategy in China (36%)</p> <p>Enhancing digital marketing (27%)</p> <p>Enhancing advertising for Chinese consumers (27%)</p>
<p>UK</p> <p>Introducing Chinese language website (50%)</p> <p>Using a partner warehouse/DC in China (45%)</p> <p>Introducing Chinese language customer support (40%)</p>	<p>Other EU</p> <p>Introducing Chinese language website (60%)</p> <p>Enhancing advertising for Chinese consumers (36%)</p> <p>Enhancing Chinese language content (33%)</p>

Source: Frost & Sullivan Retailer Survey; multiple responses allowed

For retailers and brand owners overall there is often a significant capability gap with the needs of consumers. Our survey identified that for Chinese consumers the range of payment options, good website performance, fast delivery, and Chinese language customer support are the most critical factors. While some retailers and brand owners are developing more sophisticated online strategies, many are still at first base (e.g., they do not have a Chinese language website).

However, some retailers, especially from ANZ, Germany, and the US, are developing strategies based on content and influence delivered through digital touchpoints. A successful online strategy for China involves communicating with consumers through a range of digital touchpoints that go beyond just having a simple standalone or marketplace online store. Effective use of China's unique and ubiquitous social media platform WeChat, for example, is almost essential for success in the market.

Our survey shows that many global retailers are not satisfied with the success of their online platform in China, especially when they mainly rely on a Chinese marketplace shopfront.

In this context, more and more retailers are moving towards a standalone eCommerce model, which gives more control over pricing and the customer relationship. The direct-to-consumer model, however, has to be built on a range of both hard and soft capabilities to succeed. While aspects such as website performance and product range are important, equally critical are softer factors such as content for consumers and digital and social media communications strategies.

While brand owners and retailers are increasingly focused on standalone online sales, the challenges of going it alone in a market as large and complex as China can be formidable. For example, website hosting and availability need to be accommodated for the intricacies of demand in China such as the surge in traffic on Single's Day and Black Friday. Payment mechanisms are also different to other markets, with a majority of Chinese consumers opting to use local services such as Alipay, WeChat Pay, and Union Pay.

However, beyond the technicalities of payment and website hosting, more important are the soft capabilities required to communicate with Chinese online consumers, and make them aware of the quality and authenticity of the brand. Digital marketing and management of online campaigns are increasingly important to successfully establish a brand in the minds of Chinese online consumers. In a market with unique social media platforms and influencers, this can be the hardest challenge for international brand owners and retailers.

Retailers and brand owners looking to enter the Chinese market are best advised to take a step by step approach that first aims to understand the potential opportunity in China for their category and identifying specific products that are likely to be popular among Chinese consumers. A second step involves deciding which entry model is most appropriate for them, a decision made more difficult by the complex and changing regulatory and taxation regimes in China. Finally, successful implementation of the online strategy can be hugely challenging in such a large, diverse and constantly changing market.

Many international brand owners and retailers recognise the need to develop a partnership with a local Chinese eCommerce specialist to succeed in China. However, this is more than just opening a marketplace shopfront. As global companies increasingly develop a standalone model, this is driving a need for a more holistic partnership that covers all aspects of operations, from website design to social media strategy.

The vast complexity of China's online shopping ecosystem in areas such as consumer product preferences, the range of digital touchpoints, regulations, and taxation signal the need for every international retailer and brand owner to devise a tailored strategy to succeed in China.

THE LAST WORD

China's booming online shopping market offers significant opportunities for international brands and retailers, with China's online buyers increasingly preferring to buy from international vendors through Haitao. Total cross-border online shopping expenditure in China has already exceeded US\$100 billion, almost eight times larger than Australia's total online shopping market. With Chinese online shoppers already spending nearly US\$850 a year on cross-border purchases, and 60% expecting to spend more over the next 12 months, cross-border online shopping is set for sustained growth.

Chinese consumers buying from international brands and retailers are not looking for lower prices, but rather a higher quality of product and a more authentic shopping experience than they get from domestic brands. Significant incidence of fake goods and widespread quality and reliability issues have also pushed many online shoppers away from local brands. In recognising this opportunity, many international brands and retailers are now selling to Chinese consumers. The Chinese online shopping market, however, while huge, is also complex, with a variety of entry models available to international companies.

The study confirms that for most international brands and retailers, China's online shopping market offers tremendous opportunity. For those using an online-only model to enter China, local Chinese marketplace sites such as TMall Global and JD.com tend to be the first option. However, many brands and retailers report not being satisfied with the business generated through these platforms, with only 30% of online-only retailers satisfied with Chinese marketplace platforms. Issues such as sales commissions, the drive to discounting, and lack of direct customer engagement are significant issues.

Instead, our research findings indicate that many brands and retailers are actively moving towards standalone online platforms, which allow closer customer engagement, a better opportunity to build and promote the brand, and a lower focus on price-based competition. However, given the complexities of the Chinese market, establishing a standalone online operation can be extremely challenging. International retailers and brand owners need to develop a tailored strategy, involving all aspects of the approach from choosing the most appropriate products, to consumer communications, through to the fulfilment model used. This can be a major challenge, especially for smaller companies, and working with a local partner that brings expertise in the online shopping environment in China may be a wise move in ensuring market success in entering and competing in China's booming cross-border eCommerce market.

So while China offers enormous potential for online sales, a careful and considered approach is required for international retailers and brand owners, covering all aspects from providing the relevant products, pricing, using the appropriate online platform, fulfilment, and perhaps most importantly, telling the right story to China's 500 million online shoppers.

APPENDIX: ABOUT OUR RESEARCH

We interviewed 1,000 individuals in China who had purchased products online from an overseas-based vendor in the past 12 months. Respondents were split by age, sex, monthly online spending, and location.

Table 9: Consumer Survey Sample

Sex	Age	Typical Monthly Online Spending	Location
Male 49%	19 – 29 36%	<RMB1,000 40%	Tier 1 cities 43%
Female 51%	30 – 40 64%	RMB1,000 – RMB2,000 54%	Tier 2 cities 57%
		>RMB2,000 6%	

Source: Frost & Sullivan Consumer Survey

Our retailer interviews involved 100 interviews with international brand owners and retailers in five main countries/regions. Respondents included a mix of online-only and “bricks and clicks” businesses drawn from six main categories.

Table 10: Retailer Sample Survey

Location	Type	Category	Total Sales
ANZ 10%	Online only 48%	Mum & baby 14%	US\$50 million – US\$100 million 16%
US 47%	Online & physical stores 52%	Beauty, cosmetics & personal care 14%	US\$100 million – US\$500 million 26%
UK 19%		Healthcare & nutrition 9%	US\$500 million – US\$1,000 million 21%
Other EU 22%		Sports & outdoor 14%	Over US\$1 billion 36%
		Grocery/food 14%	
		Fashion 14%	
		Multiple categories 21%	

Source: Frost & Sullivan Retailer Survey

Auckland	Colombo	London	Paris	Singapore
Bahrain	Detroit	Manhattan	Pune	Sophia Antipolis
Bangkok	Dubai	Mexico City	Rockville Centre	Sydney
Beijing	Frankfurt	Miami	San Antonio	Taipei
Bengaluru	Iskandar, Johor Bahru	Milan	Sao Paulo	Tel Aviv
Bogota	Istanbul	Mumbai	Seoul	Tokyo
Buenos Aires	Jakarta	Moscow	Shanghai	Toronto
Cape Town	Kolkata	New Delhi	Shenzhen	Warsaw
Chennai	Kuala Lumpur	Oxford	Silicon Valley	Washington D.C.

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Azoya Consulting empowers international retailers with clear and actionable China e-commerce strategies powered by data, research, expertise and business intelligence. With over 5 years' experience in e-commerce to China, Azoya consultants help dozens of international retailers build successful business cases with China entry strategy, e-commerce operation guidelines, digital marketing strategy, O2O strategy, logistics and supply chain. Azoya Consulting is a subsidiary of Azoya International, a borderless e-tailing group that assists international retailers as they expand to China via e-commerce.

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