5 Top Players in China’s Online Revolution You Need to Know

E-Commerce Insider Advice on China
An interview with Mark Finsterlin, managing director of aquarius Asia

Business Trends & Corporate Strategies
Succeeding in Chinese E-Commerce

Our second issue in 2013 focuses on a topic that has been burning hot on our readers’ minds: e-commerce in China. How often have you heard that the online revolution in China is the next big thing? In a formal response, many foreign companies are trying to carve out a piece of the online market. They have never been able to understand the many nuances that accompany this significant opportunity. We are here to help, starting off with an interview that addresses the past, present and future of Chinese e-commerce. We will introduce you to Amplify, our one-stop-shop e-commerce solution for bringing your products to China, and wrap it up with an introduction to the top 5 players you need to know when breaking into China via the internet. We look forward to discussing these opportunities with you in the future.

In this Issue:
- E-Commerce Insider Advice on China
- How to Amplify Your Brand
- 5 Top Players in China’s Online Revolution You Need to Know

E-commerce is one of the hottest topics worldwide, as online giants like Amazon shake up the traditional retail business. China Focus speaks to Mark Finsterlin, Managing Director of aquarius Digital Consulting, about the unique characteristics of e-commerce in China. Marc has been living in Hong Kong and Shanghai for four years, advising foreign companies on their digital strategies and business models. What differences are there in e-commerce between China and Germany?

Firstly, there is a big difference in the internet cultures of both countries. China is a late starter and joined the online world in a time when smartphones were already very common. Hence, the smartphone is the primary device to go online for many people in China. Western users have been introduced to the online world via desktop PC. In China, 70% of internet access is mobile, while in Germany it is only around 40%.

In general, almost everything can be bought online in China, even pre-decorated Christmas trees. The dominant categories are clothing, electronics and cosmetics. In contrast to the West, books, music and DVDs are less important because they are widely available for free as counterfeits or downloads. iTunes, for example, does not sell music in China, only apps such as games. Similarly, travel has yet to reach the same vast significance as it has in other markets.

The high number of mobile users, but also the low bandwidth generally available, has implications for online shops: websites have to be optimized for lower connection speeds with minimal flash graphics and animations to allow a smooth shopping experience for all users.

Another factor is trust: providers in the West have built trust for online transactions. Just think of all the eBay users that are willing to make advance payments to sellers that they have never met or even spoken to before. In China, online shopping developed a rather bad reputation and is widely associated with counterfeit products and poor quality. Because of this trust disadvantage, it is hard to sell no-name products to China. To develop a successful e-commerce business, a strong brand is essential.

A further difference is noticeable in the shipping and delivery practices. In China, the logistics network is not very well developed yet. Sometimes deliveries will be late or damaged. On the other hand, some companies in China already offer same-day delivery.

Which consumer goods are suitable for e-commerce in China?

In general, almost everything can be bought online in China, even pre-decorated Christmas trees. The dominant categories are clothing, electronics and cosmetics. In contrast to the West, books, music and DVDs are less important because they are widely available for free as counterfeits or downloads. iTunes, for example, does not sell music in China, only apps such as games. Similarly, travel has yet to reach the same vast significance as it has in other markets.

The high number of mobile users, but also the low bandwidth generally available, has implications for online shops: websites have to be optimized for lower connection speeds with minimal flash graphics and animations to allow a smooth shopping experience for all users.

Another factor is trust: providers in the West have built trust for online transactions. Just think of all the eBay users that are willing to make advance payments to sellers that they have never met or even spoken to before. In China, online shopping developed a rather bad reputation and is widely associated with counterfeit products and poor quality. Because of this trust disadvantage, it is hard to sell no-name products to China. To develop a successful e-commerce business, a strong brand is essential.

A further difference is noticeable in the shipping and delivery practices. In China, the logistics network is not very well developed yet. Sometimes deliveries will be late or damaged. On the other hand, some companies in China already offer same-day delivery.

Which consumer goods are suitable for e-commerce in China?

In general, almost everything can be bought online in China, even pre-decorated Christmas trees. The dominant categories are clothing, electronics and cosmetics. In contrast to the West, books, music and DVDs are less important because they are widely available for free as counterfeits or downloads. iTunes, for example, does not sell music in China, only apps such as games. Similarly, travel has yet to reach the same vast significance as it has in other markets.

The high number of mobile users, but also the low bandwidth generally available, has implications for online shops: websites have to be optimized for lower connection speeds with minimal flash graphics and animations to allow a smooth shopping experience for all users.

Another factor is trust: providers in the West have built trust for online transactions. Just think of all the eBay users that are willing to make advance payments to sellers that they have never met or even spoken to before. In China, online shopping developed a rather bad reputation and is widely associated with counterfeit products and poor quality. Because of this trust disadvantage, it is hard to sell no-name products to China. To develop a successful e-commerce business, a strong brand is essential.

A further difference is noticeable in the shipping and delivery practices. In China, the logistics network is not very well developed yet. Sometimes deliveries will be late or damaged. On the other hand, some companies in China already offer same-day delivery.

Which consumer goods are suitable for e-commerce in China?

In general, almost everything can be bought online in China, even pre-decorated Christmas trees. The dominant categories are clothing, electronics and cosmetics. In contrast to the West, books, music and DVDs are less important because they are widely available for free as counterfeits or downloads. iTunes, for example, does not sell music in China, only apps such as games. Similarly, travel has yet to reach the same vast significance as it has in other markets.

The high number of mobile users, but also the low bandwidth generally available, has implications for online shops: websites have to be optimized for lower connection speeds with minimal flash graphics and animations to allow a smooth shopping experience for all users.

Another factor is trust: providers in the West have built trust for online transactions. Just think of all the eBay users that are willing to make advance payments to sellers that they have never met or even spoken to before. In China, online shopping developed a rather bad reputation and is widely associated with counterfeit products and poor quality. Because of this trust disadvantage, it is hard to sell no-name products to China. To develop a successful e-commerce business, a strong brand is essential.

A further difference is noticeable in the shipping and delivery practices. In China, the logistics network is not very well developed yet. Sometimes deliveries will be late or damaged. On the other hand, some companies in China already offer same-day delivery.

Which consumer goods are suitable for e-commerce in China?

In general, almost everything can be bought online in China, even pre-decorated Christmas trees. The dominant categories are clothing, electronics and cosmetics. In contrast to the West, books, music and DVDs are less important because they are widely available for free as counterfeits or downloads. iTunes, for example, does not sell music in China, only apps such as games. Similarly, travel has yet to reach the same vast significance as it has in other markets.

The high number of mobile users, but also the low bandwidth generally available, has implications for online shops: websites have to be optimized for lower connection speeds with minimal flash graphics and animations to allow a smooth shopping experience for all users.

Another factor is trust: providers in the West have built trust for online transactions. Just think of all the eBay users that are willing to make advance payments to sellers that they have never met or even spoken to before. In China, online shopping developed a rather bad reputation and is widely associated with counterfeit products and poor quality. Because of this trust disadvantage, it is hard to sell no-name products to China. To develop a successful e-commerce business, a strong brand is essential.

A further difference is noticeable in the shipping and delivery practices. In China, the logistics network is not very well developed yet. Sometimes deliveries will be late or damaged. On the other hand, some companies in China already offer same-day delivery.

Which consumer goods are suitable for e-commerce in China?

In general, almost everything can be bought online in China, even pre-decorated Christmas trees. The dominant categories are clothing, electronics and cosmetics. In contrast to the West, books, music and DVDs are less important because they are widely available for free as counterfeits or downloads. iTunes, for example, does not sell music in China, only apps such as games. Similarly, travel has yet to reach the same vast significance as it has in other markets.

The high number of mobile users, but also the low bandwidth generally available, has implications for online shops: websites have to be optimized for lower connection speeds with minimal flash graphics and animations to allow a smooth shopping experience for all users.

Another factor is trust: providers in the West have built trust for online transactions. Just think of all the eBay users that are willing to make advance payments to sellers that they have never met or even spoken to before. In China, online shopping developed a rather bad reputation and is widely associated with counterfeit products and poor quality. Because of this trust disadvantage, it is hard to sell no-name products to China. To develop a successful e-commerce business, a strong brand is essential.

A further difference is noticeable in the shipping and delivery practices. In China, the logistics network is not very well developed yet. Sometimes deliveries will be late or damaged. On the other hand, some companies in China already offer same-day delivery.

Which consumer goods are suitable for e-commerce in China?
Company Profile

Aquarius Asia

Aquarius Asia is a strategy and communication consultancy specializing in digital media and e-commerce. Based in Munich, Shanghai and Hong Kong, the company aims to identify new business opportunities for clients in the digital world and to help them to stay ahead of the wave by locating in these new business models.

Mark Finsterlin is the Chairman of Aquarius Asia.

How do you recommend your clients to advertise their products?

China is “always on” – the relevant target groups spend more time online compared to their German counterparts, especially on their mobile phone. But due to censorship and the strong government influence, people do not trust traditional advertising as much. They rely more on their friends, their peer group, and the opinion leaders for information. Therefore, social media has a much higher relevance in China.

Moreover, companies need to realize that China is huge and, thus, characterized by substantial regional differences, more comparable to a continent than a single country. Marketing strategies need to be tailored to meet local preferences, even online!

As in the West, Search Engine Optimization and Marketing are important tools and many Chinese search engines have no problem ranking your site higher in their search results for payment. Google, for example, would never do that but for Chinese search engines this is a legitimate source of income.

Another difference can be seen with key opinion leaders that have a big fan base on Sina Weibo (similar to Twitter). These people are generally willing to promote your products for money, something that would not work so easily in the West. If Western bloggers or celebrities would use their Twitter accounts for blurt advertising, it would probably displease them and reflect badly on the brand.

Given I am a brand owner of a product group, which steps would you advise me to take to enter the Chinese market?

Firstly, it is important that you have a brand with potential, something with history and a story to tell and products that offer something new, not available in the market yet. For foreign companies, this usually means they need an established brand in their home market with high quality products.

Secondly, you need to make a commitment to the market and be ready to make a certain investment to build up your brand. This does not necessarily mean that you have to have the financial power of a multinational. Smaller companies can benefit from using one of the existing platforms like Tmall and test their infrastructure and reach.

Thirdly, you need to take some time to test the market. Launch a trial on Tmall for some insight into which products work at which price points and for which target groups. The beauty of digital marketing is that you can test a range of different options with little investment before rolling them out on a bigger scale.

Furthermore, you also need a dedicated team of local specialists or a strong local partner. Managing the Chinese market from the head office overseas will be difficult due to time differences, technical constraints, and market specialties.

What is the future of e-commerce and how can companies capitalize on its potential?

I think companies have to realize that e-commerce is just another equally as, if not more important channel for selling products and should be treated with the same attention as traditional retail. As a brand you will want to have flagship stores online and offline, but also be present in department stores and maybe have an outlet shop. In the past, some companies just used the online shop to dispose of last season’s collection and e-commerce was only one small part of the whole sales department. This way of operation can be highly brand damaging. Companies need an e-commerce strategy and it needs to be integrated with marketing, branding and the overall retail strategy.

In the future, traditional retail will see new challenges emerge in the e-commerce field but there is also much potential for synergy. At aquarius, we say that online will become a no-line, meaning the borders between the traditional channels will dilute. This trend is especially driven by mobile commerce and the one on the hand increases competition but on the other hand also offers new opportunities.

But you have to manage this smartly so not let the channels cannibalize each other. With the right strategy we believe you can push the overlap between your online and traditional retail store down to less than 5% of your efforts, meaning 95% of your spending will create new business for your company.

How to Amplify Your Brand

Fiducia Management Consultants joins forces with aquarius, an online digital marketing company, to offer a solution to medium-sized companies wanting to enter the Chinese e-commerce market. We christened this joint venture “Amplify”, as it will provide maximum exposure for products to the online market in China. With a strong back end e-store management system that is fully managed, monitored and secured, Amplify offers the following services: brand marketing, supply chain management, customer service and user analytics.

Brand Marketing

Amplify will support you by brand marketing your product to the Chinese market, following a suitable strategy we will devise together with you, while you focus on your products and offering the best selection for Chinese consumers. We will take care of presenting and marketing these on the Tmall platform, from Chinese translation to small product videos, and even social media, like Weixin (Chinese WhatsApp) apps and games.

Supply Chain Management

Here is how it works: Amplify will manage the logistics and operation flow for you. Are your goods overseas-produced? No problem, we will handle the import and customs clearance into China on our own and store them in a bonded or non-bonded warehouse. The products will stay in your ownership until they are sold on Tmall. If your goods are made in China, we will manage communication and coordination, from the moment your products leave the factory until they are delivered to the buyer.

The Order Process and Customer Service

The customer will place an order online and pay using Alipay, Union Pay (Chinese credit card) or cash-on-delivery (COD). Once this order is received at the distribution center, we immediately take over all necessary steps needed for fulfillment. The order will be picked and packed at the warehouse and a local courier will send the goods to your customer in China. We will provide after-sales support and take care of returns via our managed contact centers, ensuring a seamless customer service experience and maximum customer satisfaction.

User Analytics

Additionally, we will issue regular tracking reports on order volume, sales returns and customer feedback. Through our Direct User Communication (DUC) platform we can capture a full user analysis. We will manage the collection of payments from the customer and then remit sales proceeds after taxes and fees to you.

Are you ready for the Chinese market?

If you are considering entering the Chinese online shopping market, we would like to offer you some practical advice before you take the plunge:

Is my product interesting to Chinese consumers?

Chinese consumers know what is produced in their own country and exported worldwide and are reluctant to buy products obviously “Made in China”. A product which is foreign produced, has foreign design work, or carries a foreign brand name is appealing to Chinese shoppers because they can leverage their social status with it. Moreover, Chinese consumers rely more heavily on social media, friends’ recommendations and word-of-mouth for their buying decisions. Therefore, it is of utmost importance that you offer a solid product and build a credible brand.

How to Raise Brand Awareness in China?

Foreign brands are very popular in China, which is known to be a highly brand driven society. Some companies may have an average reputation in their home country, but have achieved a luxury brand name status in China. You will have to rethink which segment your product is most suited branded towards in China.

How can I test the Chinese e-commerce market?

The key word is reach. You must familiarize yourself with what is out there. Platforms like Tmall give you the framework to achieve this by providing an order online and raise brand awareness to prospective buyers.

How can I introduce my product?

Having a strong local partner on the ground to take over the import and marketing of your product is crucial. Constantly changing market trends, complex market knowledge and cultural differences make the Chinese market extremely challenging to understand.

A local partner with an import license and warehouse capabilities can support you by opening the door to the Chinese market. Aquarius, focusing on the “e” of e-commerce, coupled with Fiducia, with over 30 years of operational expertise, make a perfect team to introduce your product and brand into the Chinese market.

In the News

• In an unprecedented move, the Chinese government has lifted a ban within the new Shanghai Free Trade Zone on various foreign websites, such as Facebook, Twitter, and The New York Times, creating new opportunities for e-marketing in China and potentially immense implications for the future.

• Internet giant Alibaba moved its highly anticipated, multi-billion dollar IPO from the Hong Kong Stock Exchange (due to restrictions on the shareholder structure) to the New York Stock Exchange, putting the Chinese company into the international spotlight.