E-Commerce International

Strategies for Online Retailers going local in China and Eastern Asia

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Founder & Executive Director, Bluecom Group
E-Commerce Soars in China
NYTimes.com, May 2013

China – A Booming Market:
66.5% E-Commerce Growth
E-Commerce Lounge, April 2013

Almost overnight, China has become the
world’s second-largest e-tail market
China’s e-tail revolution, McKinsey & Company, March 2013
Overview

❖ Why China / East Asia?
❖ What are the challenges?
❖ Case Studies
  ❖ Bluebell / Brand Distributor (Multiple Deployment)
  ❖ ebay / Paypal (Virtual Product)
  ❖ Groupe Adeo / Homes-Up (Multi-Channel)
  ❖ Racingtheplanet.com (Pure Player)
❖ Now or never?
Why China / East Asia?

What makes the Greater China and East Asia online markets especially attractive to foreign online merchants
Why China / East Asia?

B2C Online Sales

- China’s B2C E-Commerce Market is half as large as the Online Market in the US
- 4.5x larger than Australia’s B2C E-Commerce Market
- Important: Only B2C (70% of the E-Commerce Market in China is primarily C2C)

B2C Online Sales (in bn USD, 2013)
Why China / East Asia?

B2C E-Com Growth

- Rapid market growth of China’s B2C E-Commerce (120% per annum since 2003)
- China’s E-Commerce Market will overtake that of the US in three years
- China’s E-Commerce Market in 2020 will be larger than that of the USA, UK, DE, FR, and JP together

B2C Online Sales - Growth
(in %, Average 2011-2013)
Why China / East Asia?

Favorite Product Categories

- Clothing and cosmetics are the most popular product categories in China B2C/C2C sales
- Media plays a minor role (i.e. state controlled)

<table>
<thead>
<tr>
<th>Country</th>
<th>Categories</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>Apparel, Cosmetics, Electronics</td>
</tr>
<tr>
<td>USA</td>
<td>Apparel, Food, Media</td>
</tr>
<tr>
<td>Australia</td>
<td>Media, Apparel, Electronics</td>
</tr>
</tbody>
</table>
Why China / East Asia?

Foreign Products in China

- Foreign products especially in Tier 2/3/4 cities are the most popular products on the Internet (since no physical local stores available)
- 60% of all foreign products in China are purchased Online (Premium Products - Trust!)
Why China / East Asia?

Trend to Online vs. Offline

- Physical stores (Brick & Mortar Stores) have become very expensive and good locations are rare (especially in Tier 1 cities)
- 10-20% Lease price increases per annum in Tier 1 cities
Why China / East Asia?

**Trend to Online vs. Offline**

- Trend to direct Online Strategy / Showroom Concept (Warehousing)
- E-Commerce in China replaces ~ 60% of the physical resellers (Conversely: 40% more revenue)
Challenges

A specific view on obstacles that online merchants have to overcome to sell successfully in China
E-Commerce in China for Foreign Companies

Challenges

- Founding
- Product import
- Certification
- Sale
- Delivery
- Payment
Challenges

Product Import and Certification

- **Tax at Import**
  - Value Added Tax VAT – 13%-17%
  - Consumption Tax CT – Between 1%-45% based on product (i.e. luxury products..)
  - Custom Duties – Based on product (currently approx. 8,500 Products)

- **Certification**
  - CCC (Machines, Electronics)
  - Food Certifications
  - Sensitive Areas (Media, Software,...)
Challenges

Legal Licenses / Restrictions

☑ Local set-up as...
  ☑ Representative Office (RO) – no local sales allowed
  ☑ Wholly Foreign Owned Enterprise (WFOE) und Foreign Invested Commercial Enterprise (FICE) – Various Licenses, high capital investment requirement
  ☑ Joint Venture (JV) – Equity or Contract Based. Requires local partner

☑ Internet Content Provider (ICP) License
  ☑ Required for local hosting in China
  ☑ Application via local hosting company
Challenges

Technical Implementation

- Markets and Multibrands
  - Taobao (C2C, 70% Marketshare)
  - Tmall (B2C, „Corner Shops“)
  - JinDong (jd.com), Suning, Dangdang, 51buy, Amazon (z.cn),...

- Stand-Alone E-Commerce
  - For the last 3-5 years: Mostly Java/ASP local proprietary implementations
  - Today: Magento increasingly popular as B2C/Brand Commerce Solution
Challenges

Hosting

- Great Firewall of China
  - Speed disadvantages when hosted outside of China
  - Worst case scenario: Blockage
- Problems with:
  - Payment methods
  - Logistic follow through
  - Social Networks
  - Etc.
Challenges

Browser und Mobile

- April 2013: IE6 still important with 10-20% market share
  - Problem for newer Technologies (HTML5, CSS3), Responsive Design
  - Basic Optimization for IE6/7 is required, where necessary specific Mobile templates

http://www.ie6countdown.com
Challenges

Payment Methods

- Payment Gateways are Predominant
  - Alipay
  - Tenpay
  - 99Bill
  - NO Paypal

- 3 Payment Forms
  - Pre-Paid Account
  - Direct Debit
  - Direct Account Payment
Challenges

Payment Alternatives

- Cash on Delivery (COD)
  - Very popular (Trust)
  - Escrow as Standard for Alipay
- Pick up / Payment in Offline Store
  - Within a Multi-Channel Strategy
- Convenience Store Payment
  - Used mostly in Southeast Asia
- Credit Cards
  - Not widespread, reluctantly used
Challenges

Logistic / Delivery

- Local Vendors
  - SF Express, EMS, Shentong, etc.
  - Quick and inexpensive (same day delivery)
  - But not too reliable

- International Vendors
  - UPS, DHL, etc.
  - Required for international deliveries
  - More expensive, but better SLA
Challenges

Checkout Process

- Input Fields
  - Only one name field
  - Desired delivery date/time
  - City-District
  - Etc.

- Legal Guidelines
  - Legal forms provided by authorities (printed by reseller)
  - Fapiao (Official Invoice) – additional Information and input fields required
Challenges

Social Networks

- Online shoppers in China base their buying decision mainly on the opinion of their network
  - No trust in Institutions / Companies
- Close involvement of SNEs and Shopping Sites
  - April 2013: Alibaba buys 18% share of Weibo for US$586m
- Reputation Management
  - Controlling the feedback from social networks
  - Active Engagement by KOLs
Challenges

Social Networks
„Western“ World

Facebook
Twitter
Youtube

China

Kaixin, Renren, Weixin, etc.
Weibo
Youku, Tudou, etc.
Challenges

Search Engines
- Baidu with about >65% market share
  - Has declined over past months
- 360Search with about >15% market share
  - Part of security suite
- Sogou, Soso (3rd - 4th, >10% market share cumulative)
- Google: 3-4% market share
  - Has lost a lot of ground since only sporadically accessible in Mainland China
  - Still important for foreigners as target group
- Bing, Yahoo, Others (1-2% market share)
Challenges

Language

- Target group definition
  - Simplified Chinese: written language of PR China
  - Navigation/Banner: Often mixed with English and foreign brands
  - Traditional Chinese: Hong Kong, Taiwan, Singapur
  - English: For foreigners
Challenges

Design / User Experience

- Long pages with a huge repertoire of photos and heaps of information
  - Infinite Scroll of category pages
  - Photos of all angles and labels, etc.
  - As much additional information as possible (Trust)
- Up-sell, Cross-Sell and Promotion
Challenges

Profitability

- TCO needs to include considerable marketing expenses
  - But: on average 6-8% Profit (EBITDA)
  - Comparable with Europe and USA
- Large Multi Brand Pages
  - 100% Reinvestment of the proceeds to secure and expand market share
- Stand Alone Shops
  - Amortization of costs within 3-12 Months
Case Studies

Examples of online merchants in China and East Asia, their strategies and success factors
Case Studies

Bluebell / Brand Distributor

- Brand Distributor
  - Brands: Paul Smith, Carven, Kenzo, Agnes B., Paris Hilton, Fendi, Le Sportsaq, Davidoff,...
  - Countries: China, Hong Kong, Japan, Korea, Taiwan, SO Asien

- Requirements for Brand E-Commerce Plattform
  - Low TCO (Total Cost of Ownership)
  - Short TTM (Time to market)
  - Using synergies with “3rd Party“ connections (CRM, ERP, OMS, eDM etc.)
  - Localization of target markets, but consistent branding
Case Studies

Bluebell / Brand Distributor

Solution

- Magento (EE) Basic Platform with "3rd Party" modular extensions as required by the local country organization
- Modular Templates, allowing for adjustments to country-specific features
- Country-specific integration of Checkout-Options, Payment Gateways/Logistics etc.
- Rapid deployment across national borders and across brands
Case Studies

Bluebell / Brand Distributor

carven.fr

carven.jp
Case Studies

Bluebell / Brand Distributor

Conclusion: Use Synergies
Case Studies

Ebay / Paypal

- eBays 1st try in China
  - 2004 Online market entry in China with Western management (COO, CTO)
  - “Silicon Valley” Business Model also in China (Seller pays)
  - Taobao: Free C2C Selling (no fees for reseller or buyer)
  - eBay (EachNet): US$100 Marketing expenses in the first year
  - Market Share 2006: Taobao 67%, eBay-EachNet 29%
  - eBay quits China
Case Studies

Ebay / Paypal

- eBay's 2nd try in China
  - More local business models that aim at either Chinese business abroad or are better adapted to the local market

- Easy2export.com
  - B2B platform for Chinese export traders to process foreign payments abroad through PayPal and to integrate logistics providers, etc
  - Magento EE with subscription model to Magento Go to interface to external Logistics, Marketing and Payment Providers
Case Studies

Ebay / Paypal

easy2export.com
Case Studies

Ebay / Paypal

Conclusion:
Listen and Adapt
to the Local Market
Case Studies

Groupe Adeo / Homes-Up

- DIY Group with 27 Subbrands

- In China, DIY unsustainable (see Home Depot, B&Q)
- Solution: Local concept, adapted to the market and involving user feedback
Case Studies

Groupe Adeo / Homes-Up

- Homes-up.com (Magento EE)
  - Home decorations and furnishings
  - High Price Segment
  - Multi-Channel:
    - Showroom in (very) expensive location in Shanghai
    - NO in-shop sales (no local warehousing)
    - Instead: Order through webshop on iPad at the store, same day delivery to home
  - Furthermore: Pinterest-like Pages for Decoration Items (Drupal)
    - User feedback influences new product development
Case Studies

Groupe Adeo / Homes-Up

homes-up.com

clickjia.com
Conclusion:
Be Innovative & Use New Marketing and Sales Concepts
Case Studies

Racingtheplanet.com

- Big pure player based in Hong Kong under US management
- Organization of big outdoor events around the globe
- Sales of outdoor equipment / apparel that have proven reliability in most difficult conditions
- 14 representative offices around the world
- 2 Warehouses in UK and HK
Case Studies

Racingtheplanet.com

- Multi-lingual, multi-currency online shop based on Magento EE
- European version
  - Billed in GBP, shipped from UK and available in 5 European languages
- International Version
  - Billed in USD, shipped from HK, available in English and Traditional Chinese
  - Billed in RMB, shipped from HK, available in Simplified Chinese
- Modified Chinese checkout and account details, Chinese SNS embedded in one global Magento instance
Conclusion:
Think Big, Think International
Now or Never?

Why Wait?

- Market is still open for new concepts and products
- Market is (still) in growth phase
  - Comparably low Customer Acquisition Costs
- Foreign Premium and Luxury Products (still) without competition from Chinese brands
- New foreign suppliers (are still/yet) between “Early Adopters" and the use of established technologies, structures and connections
Thank You!

Address questions to
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Win a trip to Imagine 2014

Remember to drop answers at registration desk