E-COMMERCE IN CHINA
A GUIDE FOR AUSTRALIAN BUSINESS

Using ChAFTA to sell premium Australian products

JUNE 2015
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FOREWORD BY MINISTER FOR TRADE AND INVESTMENT

THE HON ANDREW ROBB AO MP MINISTER FOR TRADE AND INVESTMENT

Since concluding the landmark China-Australia Free Trade Agreement (ChAFTA), the government has been focused on ensuring Australian businesses – large and small – understand how to make the most of the enhanced access the agreement delivers in this lucrative Asian market.

Australia’s high quality goods and services are in strong demand in China – particularly among the rapidly growing middle class – and given ChAFTA provides the best market access any foreign country has achieved to date, the openings Australian businesses can seize upon are significant.

In fact, on full implementation of the agreement, 95 per cent of Australian goods exports to China will be tariff free, which is why it’s important that businesses are equipped with the right know-how to take full advantage of the opportunities which includes an understanding of e-commerce.

Selling products in China via an online marketplace is a relatively easy, low-cost and low-risk alternative for Australian exporters.

In 2014, China’s online retail market grew by 50 per cent to reach the equivalent of half-a-trillion Australian dollars¹, creating vast possibilities for our home-grown businesses.

Access to comprehensive, unbiased information and in-market assistance is vital to success in China’s e-marketplaces, so this *E-commerce in China: A Guide for Australian Business* is an invaluable resource.

Produced by Austrade, the guide explains in simple terms how China’s e-marketplaces work and how to access them. Other practical information includes explanations on market regulations and export pathways, how to manage an online store, managing intellectual property, as well as profiles on Chinese consumers and Australian companies already enjoying success in Asia.

The export opportunities into China are certainly there for the taking and this guide, along with Austrade’s network of contacts and market intelligence – both here in Australia and overseas – are vital tools when building your brand and expanding your business into Asia and beyond.

¹ Ministry of Commerce, China
FOREWORD BY MINISTER
FOR SMALL BUSINESS

THE HON
BRUCE BILLSON MP
MINISTER FOR
SMALL BUSINESS

The hard working women and men of Australian small business are the engine room of our economy. Small businesses and family enterprises employ over four and a half million Australians and produce over $330 billion of our nation’s economic output each year. Small business drives growth and creates jobs for our country.

Small businesses are often among the first to adapt to changes in technology and resulting effects on consumer demand – at the coal face they are identifying new trends and opportunities in Australia and offshore.

This publication, E-commerce in China: A Guide for Australian Business, is designed to help harness the historic opportunities available through our Free Trade Agreement with China.

For small business and family enterprise there is no substitute for customers. The development of a sophisticated online market for consumer products, to such a big export destination as China, offers these businesses access to over 300 million customers.

The market is growing rapidly. China’s National Bureau of Statistics estimates it expanded by 50 per cent in 2014 to be worth around half a trillion Australian dollars.

This guide is free and is published in conjunction with a series of roadshow seminars the government is conducting across our country.

We are committed to ensuring Australia is the very best place to start and grow a small business. To do this we know it is important to provide practical information and support to help small and medium enterprises be export ready, establish a presence and build their sales.

This guide provides a clear explanation of the key concepts and regulations businesses will need to understand. It also includes case studies and a list of useful contacts.

I would urge all Australian business, no matter how small, to consider the huge potential e-commerce in China presents. This guide is a great starting point.
Despite a macroeconomic slowdown in China, online consumer spending is growing at close to 50 per cent a year, particularly in fast-growing second and third-tier cities like Kunming, Wuhan and Shenyang. These cities – often overlooked by the physical outlets of foreign brands – are where online hypermarkets such as JD.com and Yihaodian (YHD) dispatch hourly deliveries on fully laden electric bikes from thousands of distribution centres across China.

E-commerce brings China’s 332 million online consumers within the reach of even the smallest Australian producers, with lower costs, minimal risks and easier market access compared to traditional exporting.

While buying quality overseas-made goods is an unrealised aspiration of many of these consumers, at least 18 million are already paying premium prices for foreign products like food, cosmetics and luxury items. These are directly imported through ‘cross-border’ e-commerce trading platforms in seven cities. The reduced import taxes and simpler quarantine and inspection procedures within these pilot business-to-consumer (B2C) gateways are stirring up much excitement among buyers and sellers.
**DIVERSE ONLINE MARKETPLACES**

For the Australian exporter, selling online in China can be as straightforward as shipping your goods through Australia Post, or to the procurement centre of an affiliated e-commerce marketplace in Sydney or Melbourne. Professional third-party service providers, online merchants and e-commerce marketplaces have quickly moved in to offer Chinese-language storefront design, customer service, importation, warehousing and last mile delivery.

Established brands may choose to follow in the path of companies like Blackmores and Bellamy’s Organic by establishing ‘flagship’ shopfronts on popular online malls. Such an approach brings added costs, but also adds credibility in a market where barriers to entry are low and concerns about product authenticity are paramount. Alternatively, online hypermarkets offer upfront terms for the most popular branded goods.

For emerging brands looking to win market share, media-rich online storefronts – complete with product reviews – are an unrivalled way to receive consumer feedback and tell a brand story at lower costs compared to paid advertising or in-store displays.

**SELLER BEWARE**

However, any form of international marketing is not without its challenges, and selling online in China is no exception. Information on e-commerce in China is dense, complex and prone to contradictions and frequent change.

With more technology comes more buyer discretion. Simply being ‘Australian’ or having a reputation for ‘safety’ will not guarantee success in the long term. To stand above the noise, products need a persuasive story and attractive and culturally relevant design and packaging.

Doing business in China – like all international commercial activities – carries certain risks that Australian companies might not be aware of. Australian companies should spend time investigating the market, obtain professional advice and conduct thorough due diligence before establishing business relationships.

**AUSTRADE: HERE TO HELP**

Austrade has identified a suite of useful reference materials, including this guide, to help you learn more about key areas affecting China’s changing business environment. More information is available from our website.

For some producers, selling to China’s online consumers will bring welcome but modest gains. For others, China’s e-commerce market may be revolutionary.

This guide has been prepared with the advice of e-commerce and marketing professionals to provide essential information to assist Australian companies make informed decisions on commencing on the path to their first online sale in China. Austrade wishes you every success on the journey.
INTRODUCTION

THE E-COMMERCE MARKET IN CHINA

The online retail sector in China continues to attract the world’s attention for its headline growth and transformative effects on the country’s business environment and social fabric. By June 2014, the China Internet Network Information Center (CNNIC) estimated that more than 300 million Chinese were shopping online. According to China’s National Bureau of Statistics, it is a sector with sales of more than half a trillion Australian dollars in 2014, a 50 per cent increase on the previous year.

Exemplifying this growth, China’s biggest business-to-consumer (B2C) platform, Tmall, created the popular Singles’ Day on 11 November 2009 (written out with the lonely call sign of ‘11/11’). With much anticipated discounts on offer, subsequent Singles’ Days have broken consecutive world sales records for a single day. On 11 November 2014, sales on Tmall reached RMB 116 million in the first minute of the day and by midnight exceeded RMB 57 billion.

The uptake of e-commerce in China is significantly different to its evolution in other markets. In China it is driven not by PC shoppers but by consumers using mobile devices. More than 40 per cent of Tmall’s transactions are made by mobile consumers. According to the CNNIC, 520 million Chinese access the internet via a smart phone, from a total population of 632 million internet users. The Chinese Government’s target is to connect 1.2 billion people – 85 per cent of the population – to 3G or 4G mobile internet by 2020.

Business-to-business (B2B) e-commerce is also growing rapidly due to its low costs and accessibility of information. In 2013, sales in China’s online B2B market reached RMB 7 trillion (US$1.2 trillion) with a year-on-year growth rate of 19.7 per cent. Alibaba’s 1688.com remains the prevailing platform for such transactions, spanning 16 industries including food, raw materials, clothing and accessories, and furniture. The site controls over 40 per cent of the B2B market, followed by Global Sources (a Hong Kong-based B2B media company) and HC360 (a comprehensive B2B platform covering more than 70 industrial clusters).

Figure 1: China e-commerce total sales value

Source: National Bureau of Statistics Annual Online Retail Sales, January 2015

1 China Internet Network Information Centre, Statistical Report on Internet Development in China, July 2014
3 Xinhua News Agency, Singles’ Day sales boom breaks records, November 2014
4 Ibid CNNIC
5 Dezan Shira and Associates, Trends in China’s E-Commerce Market, June 2014
6 China Internet Watch, China Online B2B Market Update in 2013, May 2014
The **pervasiveness of technology** across China's cities is having profound effects on the market for goods and services. A 2014 survey conducted by product research company Psyma showed 75 per cent of phone users have made online food or beverage purchases. Daily necessities such as rice and drinking water, as well as taxis, movie tickets, haircuts, holidays and meals can be purchased via a mobile phone. During Chinese New Year in 2015, transport company Uber delivered a lion dance troupe to perform in a subscriber's office for less than RMB 200. This is a reason why more than 200 million consumers used their mobile phones to make purchases in 2014. According to Dezan Shira and Associates, approximately 70 per cent of all e-commerce related payments in China are now electronic, a reversal from five years ago when around 70 per cent were cash-on-delivery.

Another key factor underpinning the growth of e-commerce is **rising incomes**. McKinsey estimates that 14 per cent of China's households can be defined as mainstream, with annual incomes of between US$16,000 and US$34,000. These families display more willingness to pay for quality imported products, often as a result of first-hand experience during overseas work and travel. By 2022, the upper middle class will account for 54 per cent of all households.

The shortcomings of traditional retail are another factor. Despite having more wealthy households than Australia, China's consumers are comparatively underserved by local retail channels. As shown in Figure 2, the availability of branded products has not kept pace with the demand from second and third tier cities. Online shipment of goods to China's inland provinces is often the only means of purchasing certain goods at affordable prices.

Meanwhile, in China's first tier cities of Beijing, Shanghai, Guangzhou and Shenzhen, congested traffic means it is often more convenient to purchase online, especially for heavy bulk goods like water, cooking oil and rice. For time-conscious consumers, online shopping is a necessity.

Furthermore, well-publicised concerns over unsafe and counterfeit products have undermined trust in many locally produced products, pushing consumers towards goods with a strong reputation in overseas markets and to reputable sales channels.

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**Figure 2: Penetration of chained convenience stores – Number of outlets/million people**

![Figure 2](image)


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UNDERSTAND CHINA’S ONLINE CONSUMERS

WHO IS BUYING GOODS ONLINE AND WHY?

According to Nielsen research, the typical online buyer of imported products in China is female, younger than 30 and with an income of more than RMB 11,000 per month (A$2,150 a month or A$25,800 a year). Frequently cited reasons for shopping online include:

- **Accessibility**: online shopping is available anywhere, any time.
- **Convenience**: most major sites offer free delivery, which helps to avoid crowded traffic and public transport.
- **Low prices**: online prices are typically 10-20 per cent lower than in-store, with sales events like Singles’ Day offering even bigger savings.
- **Greater choice**: a typical Chinese supermarket carries upwards of 15,000 stock keeping units (SKUs), whereas online supermarket Yihaodian stocked up to eight million SKUs by the end of 2014.
- **Detailed product information**: online stores are rich in the type of details sought by consumers, such as country of origin, production method and customer reviews.
- **Confidence**: consumers place higher levels of trust in the authenticity of purchases made on major B2C platforms such as Tmall, JD.com and Yihaodian.

Given these factors, it is of little surprise that Chinese users are some of the most regular online shoppers in the world. A global online commerce survey conducted by PwC shows that the number of Chinese consumers who report making daily or weekly online purchases is double and triple the global average, respectively.11

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10 Nielsen, China sees more sophisticated online shoppers, September 2014
11 PwC, Total Retail 2015: Retailers and the age of disruption, February 2015
Credit: Amazon China
Nielsen research estimated Chinese online shoppers would spend RMB 100 billion (approximately US$16.3 billion) in 2014 on imported products. Apparel, accessories and handbags are the most popular imported items sold in China, followed by cosmetics and personal care products, and mother-and-baby products.

In 2014, Austrade analysed the average daily frequency of Taobao shopper keyword searches performed over three months for 25 types of product which could be supplied by Australian companies. The most sought-after categories were packaged snacks, children’s toys, beer and honey. The figures also revealed significant buyer interest in furniture and home improvement products: categories where Australian products are under-represented in China.

Figure 3: Frequency of Keyword searches on Taobao for a selection of 25 products

Source: Austrade/Taobao, November 2014
In November 2014, Ben Sun of ThinkChina, a Sydney-based e-commerce data analytics company, studied the product categories of Tmall and Taobao searches where the keyword ‘Australia’ was part of the search terms. The results in Figure 4 show that skincare, food and wine, and milk powder were the Australian products most sought after by China’s online shoppers.

Figure 4: Search volume (%) of Australian products on Taobao and Tmall, November 2014

- **Fur products**: 2.40%
- **Health supplements**: 5.41%
- **Food & wine**: 18.64%
- **Skincare**: 39.86%
- **Shoes & clothing**: 15.14%
- **Milk powder**: 15.75%
- **Others**: 2.8%

Source: Think China, November 2014

‘To sell in China successfully, you need to leave your Australia hat at the door and understand the Chinese consumer.’

Chris Morley, E-commerce Director, Premium Australia Foods

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**SHOPPER PROFILE**

**LUCY**

**DESIGNER AND OWNER**

Lucy is a 59-year-old designer and small business owner from Guangzhou. She recently renovated her office and bought almost everything for the project online, from hardware to furniture and construction services.

‘Interior design and construction services are all available online. I renovated my office with just a few clicks of a button and minimal leg work,’ she says.

Lucy spent around RMB 280,000 on renovating her 500 square-metre office through online purchases – a huge saving over traditional methods.

‘I was able to get quality pieces without having to bargain. A secure escrow account allowed me to view the product first before confirming the order, and returning it for a refund was easy when the product didn’t meet my expectations.’
GET YOUR PRODUCT READY FOR THE CHINESE MARKET

Successful exporting requires optimising brand messages and designing products to cater for subtle but important differences in consumer behaviour across international markets.

Austrade has more than a dozen business development managers working in the food and beverage, consumer and agribusiness sectors in China. Their experience suggests Chinese buyers look for products that:

- have strong brand heritage outside of China
- replace local brands that are not trusted (particularly if the end user is an infant or is elderly)
- are innovative and novel
- are lifestyle products (e.g. healthcare, vitamins and education)
- are ‘natural’ alternatives to artificial products.

Andrew Kuiler, a Shanghai-based Australian branding and packaging expert and founder of the Silk Initiative, advises that for food exporters, just being ‘foreign owned’ is no longer good enough for Chinese consumers. ‘Success requires a strategy supported by a strong understanding of consumers and how they will use a product and respond to brand narratives,’ Kuiler advises. ‘Grounds on which Australian manufacturers can compete in China include innovation, natural and functional ingredients, safety and technology,’ he says.
PRICING

Exporters need to allow for sufficient margins to cover duties, tariffs, storage and delivery, marketing and discounting.

Margaret Harris, co-founder and joint managing director of The Clean Food Co., notes that ‘pricing is one of the biggest issues Australian brands face in China. Prices must be comparable with similar imported products from Europe and the US to be competitive.’

A simple online search will show prices for competing imported goods. Table 1 compares the Australian and Chinese prices for a sample basket of goods sold online.

Table 1: Prices of Australian-branded consumer goods sold online in China, December 2014

<table>
<thead>
<tr>
<th>PRODUCT</th>
<th>VOLUME</th>
<th>PRICE IN A$</th>
<th>PRICE IN CHINA (A$ equivalent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPF 30+ sunscreen</td>
<td>40ml</td>
<td>19.95</td>
<td>56.41</td>
</tr>
<tr>
<td>Face cream</td>
<td>125ml</td>
<td>32.95</td>
<td>52.48</td>
</tr>
<tr>
<td>Age-Defying Ultra Firm and Lift Cream</td>
<td>50ml</td>
<td>90.00</td>
<td>138.09</td>
</tr>
<tr>
<td>Cheese slices individually wrapped 12 pack</td>
<td>216g (AU) - 250g (CN)</td>
<td>3.30</td>
<td>5.83</td>
</tr>
<tr>
<td>Full cream Long Life milk</td>
<td>1 Litre x 10</td>
<td>15.80</td>
<td>30.00</td>
</tr>
<tr>
<td>Tasty cheese block</td>
<td>250g</td>
<td>5.70</td>
<td>8.77</td>
</tr>
<tr>
<td>Famous brand Shiraz 2013/14 vintage</td>
<td>750ml</td>
<td>8.99</td>
<td>28.79</td>
</tr>
<tr>
<td>Smooth peanut butter</td>
<td>500g</td>
<td>5.38</td>
<td>22.95</td>
</tr>
<tr>
<td>Australian squeezable honey</td>
<td>500g</td>
<td>7.30</td>
<td>19.06</td>
</tr>
</tbody>
</table>

Source: Austrade in-house research, 2015

Chinese consumers have shown a willingness to pay premium prices for quality products. Australian manufacturers should prioritise their efforts to develop products that have high quality and brand appeal.

Luxury brands from Europe and the US have enjoyed tremendous success over the past decade, driven by China’s economic rise and a desire for status-confirming products.

As the middle-income segment and consumer tastes become more nuanced, many shoppers are looking to more modest, unique brands that reflect a buyer’s personality and travel history. This is creating a good market for well-crafted, Australian ‘affordable-luxury’ brands and products, especially in the lifestyle and fashion segment, where well-designed and creative alternatives are increasingly popular.
Because imported items are considered a luxury, manufacturers need to ensure the standard of their packaging is consistent with this perception. Searching for your product on any major platform will reveal the form of packaging adopted by competing imported products. Consideration should also be given to:

- **Purpose**: many imported goods are gifts to friends and family. Specialised ‘gift packs’ are popular options.

- **Unit volume**: for some products, larger-sized products help absorb ‘last mile’ delivery costs and make better gifts. Many consumers order large quantities of a single SKU when shopping online.

- **Authenticity**: use features that are hard to replicate, such as holograms and logos.

- **Traceability**: use features such as barcodes and QR codes to demonstrate product provenance.

- **Labelling**: all food and imported products sold in China are required to have a Chinese-language label explaining product contents and origin.
Exporters are not required to build and operate a stand-alone website in order to sell online to Chinese consumers. Approximately 90 per cent of online transactions in China occur on open, third-party e-commerce marketplaces.

These sites can display products, receive orders and handle payments on behalf of merchants located in China and abroad. They operate under one or more of the following five main types of e-commerce marketplace models in China:

- online malls
- hypermarkets and specialty sites
- flash sale sites
- C2C 'online bazaars' and social selling
- Stand-alone websites.

Figure 5: China’s top B2C websites, market share by total transactions, Q2 2014

Source: iResearch, China Internet Watch July 2014
ONLINE MALLS

Online malls are a collection of independently managed shopfronts operating under the banner of a larger marketplace.

In exchange for a shopfront set-up fee, yearly ‘rents’ (commonly known as technology fees) and a sales commission of two to five per cent, merchants benefit from the reputation and visitor traffic associated with the marketplace. For example, Tmall has more than 255 million registered users and 70,000 shopfronts. Shoppers can purchase items from multiple shopfronts in a single convenient transaction.

Tmall Global allows foreign merchants to establish an official shopfront without requiring a business licence in China. Sellers will need to open an account with Alipay – China’s equivalent of PayPal – to receive RMB payments from Chinese customers. To ensure consumer confidence in the authenticity of merchandise, shopfronts on Tmall can only be operated by brand owners or their licensed agents, who are required to pay an anti-counterfeit security deposit of US$25,000.

Site design, inventory management, warehousing, order fulfilment, customer service and delivery remain the responsibility of the shopfront owner, assisted by the marketplace’s proprietary back-end platform. The marketplace does not purchase, store or deliver merchandise.

HYPERMARKETS AND SPECIALTY MARKETPLACES

Hypermarkets, such as JD.com, Yihaodian and Amazon, also allow independent merchants to list products or operate shopfronts within their marketplaces to sell speciality or low-turnover items. High-performing brands have the opportunity to be ‘graduated’ onto the vertically integrated hypermarket model (see page 25).
Amazon China (Z.cn) is Amazon’s online shopping platform in China, which provides over 25 million products spanning 32 categories. Amazon China has 13 fulfilment centres across the country offering premium delivery service including same day delivery and next day delivery in more than 1400 cities/ counties and more than 5000 pick-up points, and provides a convenient and swift online shopping experience to Chinese customers. With the unique advantage of rich global vendor resources and logistic network, Amazon China today already hosts the largest international brands and high-quality authentic international products among online retailers in China.

JD.com is China’s largest online direct sales company. JD.com owns and operates seven fulfilment centres and 143 warehouses in 39 cities, with a further 3,539 delivery stations in 1,961 counties and districts across China, 134 of which offer same-day delivery. JD.com allows merchants to open individual shopfronts and is also licensed to import food, beverage products, apparel and shoes directly from Australia. A cross-border service, JD Worldwide, was also recently launched, enabling merchants who don’t have a China presence to sell direct to Chinese consumers.

SFHT.com is part of SF Holdings (Group) and is a cross-border marketplace for sought-after foreign goods using the international logistics network for SF Express to provide customers with a fast end-to-end import and online retail service. For brands, distributors and foreign retail partners entering China, SFHT offers a complete solution including international logistics, customs entry, domestic delivery and omni-channel promotion plans, both offline and online. SFHT has marketing partnerships with third-party sales channels and offers Online-to-Offline (O2O) integration with retail chain stores in Taiwan and Japan.

Tmall.com is China’s largest online marketplace dedicated to domestic and international branded merchandise. Owned by Alibaba Group and launched in April 2008, Tmall provides a marketplace for foreign brands or their approved partners to open exclusive shopfronts. Tmall Global, launched in 2014, only sells imported goods, and allows international brands without physical operations in China to sell directly to consumers. More than 600 foreign merchants benefit from exposure to the hundreds of millions of Chinese consumers who frequent Alibaba’s marketplaces daily. Tmall Global has English-speaking support staff.

VIP.com was founded in August 2008 as an online special offers retailer offering authentic, competitively priced and popular branded products to consumers in China. VIP was listed on the New York Stock Exchange in 2012 and has more than 100 million registered members. Merchant support provided by VIP’s end-to-end online cross-border solution includes receiving merchandise in Australia, customs clearance, translation, design, segment analysis and delivery in China. Sales commissions start from 20 per cent.

Womai.com is a Beijing-based specialty B2C e-commerce website created in 2009 by state-owned food giant COFCO. It is focused on staple foods, snacks, beverages and wine, which it purchases directly from suppliers and can deliver nationwide from three distribution hubs to its 15 million registered users, including refrigerated goods.

Yihaodian (translation: Number One Store) is China’s largest online retailer of food and beverages, selling around 250 million imported items in 2013, including one-third of all imported UHT milk sold online in China. Co-founded by Chairman Yu Gang and Flinders University alumnus Junling Liu, Yihaodian operates 17 warehouses and has 10,000 employees across China. Yihaodian is 51 per cent owned by US retail giant Walmart and is licensed to import food and beverage products directly from overseas.
Online hypermarkets are vertically integrated, multi-category marketplaces that purchase directly from suppliers for sale through their own network, much akin to a traditional ‘bricks-and-mortar’ retail store. Core to this model is the operation of a proprietary online e-commerce platform and self-owned distribution network offering same-day delivery. For example:

- JD.com processes tens of thousands of orders per day through seven logistics hubs and 143 warehouses, with a total of 3,539 delivery stations in 1,961 counties and districts across China.
- Yihaodian stocks up to eight million SKUs, with a focus on fresh food and beverages.
- Amazon China offers same-day shipping in major cities and access to popular imported items listed on its US parent site.

Selling to a hypermarket is done through negotiation with a procurement manager. Both JD.com and Yihaodian are licensed to import directly from Australia. Exporters or their agents are not required to manage distribution or a shopfront, but are typically asked to provide official marketing collateral to promote their goods.

Smaller specialty marketplaces, in most cases, also purchase directly from suppliers, but focus on a particular product line, region (e.g. Shanghai), need (e.g. food safety) or community (e.g. paid-members, expatriates). The following tables outline some of the many specialty marketplaces that sell imported food and beverages, fashion, accessories and general merchandise.

Table 2: Specialty marketplaces selling imported food and beverages

<table>
<thead>
<tr>
<th>Website</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><a href="http://www.962360.com">www.962360.com</a></td>
<td>Shanghai-based seller of fresh food and beverages run by Shanghai Bright Food, targeting everyday Chinese consumers.</td>
</tr>
<tr>
<td><a href="http://www.benlai.com">www.benlai.com</a></td>
<td>Beijing-based online fresh food supermarket with national reach through its own online portal and shopfronts on Tmall, YHD and JD.com.</td>
</tr>
<tr>
<td><a href="http://www.epermarket.com">www.epermarket.com</a></td>
<td>Online supermarket focused on offering same-day delivery to Shanghai’s expatriate community. Own cold-chain delivery.</td>
</tr>
<tr>
<td><a href="http://www.fieldschina.com">www.fieldschina.com</a></td>
<td>Online supermarket established in Shanghai in 2009 focused on quality and safety. Own cold-chain delivery.</td>
</tr>
<tr>
<td><a href="http://www.freshfresh.com">www.freshfresh.com</a></td>
<td>New member-based online supermarket offering Shanghai residents a select range of imported staples ‘at cost prices’. Own cold-chain delivery.</td>
</tr>
<tr>
<td><a href="http://www.kateandkimi.com">www.kateandkimi.com</a></td>
<td>Shanghai-based seller of gourmet food and wine, operated by two expatriates. Own cold-chain delivery.</td>
</tr>
<tr>
<td><a href="http://www.okshuiguo.com">www.okshuiguo.com</a></td>
<td>Beijing-based ‘fruit fan’ established in 2014, with own online portal and shopfronts on Tmall, JD.com and WeChat.</td>
</tr>
<tr>
<td><a href="http://www.pinstore.cn">www.pinstore.cn</a></td>
<td>Japanese-operated seller of food and general merchandise.</td>
</tr>
<tr>
<td><a href="http://www.sfbest.com">www.sfbest.com</a></td>
<td>Food and consumer product retail marketplace owed by SF Holdings (Group).</td>
</tr>
<tr>
<td><a href="http://www.yummy77.com">www.yummy77.com</a></td>
<td>Amazon-invested seller of imported and domestic foods with 500,000 registered users in Shanghai.</td>
</tr>
<tr>
<td><a href="http://www.yesmywine.com">www.yesmywine.com</a></td>
<td>One of China’s largest online wine stores with 6.6 million registered users.</td>
</tr>
</tbody>
</table>

Source: Austrade in-house research, 2015
**Table 3: Specialty and wholesale marketplaces selling fashion, accessories and general merchandise.**

<table>
<thead>
<tr>
<th>Website</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><a href="http://www.amazon.cn">www.amazon.cn</a></td>
<td>Official Chinese site of US e-commerce giant, also known as z.cn</td>
</tr>
<tr>
<td><a href="http://www.dangdang.com">www.dangdang.com</a></td>
<td>China’s largest online retailer of books.</td>
</tr>
<tr>
<td><a href="http://www.gome.com.cn">www.gome.com.cn</a></td>
<td>National home electronics and appliances store that has expanded into fashion and lifestyle products.</td>
</tr>
<tr>
<td><a href="http://www.iluxday.com">www.iluxday.com</a></td>
<td>Online seller of imported luxury fashion, homewares, accessories and packaged foods. Handles importing, warehousing and logistics.</td>
</tr>
<tr>
<td><a href="http://www.mei.com">www.mei.com</a></td>
<td>Shanghai-based Glamour Sales is a membership-based website that offers daily flash sales of more than 1,500 luxury international fashion brands to loyal fashionistas.</td>
</tr>
<tr>
<td><a href="http://www.shangpin.com">www.shangpin.com</a></td>
<td>National flash sales e-retailer of fashion, jewellery and accessories with five million users.</td>
</tr>
<tr>
<td><a href="http://www.suning.com">www.suning.com</a></td>
<td>One of China’s largest brick-and-mortar home electronics stores and a leading e-retailer.</td>
</tr>
<tr>
<td><a href="http://www.1688.com">www.1688.com</a></td>
<td>An online channel for merchants doing business on Alibaba Group’s retail marketplaces to source products from domestic wholesalers.</td>
</tr>
</tbody>
</table>

**CONSUMER-TO-CONSUMER: ONLINE BAZAARS AND SOCIAL SELLING**

Consumer-to-consumer (C2C) marketplaces operate under a business model similar to eBay. Alibaba’s Taobao C2C marketplace was the pioneer of China’s e-commerce sector, and remains the most popular with a 90 per cent market share in the C2C segment. Today, Taobao has eight million sellers and over 200 million active users. It is estimated that 50 per cent of China’s total online sales occur on Taobao. Because establishing a store on Taobao is effectively free, this marketplace is dominated by small sole traders who compete fiercely on price, leading to concerns among discerning shoppers about product authenticity. Delivery times vary according to the seller’s location and preferred courier, and payment options vary from store to store. Establishing a shopfront on Taobao requires registration with a Chinese ID card.

Merchandise listed on JD.com can also be accessed through Tencent’s popular social media platform WeChat (otherwise known as Weixin). Merchants on JD.com can set up their own ‘micro-stores’ to sell socially to friends and contacts on WeChat, with the option to use JD.com’s nationwide fulfilment infrastructure and Tencent’s finance tools.

**FLASH SALES**

Flash sale sites specialise in selling new-to-market, discontinued or surplus branded stock at discounted prices. They hold particular appeal for consumers familiar with overseas brands. Because flash sale sites deal with discrete quantities, they can be an effective means for exporters to ‘test’ the market for new products before establishing a more substantial online or offline sales presence.

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13 Xinhua News Agency, Watchdog finds fake goods in online mail, January 2015
**STAND-ALONE E-COMMERCE WEBSITES**

Given the popularity and convenience of third-party marketplaces, building a stand-alone transactional website for China is typically considered too difficult and costly for inexperienced exporters. Any company seeking to sell products through its own site is required to register a business and follow a lengthy record-filing procedure. A third-party payment solution is required to receive payments in RMB. Engaging in-house delivery requires establishing a separate wholly foreign-owned enterprise and acquiring a transportation licence.

Table 4: Select marketplaces compared

<table>
<thead>
<tr>
<th>Marketplace name</th>
<th>Alibaba Group</th>
<th>JD</th>
<th>1</th>
<th>唯品会</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business model</strong></td>
<td>Taobao Marketplace (C2C)</td>
<td>Tmall.com (B2C)</td>
<td>Hypermarket</td>
<td>Online mail</td>
</tr>
<tr>
<td><strong>Estimated number of users</strong></td>
<td>350 million</td>
<td>105.2 million</td>
<td>90 million</td>
<td>100 million</td>
</tr>
<tr>
<td><strong>Focus</strong></td>
<td>General merchandise</td>
<td>General merchandise</td>
<td>Food and beverage</td>
<td>Products for women</td>
</tr>
<tr>
<td><strong>Number of shopfronts</strong></td>
<td>N/A</td>
<td>50,000+</td>
<td>1</td>
<td>100,000</td>
</tr>
<tr>
<td><strong>Estimated number of products</strong></td>
<td>More than 1 billion product and service listings</td>
<td>40.2 million</td>
<td>8 million</td>
<td>Rotational</td>
</tr>
<tr>
<td><strong>Shopfront deposit</strong></td>
<td>N/A</td>
<td>A$3,000 – $33,000 (depending on store type)</td>
<td>Not required</td>
<td>A$2,000 – $19,500</td>
</tr>
<tr>
<td><strong>Annual marketplace fee (approx.)</strong></td>
<td>N/A</td>
<td>A$8,000 – $12,000 (depending on categories)</td>
<td>Not required</td>
<td>A$1,300</td>
</tr>
<tr>
<td><strong>Commission</strong></td>
<td>N/A</td>
<td>2-5%</td>
<td>1-10%</td>
<td>1-10%</td>
</tr>
<tr>
<td><strong>China ID / business registration required</strong></td>
<td>Yes</td>
<td>Yes (Tmall.com) No (Tmall Global)</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>In-house delivery and logistics</strong></td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Australian-based procurement?</strong></td>
<td>By individual shopfronts</td>
<td>By individual shopfronts</td>
<td>No</td>
<td>By individual shopfronts</td>
</tr>
<tr>
<td><strong>Direct import</strong></td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>By individual shopfronts</td>
</tr>
<tr>
<td><strong>Cross-border capable</strong></td>
<td>Yes (Taobao International)</td>
<td>Yes (Tmall Global)</td>
<td>Yes (JD Worldwide)</td>
<td>Yes (by approved shopfronts)</td>
</tr>
<tr>
<td><strong>Ownership</strong></td>
<td>Alibaba</td>
<td>Alibaba</td>
<td>Publicly listed</td>
<td>51% share by Walmart</td>
</tr>
<tr>
<td><strong>Payment methods</strong></td>
<td>Alipay</td>
<td>Alipay</td>
<td>Tenpay, JD pay</td>
<td>Alipay</td>
</tr>
</tbody>
</table>

Source: Austrade in-house research, 2015
PROTECT AND MANAGE YOUR INTELLECTUAL PROPERTY

The first step for any company considering selling Australian merchandise in China is to register their trade mark immediately.

IDENTIFYING IP VIOLATIONS

Common types of intellectual property (IP) violations in China include infringement of copyrights, trademarks, patents and design. Specifically, similar domain names and website styles are among the most frequent complaints made by foreign companies trying to enter the Chinese market.

Whether outsourced or conducted in-house, most companies adopt measures to proactively search the internet for all known kinds of violations, including domain name squatting, unauthorised sales, look-alikes, free-riding or actual sales of counterfeits.

Companies can also pay RMB 800 to Chinese Customs to have them monitor their trademarks and contact them if any violation is discovered. It is increasingly common to send staff to corporate functions and trade fairs, where infringements are commonly spotted.

REGISTERING A TRADEMARK

In China, a trademark (except for very well-known ones) offers little protection without pre-registration. It is therefore essential to register any key trademarks and logos with the trademark bureau of the State Administration for Industry and Commerce (SAIC) as soon as possible and seek the advice of a lawyer or trademark agent to guarantee adequate protection under relevant Chinese trademark classes.

Registering a trademark costs RMB 800. However, foreign companies are required to entrust a trademark agency to handle the registration, which means there is an additional agency charge ranging from RMB 500 to RMB 1,000. The trademark bureau will complete examination of the application within nine months from the date of receipt of the required documents. Further, companies should ensure that they have documentation (such as an international trademark filing certificate, in both English and Chinese) showing that they own their registered IP in China.

REMEDYING IP VIOLATIONS

In response to a violation, businesses within China can call the National Copyright Administration at 12390 or the Intellectual Property Office at +8610 6235 6655. At present, these hotlines do not offer an English-language service.

Brands and merchants who find offending products or content on any of Alibaba’s platforms may submit their findings via its IP infringement complaint and take-down system. Penalties will be applied to vendors of counterfeit merchandise.

Prior to taking any formal legal action, a company must first contact SAIC, then hire a specialised lawyer who can analyse the case to determine whether the defence is sufficiently justified. Litigation costs can run up quickly, depending on the type of infringement, and employing an international IP firm tends to be costly.

‘Never go into battle before casting weapons’
Chinese Proverb
GET YOUR GOODS TO CHINA

The four main pathways to export merchandise to China for sale on e-commerce marketplaces are summarised in Table 5. The optimal pathway is influenced by the regulatory procedures that apply to a product, nature of the product (e.g. size, value and freshness) and business model of the selected e-commerce marketplace.

Table 5: Export pathways

<table>
<thead>
<tr>
<th>Pathway to market</th>
<th>Shipping method</th>
<th>Consignment size</th>
<th>Consignee</th>
<th>Marketplace</th>
<th>Customs and product clearance</th>
<th>Suitable for</th>
</tr>
</thead>
</table>
| Direct to consumer                | International postal and courier | Individual       | End user        | Approved cross-border marketplace | Cross-border                           | • New to market products  
• Small items  
• Low turnover, high value items                                                                 |
| Bonded warehouse + drip-shipping  | Sea or air freight   | Consolidated or small | Local agent or partner | Consolidator managed shopfront  
Approved cross-border marketplace | Cross-border                           | • New to market products  
• Large items  
• Medium turnover, medium value items                                                                 |
| Conventional distribution         | Sea or air freight   | Bulk             | Distributors Online hypermarkets | Online hypermarkets Cold-chain equipped specialty sites | All duties, VAT and quarantine          | • Established brands  
• High turnover, low to high value items  
• Fresh and frozen food |
| Sales via third parties           | Domestic             | Consolidated or bulk | Australia-based agents of marketplace or distributor | Any                                   | All duties, VAT and quarantine          | Any |

Source: Austrade in-house research, 2015
CROSS-BORDER SALES: DIRECT-TO-CONSUMER AND BONDED WAREHOUSE DRIP-SHIPPING

Cross-border sales are defined as the direct import of goods from outside the customs territory of China, utilising special pilot channels, known as cross-border e-commerce platforms, and based on the preferential policies of bonded zones in seven cities: Shanghai, Hangzhou, Ningbo, Zhengzhou, Chongqing, Guangzhou and Shenzhen Qianhai.\(^\text{14}\) The primary advantages of cross-border sales are the reduced import taxes and product compliance checks applied to certain products under China’s Luggage and Postal Tax Policy.

Under this policy, combined total import taxes (import duties, value-added tax and consumption tax) apply to personal purchases\(^\text{15}\) of the following products:

<table>
<thead>
<tr>
<th>10%</th>
<th>Food (including healthcare products), underwear, shoes</th>
</tr>
</thead>
<tbody>
<tr>
<td>20%</td>
<td>Suitcases, leather products, electrical appliances</td>
</tr>
<tr>
<td>30%</td>
<td>Watches, golf-related products</td>
</tr>
<tr>
<td>50%</td>
<td>Cosmetics, skincare products</td>
</tr>
</tbody>
</table>

Table 6: Import taxes on cross-border sales (personal purchases)

The calculable luggage and postal duty is not charged if the cost of goods is less than RMB 50. By comparison, regular import duties, value-added tax and consumption tax applied to merchandise imported through traditional means can add up to 150 per cent, especially for luxury items. (Information on the taxes and other regulatory procedures applied to regular exports of a range of popular Australian items can be found on page 42).

Furthermore, normal quarantine and other compliance testing (see pages 40-41) are exempted under the following conditions:

- The exported product conforms with domestic product standards applicable in the exporter’s home market.
- The exporter possesses a retail or trading licence in its country of origin, and either owns the brand or is an authorised distributor of the products in question.
- The exporter complies with Chinese consumer laws, offers Chinese-language customer support, provides a way to handle customer returns in China and arranges overseas shipping directly to Chinese consumers. (A range of third-party service providers are listed on pages (58-61).

For example:

- healthcare products are not required to carry China's mandatory 'Blue Hat' certification.
- infant formula does not need to be manufactured by a Certification and Accreditation Administration (CNCA) accredited factory.

14. Shenzhen Qianhai is yet to determine the eligible e-commerce platforms for its pilot cross-border trade. Authorities are looking to expand the pilot scheme nationwide in the near future.

15. Defined as orders of two or more products with a total value under RMB 1,000 (RMB 800 for goods from Hong Kong, Macao and Taiwan); or an order of one product of any value.
CROSS-BORDER SALES BY THE NUMBERS

- **2,000** number of ENTERPRISES ENGAGED in cross-border sales
- **18 million** number of cross-border SHOPPERS in China
- **39%** percentage of CHINESE SHOPPERS who have purchased from Australia
- **43%** number of survey respondents who cited long delivery times as a problem with CROSS-BORDER SALES
- **78%** share of cross-border transactions made via MOBILE PHONES
- **US$118.8 million** value of cross-border goods imported between July 2013 and November 2014
- **RMB 1 trillion** estimated size of the cross-border market in China by 2018

Source: China Internet Watch, General Administration of Customs, Tmall Global 2014
These preferential policies result in lower costs (estimated to be 20 to 30 per cent cheaper than physical stores) and faster product clearance and dispatch times (one to two days, versus up to 30 days for bulk commercial shipments). For these reasons, cross-border sales are conservatively estimated to double in 2015.

Cross-border merchandise can be sent to China as a **consolidated shipment** for dispatch from a bonded warehouse in China (available through the Victorian Employers’ Chamber of Commerce and Industry (VECCI) and Premium Australia Foods), or via **express mail delivery** (available through Australia Post’s service with Tmall).

Orders are processed by designated e-commerce trading platforms. These platforms, usually set up and maintained by a state-backed or licensed company, handle customs clearance, track-and-trace (via QR sticker) and dispatch the goods to a domestic courier.

These services are delivered through their own e-commerce stores (such as kuajingtong.com), or through a government-approved arrangement, with around 2,000 third-party e-commerce marketplaces licensed to handle cross-border transactions, such as Tmall Global or JD Worldwide.

### Table 7: Examples of approved platforms and e-commerce marketplaces

<table>
<thead>
<tr>
<th>Location</th>
<th>Licensed cross-border trading platform</th>
<th>Approved partner e-commerce marketplace</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shanghai Free Trade Zone</td>
<td>kuajingtong (跨境通)</td>
<td>amazon.cn, yhd.com</td>
</tr>
<tr>
<td>Ningbo</td>
<td>kuajinggou (跨境购)</td>
<td>alidaycn.com, ikjtao.com</td>
</tr>
<tr>
<td>Hangzhou</td>
<td>kjeport (跨境一步达)</td>
<td>Tmall Global, yintai.com</td>
</tr>
<tr>
<td>Zhengzhou National Economic and Technological Development Zone (Henan-bonded logistics centre)</td>
<td>e-maoyi (e贸易)</td>
<td>wgyp.com</td>
</tr>
<tr>
<td>Chongqing bonded zone</td>
<td>cqkjs (重庆跨境贸易电子商务服务网)</td>
<td>igetmall.net, 365hele.com</td>
</tr>
<tr>
<td>Guangzhou</td>
<td>Top Ideal SCM (卓志供应链)</td>
<td>JD Worldwide</td>
</tr>
</tbody>
</table>

Source: Austrade in-house research. Information current at February 2015
CASE STUDY:

BELLAMY’S ORGANIC

Bellamy’s Organic, a Tasmania-based organic infant food company, entered the Chinese market a decade ago and is well established in both online and offline channels. Products that have been designed to comply with organic and other certification requirements are sold through regular trading and sales channels. By establishing a flagship store on Tmall Global and taking advantage of China’s cross-border e-commerce policies, Bellamy’s distributor is able to directly sell to consumers infant nutrition products which meet Australia’s domestic requirements only.

CONVENTIONAL DISTRIBUTION

The majority of imported products sold in online malls and hypermarkets in China are handled by conventional distributors, who are experienced in managing customs and quarantine procedures, storage and distribution of merchandise to both online and offline retailers, such as department stores, supermarkets and convenience stores where the vast majority of retail sales occur.

For high turnover items, such as infant formula, exporters can ship full container loads directly to the warehouses of integrated e-commerce marketplaces, such as online hypermarkets and specialist websites. For this to occur, an e-commerce marketplace must have the necessary import licence (e.g. dairy import licence). All remaining distribution is managed through the marketplace’s internal network.

An online sales channel should form part of a wholistic market entry strategy that complements and drives offline distribution. For example, many consumers use smartphones to read online product reviews and promotional materials before finalising an in-store transaction. User-generated feedback from online channels can help popularise a product in offline markets, or direct an exporter to areas where product refinements are needed.

Online sales form only part of a comprehensive market entry strategy.

As shown in Figure 6, online sales of food and beverage account for no more than 2.5 per cent of national food sales. Of this amount, heavy bulk products such as rice, cooking oil and bottled beverages represent a lion’s share, with a sizeable amount of chocolate, fresh and dried fruit and other snack food also sold online.

For smaller exporters, online sales can be a cost-effective means to establish a sales footprint in China, particularly for niche products not traditionally available in China where educating consumers through mass-market advertising can be prohibitively expensive.

Companies looking for high turnover need to look towards more traditional means of distribution, such as the food service sector. According to Euromonitor, there are more than 24,000 fast-food chain outlets and more than 30,000 chain hotels in China. Such outlets have modern procurement practices and are attuned to the quality demands of their customers.

Xavier Naville, a partner at Vision Management Consultants, says that China’s expansive third-tier cities are often a mistakenly overlooked source of sales opportunity for food exporters. ‘There are over 600 major cities behind the main first-tier centres in China. They’re the ones where consumers have fewer choices of brands. In the main cities, it’s a cage fight between all importers.’

Working with offline distributors also helps to avoid the type of price hypersensitivity that can be associated with online shoppers, particularly for undifferentiated products. ‘Much of the recent turnover growth in online retail has been from bargain hunters who easily switch brands once promotions become less attractive,’ says Vision Management partner Frank Gibson. ‘It would be dangerous to view an online presence as a universal solution for a China entry.’

In China, as elsewhere in the world, sustained profitability is built on communicating value and striking the right balance of interests between exporter, distributor and retailer. ‘If you want to build a brand, and get any real volume, you still need to be able to effectively build brand, communicate with consumers and defend pricing. This requires investment and capability,’ says Gibson.
SALES VIA THIRD PARTIES

A **consolidator** is a shipping and distribution agent who consolidates smaller consignments into larger ones to reduce overall transportation costs, particularly for small or trial shipments.

Once cleared by customs and China Inspection and Quarantine (CIQ), goods are released to a distributor or retailer, or held in a bonded warehouse until an order is placed.

Shared expenses such as an online shopfront are also offered by some consolidators, making this a cost-effective means for managing e-commerce logistics. Australian companies operating under this model in China include Premium Australia Foods, VECCI Export Services, Noah’s Group and Digital Pantry.

Australia-based **buying agents** are becoming an increasingly popular form of international procurement for Chinese enterprises. A buying agent takes ownership of the product and handles the export and distribution process. This includes the Australian buying offices of Chinese distributors and online hypermarkets, as well as sites selling goods and services to visiting Chinese tourists (see box below).

Unofficial buyers include small, unauthorised traders buying in Australia at retail prices and selling via their own shopfronts. For this reason, many Australian exporters may be surprised to learn that their products are already available in China. A simple search on Taobao.com will indicate if a product is available online in China.

**A consolidator** is a shipping and distribution agent who consolidates smaller consignments into larger ones to reduce overall transportation costs, particularly for small or trial shipments.

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Matt McKenzie from the Export Group advises that it is critical to coordinate between your online channel and physical stores. ‘We have successfully used a couple of key strategies to manage these challenges,’ McKenzie says. ‘Firstly, we recommend working with trusted partners in both channels that will respect your pricing strategy. Secondly, we suggest offering unique pack sizes in the online channel that cannot be found in the physical world. Thirdly, in either channel it is critical to not “undersell” your brand by offering it too cheaply. Although there can be a short-term volume gain, the opportunity cost of not developing a viable pricing strategy is huge.’

**Sanitarium**, for its range of cereal products, made a clear distinction between which product sizes would be sold online and which would be sold in physical stores. Larger pack sizes are sold via the online channel: this allows the product to be sold at a profitable rate, which would not have been so easy with smaller pack sizes (as packing and shipping was included in the online consumer price). Over about 12 months, online sales of Weet-Bix developed at such a rate that it was possible for the company to expand sales into second and third-tier cities that would not have been cost-effective or even physically possible in traditional retail.

**INSIGHT: ONLINE STRATEGY BEGINS AT HOME**

Australia received close to 800,000 visitors from China in 2014, an increase of more than 10 per cent over 2013. Currently there are more than 140,000 Chinese students studying in Australia, accounting for 26.6 per cent of all foreign students. About 387,400 permanent residents and citizens of Australia were born in China, according to the 2011 census.

Shopping is an important part of the Australian experience for any Chinese visitor. The opportunity to encounter products at the point of production – such as during factory tours or cellar doors – can be a very powerful means of promoting your brand identity in mainland China.

Tools such as Dianping and Alipay allow Australia-based merchants to target local Chinese users and gain insightful feedback. News of attractive products travels fast through social networks, and can result in consumers taking it upon themselves to trade your products via cross-border and C2C channels. Knowing that your product is already trading in China is a positive sign of your market potential.

In 2015, China’s leading online travel agency, Ctrip.com, launched a shopping service purchase products in RMB for collection at hotels or airports.

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17 Tourism Australia, Visitors by country of residence, September 2014
18 Department of Education, Monthly Summary of International Student Enrolment Data, September 2014
19 Australian Bureau of Statistics, State and Territory composition of country of birth, 18 December 2013
Improvements in the availability and cost of truck and last-mile logistics services have helped spur the growth of e-commerce in China. More than 100 million parcels were reportedly delivered every month in 2014 in Shanghai alone, with the average resident spending US$122 a year on courier services. It is estimated that between 40-60 per cent of these parcels were online shopping orders. Last-mile ‘kuaidi’ delivery drivers on electric-bikes are a common sight in every major Chinese city.

Figure 7: Delivery options and times from Australia to China

Source: Austrade in-house research, 2015

E-COMMERCE MARKETPLACES WITH INTEGRATED LOGISTICS

To ensure fast and reliable delivery, online hypermarkets such as JD.com and Yihaodian operate their own logistics networks, complete with fully automated warehouses, local distribution hubs and tens of thousands of company-employed delivery drivers. The cost of delivery is typically absorbed into the retail price. Delivery times for high turnover order items dispatched from nearby distribution centres – such as consumer electronics, shoes and cosmetics – can be as low as three hours in first-tier cities, an attractive feature for consumers.

Figure 8: Market share of leading express delivery companies in China

Table 8: Shunfeng delivery rates - December 2014

<table>
<thead>
<tr>
<th>Origin</th>
<th>Destination</th>
<th>Same-day</th>
<th>Express</th>
<th>Economy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1kg 10kg</td>
<td>1kg 10kg</td>
<td>1kg 10kg</td>
</tr>
<tr>
<td>Shanghai</td>
<td>Shanghai</td>
<td>- -</td>
<td>¥12 ¥30</td>
<td>- -</td>
</tr>
<tr>
<td>Shanghai</td>
<td>Beijing</td>
<td>¥150 ¥420</td>
<td>¥22 ¥112</td>
<td>¥18 ¥63</td>
</tr>
<tr>
<td>Shanghai</td>
<td>Xinjiang</td>
<td>- -</td>
<td>¥24 ¥204</td>
<td>¥20 ¥110</td>
</tr>
<tr>
<td>Shanghai</td>
<td>Shenzhen</td>
<td>¥150 ¥420</td>
<td>¥22 ¥139</td>
<td>¥18 ¥99</td>
</tr>
</tbody>
</table>

Source: SF Express

THIRD-PARTY LOGISTICS PROVIDERS

Domestic courier companies provide warehouse-to-door delivery services for companies operating a stand-alone e-commerce website or independent shopfront on a marketplace like Taobao. Fees are typically no more than RMB 12 for intra-city deliveries below 1kg. Table 8 shows indicative prices from Shunfeng Express in December 2014. Discount companies such as Yunda offer services for as little as RMB 5.

Table 8 shows indicative prices from Shunfeng Express in December 2014. Discount companies such as Yunda offer services for as little as RMB 5.

Table 8: Shunfeng delivery rates - December 2014

<table>
<thead>
<tr>
<th>Origin</th>
<th>Destination</th>
<th>Same-day</th>
<th>Express</th>
<th>Economy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1kg 10kg</td>
<td>1kg 10kg</td>
<td>1kg 10kg</td>
</tr>
<tr>
<td>Shanghai</td>
<td>Shanghai</td>
<td>- -</td>
<td>¥12 ¥30</td>
<td>- -</td>
</tr>
<tr>
<td>Shanghai</td>
<td>Beijing</td>
<td>¥150 ¥420</td>
<td>¥22 ¥112</td>
<td>¥18 ¥63</td>
</tr>
<tr>
<td>Shanghai</td>
<td>Xinjiang</td>
<td>- -</td>
<td>¥24 ¥204</td>
<td>¥20 ¥110</td>
</tr>
<tr>
<td>Shanghai</td>
<td>Shenzhen</td>
<td>¥150 ¥420</td>
<td>¥22 ¥139</td>
<td>¥18 ¥99</td>
</tr>
</tbody>
</table>

Source: SF Express
STORAGE, WAREHOUSING AND ORDER FULFILMENT

Marketplaces operated by the Alibaba Group (Tmall, Taobao) have an accredited Operational Service Providers programme. Services provided by these qualified third-party providers include order fulfilment, pick-and-pack, store operations, warehouse management and tracking. A directory of service providers (Mandarin only) is available. Several Australian companies also offer warehousing and fulfilment services in China.

COLD-CHAIN LOGISTICS

A relatively underdeveloped service a decade ago, cold-chain logistics in coastal China is a sophisticated sector. Temperature-critical foods can be delivered reliably door-to-door within major cities, where demand for fresh and frozen foods is outpacing the capacity of established infrastructure.

Fierce competition and a desire to provide customers with an unbroken cold-chain have encouraged online hypermarkets and specialty sites to establish their own chilled warehouses and fleets of variable temperature delivery vehicles. These marketplaces are ideal partners for exporters of temperature-critical products. Third-party logistics companies such as Shunfeng Express also offer a last-mile cold-chain delivery service.

REVERSE LOGISTICS

Managing reverse logistics is important to ensure effective operations and attract and retain customers. Most e-commerce marketplaces allow returns of goods within seven days of purchase. The China Industry Research Network estimates up to 25 per cent of online orders are returned, with reasons ranging from incorrect clothing size to concerns over product authenticity.

Online hypermarkets can collect returned goods for the vendor and capture buyer feedback. An experienced agent can also provide assistance for managing returns. Non-faulty goods are typically repacked and re-sold. Refer to page 43 for additional information on China’s consumer laws.

CASE STUDY:
PELORIS GLOBAL

Australia-based company Peloris Global Sourcing worked with NSW Dairy Connect and the Chinese import authorities over 12 months to develop a cold-chain export solution for Australian fresh milk that streamlines customs and quarantine procedures without compromising China’s very stringent food health and safety regulations.

Working with a trusted local cold-chain delivery partner, NSW milk is now being sold on Yihaodian, JD.com and Tmall.com across East China.

A QR code is applied to each bottle to provide consumers with added assurances about the quality.
UNDERSTAND KEY REGULATIONS

PRODUCT REGISTRATION, INSPECTION AND QUARANTINE PROCEDURES

All goods imported into China must pass through a series of commodity inspections and meet certification requirements, after which they require a China Inspection and Quarantine certificate for their use and sale in China. Subject to their nature, goods on arrival require a physical inspection and a safety test (e.g. for the presence of toxins). Goods must be accompanied by formal certification recognised by the Chinese government. Customs brokers or import agents (including e-commerce procurement offices) provide valuable advice specific to each product. For an overview, see Table 9.

Generally, China classifies imports into three categories: permitted, restricted and prohibited goods. The majority of goods, including milk (fresh and powdered milk), frozen meat and vegetable oil, fall under the permitted category. Imports of these goods are monitored by the Ministry of Commerce (MOFCOM) via an automatic licensing system. MOFCOM and Customs jointly issue an annual catalogue of goods subject to automatic licensing – which, contrary to expectation, needs to be applied for with the contract of imported goods.

All types of imported food need to obtain a Sanitary Certificate issued by the China Inspection and Quarantine Bureau and undergo inspections carried out by the Administration of Quality Supervision, Inspection and Quarantine (AQSIQ). The AQSIQ manages a registration system for overseas manufacturers of imported food and a mandatory record-filing system for all exporters (or export agents) of food to China.

Documents required for customs clearance vary according to different products. However, certain documents are required for all types of imported food. These include bills of landing, invoices, packing lists, official health certificates from the export country and the relevant AQSIQ inspection certificates. Exporters need to report product details to the AQSIQ including the product name, brand, country of origin, specifications, quantity/weight, total value and expiry date.

China places especially strict restrictions on imports of dairy products, pet food and agricultural products. Imported milk (UHT milk, fresh milk etc.) needs to go through quarantine inspection and approval procedures and acquire a Quarantine Permit on Imported Animals and Plants (QPPA). China’s Regulation on Registration for Foreign Establishments Intended to Export Foods to China also requires that processing facilities for certain foods, including dairy, meat, egg and bee products, be pre-registered prior to export.

Lastly, exporters dealing in dairy products, as well as agricultural products such as olive oil and frozen meat, will also need to go through record-filing procedures with the China Chamber of Commerce of Foodstuffs and Native Produce, a subordinate organisation under MOFCOM.
CHINA FOOD AND DRUG ADMINISTRATION

Imported cosmetics, medicines and vitamins are required to obtain approval from the China Food and Drug Administration (CFDA), the national-level certification authority. Since 2003, vitamins and supplements have also been required to obtain an additional mark from the CFDA. This is commonly referred to as the ‘blue hat’ mark, and contains the characters ‘保健食品’ (supplementary food) written in a blue font with a standard code beginning ‘国食健字’ (see image at left). The application procedure generally takes between five months and two years.

PRODUCT STANDARDS

Chinese product certification standards are to a large extent aligned with the European International Standards Organization and American Standards for Testing and Materials, and are administered by the Administration of Quality Supervision, Inspection and Quarantine (AQSIQ). Standards are classified into four types: national (GB), industrial (HB), provincial or local (DB) and enterprise (QB). GB standards are divided into mandatory and recommended standards. Mandatory standards are prefixed GB, while recommended standards are prefixed GB/T. DB standards are usually applicable to individual provinces and used as a testing ground for future national standards.

These standards are enforced via the China Compulsory Certification (also known as CCC or 3C), a safety mark required for both domestically manufactured and imported products listed in the CCC product catalogue. Currently this covers 159 product types in 23 categories, including toys, electronic goods and household appliances. In practice, obtaining a CCC mark for your product can take 60 days to one year to complete. Testing for CCC approval can only be carried out by China Quality Certification Centre – approved laboratories located in China, and requires the submission of a product sample.

LABELLING

All products sold in China must be affixed with labels or documentation in Chinese. The label may also contain foreign text, but its Chinese characters must be bigger than the foreign ones. Product information must be explicitly indicated, including the product name and country of origin, as well as the address of the distributor or importer registered in China. Labels for food products must contain the net weight, list of ingredients, address of the Chinese distributor, date of production and expiration date; while those for cosmetics must contain the product’s quality certificate information. Additionally, labels for pre-packaged food, medicine and cosmetics need to be recorded with the CFDA. Labels for certain goods also need to contain their relevant quality standards such as GB, HB or QB.

MOFCOM and Chinese Customs jointly issue an annual catalogue of goods subject to automatic licensing, which must be applied for at the same time as the contract of imported goods.

TARIFFS, DUTIES AND OTHER REGULATORY PROCEDURES

Table 9 summarises major import regulations and duties applicable to 25 selected products. Please note that CIQ testing timeframes are indicative only. This information is provided as general reference only and other requirements may apply. Seek professional advice from a customs broker before exporting. For further information on requirements that apply to the import of Australian food, please refer to the Department of Agriculture website at www.agriculture.gov.au/export.
Table 9: Regulations, import procedures and taxes for 25 selected products.

<table>
<thead>
<tr>
<th>Regulations and procedures</th>
<th>Duties and taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>VAT</td>
</tr>
<tr>
<td>Top 25 AU products</td>
<td></td>
</tr>
<tr>
<td>Export Health Cert</td>
<td></td>
</tr>
<tr>
<td>Export Establishment registration</td>
<td></td>
</tr>
<tr>
<td>CIQ testing</td>
<td></td>
</tr>
<tr>
<td>• Certification and approval</td>
<td></td>
</tr>
<tr>
<td>• Sanitary certificate</td>
<td></td>
</tr>
<tr>
<td>• Quarantine Licence on Imported Animals and Plants</td>
<td></td>
</tr>
<tr>
<td>• Certificate of origin</td>
<td></td>
</tr>
<tr>
<td>• Automatic import licence</td>
<td></td>
</tr>
<tr>
<td>1 UHT milk</td>
<td>17%</td>
</tr>
<tr>
<td>2 Fresh milk</td>
<td>17%</td>
</tr>
<tr>
<td>3 Infant formula</td>
<td>17%</td>
</tr>
<tr>
<td>4 Yoghurt</td>
<td>17%</td>
</tr>
<tr>
<td>5 Fruit and veg</td>
<td>13%</td>
</tr>
<tr>
<td>6 Fresh and frozen meat</td>
<td>13%</td>
</tr>
<tr>
<td>7 Seafood</td>
<td>13-17%</td>
</tr>
<tr>
<td>8 Wine</td>
<td>17%</td>
</tr>
<tr>
<td>9 Spirits</td>
<td>17%</td>
</tr>
<tr>
<td>10 Beer</td>
<td>17%</td>
</tr>
<tr>
<td>11 Juice and other beverages</td>
<td>17%</td>
</tr>
<tr>
<td>12 Honey</td>
<td>13%</td>
</tr>
<tr>
<td>13 Vitamins and supplements</td>
<td>17%</td>
</tr>
<tr>
<td>14 Furniture</td>
<td>17%</td>
</tr>
<tr>
<td>15 Clothing and accessories</td>
<td>17%</td>
</tr>
<tr>
<td>16 Toys</td>
<td>17%</td>
</tr>
<tr>
<td>17 Beauty and personal care</td>
<td>17%</td>
</tr>
<tr>
<td>18 Outdoor and sporting equipment</td>
<td>17%</td>
</tr>
<tr>
<td>19 Home improvement</td>
<td>17%</td>
</tr>
<tr>
<td>20 Jewellery</td>
<td>17%</td>
</tr>
<tr>
<td>21 Packaged snacks</td>
<td>13-17%</td>
</tr>
<tr>
<td>22 Pet food</td>
<td>13%</td>
</tr>
<tr>
<td>23 Pet care</td>
<td>17%</td>
</tr>
<tr>
<td>24 Olive oil</td>
<td>13-17%</td>
</tr>
<tr>
<td>25 Cheese</td>
<td>17%</td>
</tr>
</tbody>
</table>
COMPANY TAXES

An e-commerce tax was introduced in China in 2013 following a MOFCOM announcement that the country’s tax laws would apply uniformly to traditional and online enterprises. The tax rate applicable to online businesses is currently the same as that applicable to other foreign-invested enterprises in China, including a corporate income tax (CIT) of 25 per cent and a value-added tax (VAT) of 17 per cent or business tax of five per cent, depending on the nature of the goods or services in question.

MOFCOM is currently preparing administrative regulations for online retail businesses which aim to standardise the payment of e-commerce tax. The relevant tax rates and payment rules are expected to be released in 2016.

CHINA’S CONSUMER PROTECTION LAWS

China implemented a revised Consumer Protection Law in March 2014 for items sold via the internet, television, telephone and mail order. Consumers have the right to return goods within seven days from the date of receipt and the seller has to refund the amount paid by the consumer within seven days.

To prevent digital consumers from abusing their rights and unilaterally terminating contracts without proper reason, the Consumer Protection Law stipulates that the seven-day unconditional return is not applicable to the following goods:

- custom-tailored items
- fresh or perishable goods
- digital products downloaded online or audio-visual products unpacked by the consumer
- delivered newspapers and periodicals.

Online sellers are required to provide authentic and complete details of their products and/or services to online shoppers.

In cases of commercial fraud, compensation of up to three times the original price of the product or service charges paid by the consumer may be refunded, along with a minimum fine of RMB 500. Where defective products have caused injury to human health or resulted in death, business operators shall compensate consumers for the economic and psychological losses thereby incurred and pay punitive damages of up to twice the amount of those losses.
ESTABLISHING A LEGAL ENTITY IN CHINA

Foreign merchants seeking to establish their own online store are required by Chinese law to first set up a legal entity in China; only then can they create an online version selling the same range of products. The process is the same for opening a shop on a Chinese domestic marketplace such as Tmall or JD.com. Prior to registering on the site, vendors are required to show their registration certificate, business licence, the Chinese ID of the company’s legal representative and company bank account details.

A foreign-invested commercial enterprise (FICE) — basically a limited liability company whose business licence includes import and export — is the ideal vehicle to engage in imports and retail sales in China.

To set up a company in China, foreign companies need to obtain name pre-approval from their local Ministry of Commerce branch and a business licence (one of the basic documents of corporate registration in China) from the local Administration for Industry and Commerce (AIC). When applying for a business licence, the company will be asked to define its business scope, which will describe its legal range of commercial activities in China.

When setting up a company, you will need to invest a minimum amount of registered capital, determined on a case-by-case basis by the AIC based on the company’s proposed business scope. For a FICE, the minimum amount of registered capital is generally around RMB 500,000 (A$98,200).

Companies are strongly encouraged to hire a legal services provider for the corporate establishment process, which takes four to six months to complete. Costs vary depending on the service provider and complexity of the application.

Every company established in China is required to designate a legal representative and register this person with the AIC. The legal representative is fully empowered to bind the company, and his or her name is recorded on the business licence and in the company’s Articles of Association.

Some online marketplaces set minimum capital threshold levels for enterprises wanting to be registered as vendors. For example, enterprises selling clothes and accessories need to have a minimum registered capital of RMB 1 million to be listed as a corporate vendor on Tmall, and a minimum of RMB 500,000 is required for enterprises selling cosmetics on JD.com. These threshold levels can vary greatly between different platforms and product types.

A foreign-invested enterprise seeking to provide services to other trading parties on its own online platform will need to apply to the Ministry of Industry and Information Technology (MIIT) for an Internet Content Provider (ICP) licence. This requirement is waived for companies engaging solely in the online sale of their own products (including service products), without providing additional internet services. They will still need to conduct an ICP filing if any relevant website content is hosted in China.

Notably, an ICP licence can only be issued to Chinese domestic enterprises or joint ventures with foreign investment capped at 50 per cent and minimum registered capital of RMB 10 million, except in certain areas such as the Shanghai Free Trade Zone.
Prime Minister Tony Abbott and President Xi Jinping announced the conclusion of negotiations for the China-Australia Free Trade Agreement (ChAFTA) on 17 November 2014, during President Xi Jinping’s state visit to Australia. Trade and Investment Minister Andrew Robb and Commerce Minister Gao Hucheng signed a Declaration of Intent to work towards signature of the Agreement. The Free Trade Agreement was signed in June 2015.

Upon entry into force, ChAFTA will provide significant new opportunities for business by improving or securing Australia’s competitive position in the large and growing Chinese market.

As one of only a handful of developed countries to have concluded a free trade agreement with the world’s second largest economy, Australian companies are uniquely placed to leverage the benefits of ChAFTA through e-commerce channels.
SECURED OUTCOMES

Outcomes set to benefit Australian companies include:

- 95 per cent of Australia’s goods exports (by value) to China will enter duty-free on full implementation of the agreement.
- ChAFTA will improve the competitiveness of Australian agricultural exports to China, our largest agricultural export market, eliminating tariffs on meat, dairy, wine and processed foods.
- Nearly all of Australia’s manufacturing exports will enter China duty-free within four years of the agreement.
- ChAFTA’s built-in agenda provides a platform to deepen commitments and expand market access to take advantage of China’s future economic reforms.

Key outcomes relevant to many of Australia’s most popular online products in China include the removal of tariffs:

- on a range of processed foods including biscuits, cakes, tinned fruit, most fruit juice and pasta within four years, with honey and orange juice five and seven years respectively.
- on Australian dairy products (which can be as high as 20 per cent) within four to 11 years.
- of 12 to 25 per cent on beef over nine years.
- of 14 to 20 per cent on wine over four years.
- on horticultural products, ranging up to 30 per cent, mostly within four years, with oranges and all other citrus fruits within eight years.
- on seafood, including 15 and 14 per cent duties, respectively, on rock lobster and abalone, over four years.
- of two to three per cent on barley, sorghum and oats on day one of the agreement.
- of 14 to 20 per cent on wine over four years.
- of 12 to 25 per cent on beef over nine years.
- of 14 to 20 per cent on wine over four years.
- on horticultural products, ranging up to 30 per cent, mostly within four years, with oranges and all other citrus fruits within eight years.

ChAFTA OUTREACH PROGRAMME

The Government is running an Australia-wide outreach programme aimed at assisting Australian business to better understand the opportunities provided through ChAFTA and other recently concluded trade agreements such as the Korea-Australia Free Trade Agreement and the Japan-Australia Economic Partnership Agreement. Supported by Austrade Trade Commissioners and officials from the Department of Foreign Affairs and Trade and other relevant agencies, the seminars provide attendees with a detailed briefing about the benefits of the FTAs including ChAFTA, and practical information on how to maximise benefits from them.

Information on the next FTA outreach event can be found at http://www.austrade.gov.au/Export/Events/Australian-Events.

Further information on ChAFTA can be found at: www.dfat.gov.au/ChAFTA.
BUILD AND MANAGE YOUR ONLINE BUSINESS

BUILDING A SHOPFRONT

Online malls provide merchants with a portal to assist and govern the design of their shopfronts, and manage product listings and orders. As these portals are only available in Chinese, exporters seeking to develop their own customised shopfront within an online mall are advised to employ Chinese-speaking staff or use the services of a service provider experienced with their preferred e-commerce marketplace.

In working with a partner, exporters should provide the following information:

- description of the physical attributes of the product
- details of its function and performance
- description of the quality and durability of the goods
- description of the input materials used (or not used)
- description of how the goods were manufactured and supervised
- testimonials and examples from brand ambassadors
- description of the company owners
- a history of the brand and story to tell about provenance, if applicable

- evidence of the good standing of the company, including awards and certificates
- description of the packaging.

This information should be accompanied by numerous professional photos and videos.

“You can’t launch and leave and assume your brand will succeed. Ongoing digital activity is key in driving brand awareness.”

Kate Walker, Joint Managing Director, The Clean Food Co.
Figure 9: Product information sought by online consumers

<table>
<thead>
<tr>
<th>Information Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price/promotion/special offer</td>
<td>79%</td>
</tr>
<tr>
<td>Product feature (colour or size)</td>
<td>78%</td>
</tr>
<tr>
<td>Other users’ reviews and comments</td>
<td>69%</td>
</tr>
<tr>
<td>Brand (brand info. or background)</td>
<td>62%</td>
</tr>
<tr>
<td>New trends/new arrivals</td>
<td>53%</td>
</tr>
<tr>
<td>Tips on how to mix and match</td>
<td>50%</td>
</tr>
</tbody>
</table>

Source: Survey analysis, China’s Connected Consumers, February 2014

AUSTRADE’S TIPS FOR EFFECTIVE SHOPFRONT DESIGN AND MANAGEMENT

- Consumer reviews and testimonials that appear ‘cooked up’ or fake are all too common and a big turnoff for savvy buyers.
- Stand-alone consumer product websites should be updated regularly, easy to navigate and contain professional images.
- Make sure the site can be accessed quickly via a smartphone. Hosting in Australia or the US can result in frustratingly slow load times.
- Ultimately, reliability is more important than price or promotion. Ensure your product gets to your consumer as described, and within set timelines.
- Ensure you are prepared to respond quickly, in Mandarin, to customer enquiries. Young shoppers are notoriously impatient.
- Adopt QR codes and a complementary social media strategy to enable consumer interaction.
GETTING PAID

Most online marketplaces integrate with third-party online payment platforms such as Alipay or Tenpay (see Table 10). Alipay, for example, works much like PayPal, linking an Alipay merchant account to the company’s bank account. Crucially, Chinese consumers can pay for products through Alipay in RMB. Alipay can then convert the RMB into foreign currency and remit it to the company’s foreign bank account, eliminating the need to open a Chinese bank account. The exchange rate is determined by one of Alipay’s partner settlement banks: China Construction Bank or Bank of China. Alipay charges a service fee between 1.8 and 3 per cent of the transaction value. The higher the monthly transaction value, the lower the fee.

Merchants can opt for either settlement by turnover or by period. Settlement by turnover means the money will be sent to the foreign company’s account once turnover reaches a certain amount (minimum of US$5,000).

You can also choose to settle every week, month or quarter.

The platforms listed in Table 10 all use Alipay or Tenpay, as well as accept Union Pay, Visa and Mastercard.

### Table 10: Online payment system used by major platforms

<table>
<thead>
<tr>
<th>Platform</th>
<th>Alipay</th>
<th>Tenpay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taobao/Tmall</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>YHD</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>JD.com</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>VIP.com</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Amazon</td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>

ATTRACTING AND RETAINING CUSTOMERS

Getting your merchandise to China and listed on an e-commerce marketplace is only half the battle. With marketplaces such as Taobao featuring up to one billion items, standing out from the crowd requires planning and coordination between social media, standalone websites, online advertising and marketplace promotions.

Managing social media and online reviews

Social media is an extremely popular form of personal communication and information sharing in China. The two leading channels, WeChat and Sina Weibo, attract 438 million and 157 million active users per month, respectively21. It is estimated that two-thirds of these users interact with brands to learn about the latest products and services, receive special offers and access customer service.

A professional marketing agent or Chinese-speaking employee can manage these critical interactions with customers. Mark Tanner of China Skinny emphasises the need to adequately train sales staff or online agents, and provide a Q&A cheat sheet. He says that ‘quick and transparent responses to customer feedback, in a way that understands the nuances of Chinese language and culture, is critical to online success.’

Managing user feedback on products plays an integral part in the purchase-making process. Research by the Boston Consulting Group indicates Chinese consumers rely more heavily on online product reviews than their Western counterparts.22

An online store or product typically receives a consumer score between zero and five for three main criteria:

- accuracy of product description
- customer service experience
- delivery speed.

Qualitative feedback is provided on the function and attributes of the product. Chinese consumers are very discerning: any reason to suspect a product or review is fake will be an instant turnoff.

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22 BCG, The World’s Next E-Commerce Superpower: Navigating China’s Unique Online-Shopping Ecosystem, November 2011

E-COMMERCE IN CHINA: A GUIDE FOR AUSTRALIAN BUSINESS
Figure 10: Top information channels

<table>
<thead>
<tr>
<th>Information Channel</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>User review on social media</td>
<td>39%</td>
</tr>
<tr>
<td>Friends/word of mouth</td>
<td>38%</td>
</tr>
<tr>
<td>E-commerce website like Taobao</td>
<td>36%</td>
</tr>
<tr>
<td>Brand’s official sites</td>
<td>35%</td>
</tr>
<tr>
<td>Media online platform</td>
<td>33%</td>
</tr>
<tr>
<td>Brand official news</td>
<td>27%</td>
</tr>
<tr>
<td>Online display ads</td>
<td>21%</td>
</tr>
<tr>
<td>Traditional media</td>
<td>20%</td>
</tr>
<tr>
<td>Celebrities</td>
<td>20%</td>
</tr>
<tr>
<td>Key opinion leaders</td>
<td>17%</td>
</tr>
</tbody>
</table>

Source: Survey analysis, China’s Connected Consumers, February 2014

Table 11: Examples of comments on Australian products, various online marketplaces, December 2014

<table>
<thead>
<tr>
<th>Product</th>
<th>Price</th>
<th>Feedback</th>
<th>Positive</th>
<th>Negative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cosmetic sheep oil</td>
<td>RMB 698 (A$130)</td>
<td>• Good product, trustworthy • Feels good, will buy again • Just like the one I bought at Expo, good product</td>
<td>Nil</td>
<td></td>
</tr>
<tr>
<td>Facial cream</td>
<td>RMB 26 (A$5)</td>
<td>• Good product to use in winter • It is cheap, why not • Smells good</td>
<td>I can tell it is fake I had an allergic reaction, it must be fake Smells bad</td>
<td></td>
</tr>
<tr>
<td>Carton of beer</td>
<td>RMB 179 (A$33) 375ml X 12 bottles</td>
<td>• Heard it is No. 1 in Australia, taste good • It is very light, I like it • Great foam, I like it</td>
<td>Tastes different from the one I bought in Australia</td>
<td></td>
</tr>
<tr>
<td>Infant formula</td>
<td>RMB 188 (A$35 )</td>
<td>• Baby loves it, will buy again • I trust the brand • Good quality, good brand</td>
<td>Nil</td>
<td></td>
</tr>
<tr>
<td>Honey</td>
<td>RMB 109 (A$20) 500g</td>
<td>• Very satisfied, tastes great • A bit expensive, but worth the price • Love it, will buy again</td>
<td>Nil</td>
<td></td>
</tr>
<tr>
<td>Oranges</td>
<td>RMB 99 (A$18) 20/bag</td>
<td>• Tastes good • Fresh • Sweet</td>
<td>Smaller than I expected, not very juicy Average Expensive</td>
<td></td>
</tr>
</tbody>
</table>

Source: Austrade in-house research, 2015
COMPANY WEBSITE

Even with a presence on e-commerce platforms and social media, it is recommended that exporters maintain mobile-friendly Mandarin language pages on their Australian website, or develop a new standalone website hosted in China for faster loading speeds and better search optimisation by Baidu, the dominant Chinese-language web search service.

Robert Burns, General Manager of China Sales Co., explains that company websites help build consumer trust. Given the high prevalence of fake products available online in China, customers often will look to official company websites to confirm product and company information. ‘Chinese consumers are tired of fakes, they want the real product, and from the real source,’ says Burns.

Results from a China State Administration for Industry and Commerce (SAIC) survey released on 23 January 2015 discovered that across the major e-commerce platforms, only 57.8 per cent of goods were identified as authentic. ‘Adding Chinese pages to your .com.au will go a long way to assisting build consumer brand trust, and we also encourage businesses to sell directly from their own home-company website,’ says Burns.

Registering a website in China is the same as in other countries: you need to buy a domain name and obtain web hosting. Domain names in China are quite inexpensive, about A$10 a year for a .com domain or A$180 for a five-year com.cn domain. Specific to China, however, is the requirement to file a website with the Ministry of Industry and Information. You will then receive a unique Internet Content Provider (ICP) code assigned to your website, indicating that it has been approved. The approval process generally takes three to 20 days to complete.

Companies looking to allow third parties to use their website as an online platform (for example, affiliate marketing) need to apply for an ICP licence as well. In this case, the company must have a minimum registered capital of RMB 10 million and be party to a joint venture with a Chinese partner. Except within very restrictive cases, ICP licences can only be issued to Chinese domestic enterprises or joint ventures with foreign investment not exceeding 50 per cent.

ONLINE ADVERTISING

A highly developed and competitive market exists to attract the digital attention of potential customers. In China, relying on search engines to drive unpaid ‘free’ traffic to a website or shopfront is generally ineffective.

McKinsey estimates annual spending on digital advertising in China will reach US$33 billion by 2016 and will become the most popular form of advertising in the country.23

Techniques used to drive traffic to e-commerce storefronts include:

- keyword searches on Baidu and Taobao or Tmall
- displaying ads on portals such as Sohu and video-sharing sites like Youku
- affiliate marketing through blogs and other social media
- targeted user outreach campaigns.

Licensed digital advertising agencies have access to discount rates and can provide segment analysis and ROI tracking to ensure advertising is targeted correctly.

For companies starting out in the Chinese market with a limited budget, Calvin Chan, chief operating officer of Admaster, recommends search advertising as one of the most effective forms of online advertising: ‘Keyword advertising, both on search engines and on the marketplaces themselves, has been shown to have some of the best returns on investment.’

SALE!

- Rather than describing discounts as a percentage off, discounts in Chinese are expressed as a proportion of the original price, using the character 折.
- 30% off would thus be expressed as 7 折.
- Other common sales tactics include two-for-one deals and limited time offers.

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23 http://www.mckinsey.com/insights/media_entertainment/taking_the_pulse_of_chinas_ad_spending
A cost-effective way for Australian brands to find new customers is to participate in the regular sales promotions put on by e-commerce marketplaces. These promotions typically focus on product categories (e.g. clothing, cosmetics), countries of origin and seasonal events. For example, on 18 March 2014, Yihaodian sold 1.03 million one-litre cartons of UHT milk within 24 hours as part of its ‘Imported Milk Guinness Record Challenge’ promotion.

Throughout the year, Austrade cooperates with leading e-commerce marketplaces to stage online promotions featuring Australian brands and products. Past promotions have featured more than 700 Australian SKUs, generated up to 15 million unique page views and grossed sales of several million RMB.

Products and brands participating in a national promotion must be manufactured in Australia and traded on established e-commerce marketplaces such as:

- Yihaodian
- JD.com
- VIP.com
- Tmall / Tmall Global
- SFBest.com
- Yummy77.com.

New products and brands are especially encouraged to participate. A lead-in time of three months is typically required.

In addition to national and regular category sales promotions, major sales events are timed with events in the Chinese calendar (see Table 12). In particular, November and December see a spike in online sales (see Figure 11).

Merchants participating in category, national or seasonal promotions are typically required by marketplaces to provide discounts and free promotional products.

For the latest schedule and list of participating marketplaces, please contact info@austrade.gov.au or 13 28 78.
<table>
<thead>
<tr>
<th>Table 12: National or seasonal promotions</th>
</tr>
</thead>
<tbody>
<tr>
<td>January or February (according to lunar calendar)</td>
</tr>
<tr>
<td>February 14</td>
</tr>
<tr>
<td>May 17</td>
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<tr>
<td>June 1</td>
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<tr>
<td>June</td>
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<tr>
<td>June 18</td>
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<tr>
<td>August 8</td>
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<tr>
<td>September or October</td>
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<tr>
<td>November 11</td>
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<tr>
<td>December 12</td>
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<tr>
<td>December 25</td>
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</tbody>
</table>
SEEKING ASSISTANCE

HOW AUSTRADE CAN HELP

The Australian Trade Commission – Austrade – contributes to Australia’s economic prosperity by helping Australian businesses, education institutions, tourism operators, governments and citizens as they:

• develop international markets
• win productive foreign direct investment

• promote international education
• strengthen Australia’s tourism industry
• seek consular and passport services.

Austrade provides information and advice that can help you reduce the time, cost and risk of exporting. Austrade offers a range of services to Australian exporters in growth and emerging markets.

www.austrade.gov.au

info@austrade.gov.au

13 28 78 (within Australia)

AUSTRADE IN CHINA

Seeking the right advice and assistance is critical to the success of doing business in China. Austrade maintains a network of 10 offices in China. Austrade’s Chinese speaking staff can provide exporters with market guidance and access to information, promotions and referrals such as:

• Business introductions to buying managers, both in offline and online channels
• Feedback on the suitability of Australian products and services for the China market
• Advice on applicable regulations in China
• Participation in online and offline promotions and trade missions.

Austrade’s services for exporters are performed on a fee-for-service basis, starting at A$275. Austrade’s fee and other international marketing costs may qualify for financial assistance under the EMDG and Export Finance and Insurance Corporation. For more information, please contact info@austrade.gov.au or 13 28 78.
WHAT IS EMDG?

The Export Market Development Grants (EMDG) scheme is a key Australian Government financial assistance program for aspiring and current exporters. Administered by Austrade, the scheme supports a wide range of industry sectors and products, including inbound tourism and the export of intellectual property and know-how outside Australia.

The EMDG scheme:

- encourages small and medium-sized Australian businesses to develop export markets
- reimburses up to 50 per cent of eligible export promotion expenses above A$5,000 provided that the total expenses are at least A$15,000
- provides up to eight grants to each eligible applicant.

Further information can be obtained from: www.austrade.gov.au/Export/Export-Grants

EFIC

The Export Finance and Insurance Corporation (Efic) is Australia’s export credit agency. Operating on a commercial basis, it partners with banks to provide financial solutions for Australian exporters including working capital loans, guarantees, bonds, documentary credit guarantees, and medium-term export payment insurance.

Clients for Efic services include:

- Small and medium enterprises (SMEs) that are exporters
- Companies in an export supply chain
- Companies looking to expand their business operations overseas to better service their clients
- Companies operating in emerging and frontier markets.

A detailed outline of Efic services can be found at www.efic.gov.au or by calling 1800 093 724.
THIRD-PARTY SERVICE PROVIDERS

The following information is provided for the benefit of companies seeking assistance in developing an e-commerce strategy in China. The companies listed in this section are registered with Austrade and some have provided input into this Guide.

Austrade does not endorse or guarantee the services of the organisations listed here or take payment for their listing. As the need for professional services varies depending on individual circumstances, please use commercial discretion to assess the suitability of these providers to meet your business needs.

Austrade does not accept liability for any loss associated with the use of this information or the advice received from these organisations, which are taken entirely at the user’s discretion. For information on other service providers, or advise on listing as a service provider with Austrade, please email china-ecommerce@austrade.gov.au or visit www.austrade.gov.au/contactus.
AdMaster is a marketing data technology company that uses big data to help brands measure the effectiveness of digital marketing. AdMaster offers solutions for third-party digital advertising verification, cross-screen reach analysis, social media monitoring, e-commerce measurement and data management – including data obtained from computers, mobile devices and digital TV.

Ajayaguru provides a customised cross-border service to help overseas brands to sell their products on leading Chinese e-commerce marketplaces like Tmall Global, JD Global, Yangmatou, Meilishuo and Mogujie. With bonded warehouse facilities in Tianjin, Zhengzhou, Hangzhou and Ningbo, Ajayaguru’s one-stop sales and logistics solutions provide uncomplicated, low-investment market entry with minimal registration and clearance processes.

Australia Post, in cooperation with Alibaba, provides a low-cost one-stop service for Australian merchants to sell their branded products into China through its flagship store on Tmall Global: auspost.tmall.hk. Services include initial market consultation, store design, product and company translation and localisation services, local customer service and returns support, access to order management and fulfilment platforms, marketing and social media support and system training. At present, Australia Post does not charge subscription fees for merchants to join the program.

Baozun is China’s largest provider of ecommerce solutions for brands. They provide a full range of services including: Ecommerce strategy, marketing services, store management across brand and third party platforms, warehousing, logistics and customer service. Since 2007 Baozun has implemented complete ecommerce solutions across Tmall, JD, Wechat, Amazon and Tmall global for more than 100 clients including Nike, Converse, Burberry and Microsoft.

Baozun is headquartered in Shanghai with offices in HK, Taiwan and Hangzhou. It is invested in by both Alibaba and Softbank and has a staff of more than 2000 people and more than 80,000sqm of warehousing under management.

China Sales Co. provides exporters and businesses with the essential China digital and e-commerce sales and representative services to enable cross-border e-commerce from Australia to China. China Sales Co. is a global licensed partner and provider of China’s top e-commerce and marketing platforms including the Alipay payment system and Alibaba e-store group platforms. For enhancing digital marketing and traffic, China Sales Co. is a licensed partner with China’s biggest media company the Shanghai Media Group (SMG), and is also licensed with China’s top search engines Baidu, QiHoo 360, Sogou and Sohu. China Sales Co. also provides managed on-ground (live) in-market sales support and trade support services.

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China Skinny is a Shanghai-based marketing, research and digital agency purely focused on the China market. Building upon its roots as a market research company, China Skinny incorporates the latest Chinese insights and analysis into its marketing execution and recommendations for a wide range of industries ranging from food and beverage to investments, education, fashion, tourism and technology. China Skinny offers services and expertise in China strategy, consumer trends and insights, market research, brand positioning and communications, web, mobile, social media and e-commerce.

The Clean Food Co. was established to place Australian food and beverage products at the forefront of Chinese consumer preference and demand. With strong strategic partnerships with Chinese-based distributors and marketing agencies, The Clean Food Co. develops individual export and market launch strategies, to ensure long-term success for brands in China.

Developers of the Australian Selection consolidated marketing platform in China, The Clean Food Co. provides a unique and highly cost-effective gateway to the Chinese consumer market. Activated online, via mobile and social media, as well as in-store, Australian Selection is open to all Australian brands, industry associations, government bodies and organisations that share the vision of promoting Australia’s credentials as a clean, green, safe source of food and beverages in China.

Dezan Shira and Associates is a specialist foreign direct investment practice, providing corporate establishment, business advisory, tax advisory and compliance, accounting, payroll, due diligence and financial review services to multinationals investing in emerging Asia. Since its establishment in 1992, the firm has grown into one of Asia’s most versatile full-service consultancies with operational offices across China, Hong Kong, India, Singapore and Vietnam, in addition to alliances in Indonesia, Malaysia, Philippines and Thailand, and liaison offices in Italy, Germany and the United States.

Export Growth China is a program subsidised and run by NSW Business Chamber in partnership with chambers across Australia to assist Australian businesses nationwide to export to China. The program has been created to reduce the cost, complexity and risk for exporters to enter or expand in China. The Export Growth China program provides comprehensive Export Readiness and Feedback reports, promotes exporters, products, services and brands in China and matches Australian exporters with genuine Chinese importers, distributors and agents.
Market Engine is an Australian based global ecommerce company. We specialise in launching Australian brands on Chinese ecommerce platforms such as Alibaba Tmall Global and JD worldwide. Market Engine bridges the language, cultural and technological challenges that are typically experienced by Australian brands doing business in China. Our innovative technology provides Australian merchants with the ability to manage their Chinese product listings in English, Australian dollars and in real-time. Our end-to-end solution also includes merchant support, customer service, site administration, platform integration, localisation, marketing, financial, logistic and legal solutions.

Peloris Global Sourcing (PGS) is an Australian-owned logistics management company connecting premium producers to rapidly expanding Asian markets. PGS's China-focused cold-chain management, ‘track and traceability’, authentication and anti-counterfeiting solutions are backed by a network of Asia-based professionals proficient in regulatory compliance, customs clearance protocols and market access. They are supported in Australia by a team of process engineering, procurement, sales and marketing, and supply chain logistics specialists.

Premium Australia Foods (PAF) was created specifically for Australian food producers. PAF brings together experienced e-commerce personnel and Australian food and beverage experts to offer a one-stop shop for the China e-commerce market, including depot collection, aggregated shipping, customs clearance, warehousing and marketing through PAF’s own Tmall shopfront and additional online channels. This allows food manufacturers to play to their strengths while reducing the risk and capital outlay required to enter the Chinese market. PAF offers Australia’s premium food manufacturers proven access to its Chinese online sales platforms in conjunction with strategic marketing services.

Psyma Business Research China is part of a global consumer research network spanning 18 offices in 10 countries. Psyma analyses the trends, key factors, channels and audiences that can affect business success for fast-moving consumer goods in China. Psyma’s research combines qualitative methods, such as product focus groups, with quantitative analysis and expert insights, and in-house online communities. These address key research areas such as product and concept evaluation.
Headed by a team of international marketing and e-commerce experts, Quality Brands International Direct (QBID Pty Ltd) provides a full range service to take a company’s brand to, or extend its reach, in China. QBID is the approved partner of JD.com Worldwide for Australia and New Zealand and provides support for marketing, pricing, customer service, product security, regulatory, online and offline promotion, as well as logistics requirements. QBID can help a business get started in the QBID store on JD.com or establish its own store. QBID’s focus is China, but its networks and expertise extend well beyond.

The Silk Initiative champions forward-thinking food and beverage manufacturers with a desire to bring Chinese consumers the best brand and product experiences on offer. The company specialises in food and beverage (packaged goods and retail) route-to-market planning, leveraging consumer and business insights to develop better brand, product, packaging and retail strategies for the China market.

Think China is a Sydney-based, data-driven digital marketing consulting firm founded in 2013 to help Australian businesses understand relationships between their brands and China’s online consumers. Using actual e-commerce sales data and a native understanding of digital marketing and social media in the Greater China region, Think China works with clients to develop informed, localised online marketing strategies reflective of regional differences. Think China also offers exporters solutions in web development and digital marketing.

The VECCI Export Services China e-commerce platform helps Australian food and beverage exporters overcome the hurdles of doing business in China by eliminating a number of ‘middlemen’ in the import and distribution process. It sells products directly through www.yiguo.com, a vertical B2C food products website established in 2005 with more than one million registered consumer accounts and over 10,000 corporate accounts. Importation, warehousing, sales and marketing and local logistics are taken care of by VECCI Export Services and its alliance partners in China.

Workshop focuses on long-term development of brands in China by being a one-stop shop for brand management, sales and marketing. With partners in Sydney, London and San Francisco, Workshop helps brands market and distribute by combining the power of traditional distribution with public relations and e-commerce channels, allowing brands to align marketing spend while communicating with and collecting insights directly from consumers.
USEFUL TERMS: FROM ALIBABA TO ZHUIZONG

Alibaba – China’s largest e-commerce company.  
Alipay 支付宝 – Alibaba’s proprietary online payment system.

Aliwangwang 阿里旺旺 – Alibaba’s proprietary instant messenger, used widely on all Alibaba e-commerce platforms for real-time communication between customers and customer service reps.

AQSIQ – General Administration of Quality Supervision, Inspection and Quarantine.

Baidu 百度 – China’s most-used search engine.

Baoyou 包邮 – Shipping included in the price.

Blue Hat – mandatory certification and label applied to health food products.

CIQ – Bureau of Entry and Exit Quarantine and Inspection.

CNCA – Certification and Accreditation Administration of the People’s Republic of China

Daigou 代购 – agent buying, whereby a third party (often a friend or relative) purchases and dispatches overseas merchandise

Dazhe 打折 – discount, discounted.

Dianpu 店铺 – (e-commerce) shopfront.

Dianping 点评 – a popular site listing information, reviews and nearby restaurants and service providers.

Haitao 海淘 – overseas purchases (online in-store).

Jiesuan 结算 – checkout.

Jingdong 京东 – JD.com.

Juhuasuan 聚划算 – an offshoot of Alibaba, offering goods at a limited-time discount.

Kuaidi 快递 – express delivery.

Kuajie 跨界 – cross-industry cooperation to promote products or business.

Kuajing 跨境 – cross-border sales (of goods shipped from overseas).

Lenglian 冷链 – cold chain.

Paimai 拍卖 – auction.

Peisong 配送 – distribution.

Pingtai 平台 – (e-commerce) platform or marketplace

Qin 亲 – term used by Xiao’er to address customers

QQ – popular multi-platform instant messaging application developed by software company Tencent

Ruanwen 软文 – to invite celebrities or key opinion leaders to promote products on social media.

SF Express 顺丰快递 – the largest domestic logistics company in China and owned by SF Holdings Group.

Shangou/ Miaosha 闪购/秒杀 – a time or volume-limited flash sale. May be loss-leading or stock clearing.

Tencent – Popular provider of website portals, software and mobile applications such as WeChat and QQ.

Tenpay 财付通 – proprietary online payment system developed by software company Tencent.

Tuan Gou 团购 – group buying.

Tuihuanhuo 退换货 – product replacement or return

Weibo 微博 – microblogging site equivalent to Twitter.

Weidian/Weishang 微店/微商 – a social sales store operated on the WeChat social media application, either by an individual or company.

Weixin 微信 (WeChat) – instant messaging and social media application developed by software company Tencent.

Xiao’er 小二 – customer service representatives, especially those on Taobao and Tmall.

Yu E Bao 余额宝 – online savings account managed by Ali Group and connected to Alipay accounts, used for funding purchases or earning interest.

Yu Le Bao 娱乐宝 – online retail investment service managed by Ali Group for selling shares in future film productions.

Yushou 预售 – presales.

Zhanggui 掌柜 – shop owner.

Zhongchou 众筹 – crowdfunding.

Zhuizong 追踪 – parcel tracking.