Branding and marketing in China, Part 2

Helsinki March, 2019





1. Overview

2. Chinese consumer behavior

3. Food and Beverage sales channels overview

4. Selling through E-commerce

5. Branding and marketing in China



4. Selling through E-commerce

Online environment at glance

Main options for Ecommerce

(Traditional) Ecommerce

Cross Border Ecommerce

Examples and case studies



4. Selling through E-commerce

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China's image runs about 3-5 years behind its reality...

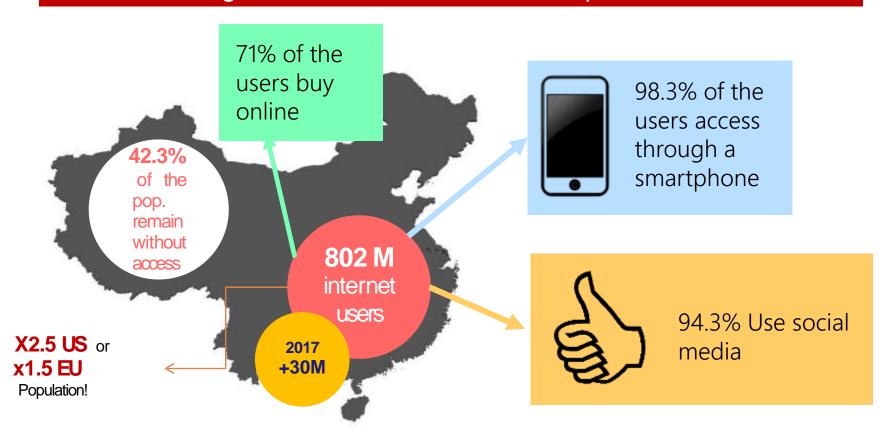
which is a lifetime.





▶ Introduction. An advanced e-society

Before starting, let's remember the size of the importance of Internet in

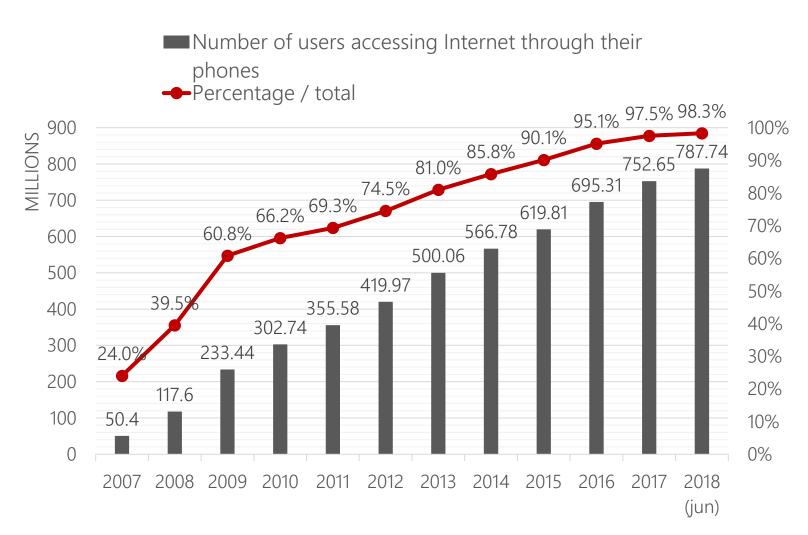


Data on July 2018.

Source: 41st China Internet Development Statistics Report. China Internet Network Information Center's (CNNIC)



► Introduction > Everything is mobile



Source: 41st China Internet Development Statistics Report. China Internet Network Information Center's (CNNIC)



▶ Introduction.





▶ Introduction. In China VS Outside China

The Great Firewall makes it harder to access to western sites...





▶ Introduction. Market concentration

Market value of top 10 listed Internet companies



Note: December 31st, 2015. Source: iResearch Global Group





▶ Introduction. Market Concentration

	Social Network	E-commerce	Finance	VoD/Live Streaming	Travel	Local Service 02o	Food Delivery	Sharing Economy	Music
Tecent	Wechat QQ QQ	J.D. 京东 meilishuo.com 美丽说 xiaohongshu.com	Weixinzhifu 微信支付 Lufax 陆盘所 LufaX QSchou 琴 彩 形 筹	v.qq.com partition douyutv.com pourutv.com	LY.com	58.com 58 edaixi edaixi	ele.me CITIZ dianping.com 大众支持 dianping.com Meituan.com	Ofe Didichuxing 海滴出行	QQ Music
Alibaba	Weibo momo	Taobao.com Taobao.com Tmall.com Tmall.com 1688.com Aliexpress	Ant Financial Sunt Financial Ant Financial alipay	Youkutudou YOUKU 优徽 wangwang 阿里旺旺	Alitravel.com	Gaodemap 高德地圖 omop.com	Waimai.koubei.com □碑外卖 waimai.koubei.com	Didichuxing Didichuxing Didichuxing	Xiami.com OF 米 Signature OF N O



► Introduction. Main drivers

Why do e-Shoppers buys online? Convenience and product accessibility Possibility to Detailed buy anytime product Information **Lower Price** Easiness to find than retail stores a specific brand More choices Easier to compare product prices availability Cheap Delivery

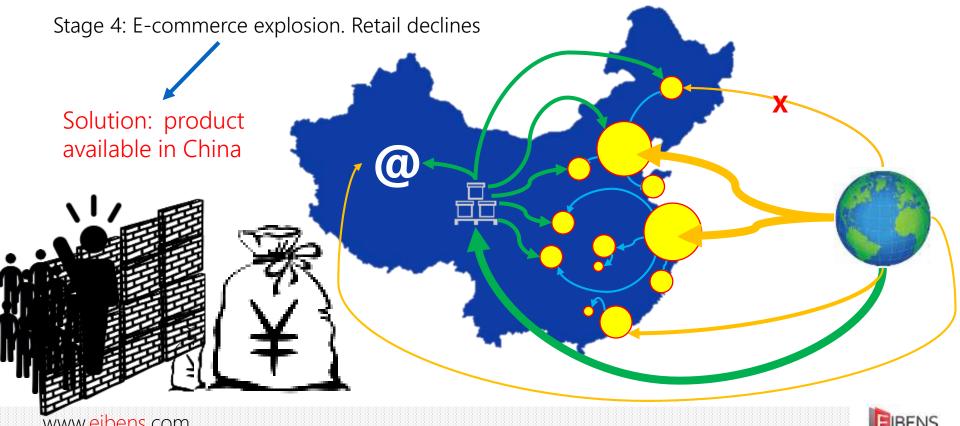
▶ Market overview > Evolution of China's imports

Development of China's opportunities on the F&B industry

Stage 1: European producers go to a few importers in larger cities that serve a small market

Stage 2: T1 cities sell to distributors in smaller cities. More competitors attack the market

Stage 3: Market grows, T2 cities start to sell important quantities. T1 cities are saturated



► Are you really ready for China?

Before you can design any strategy, you must evaluate your position

General Trade Experience

Digital Experience

Operations

Level of experience abroad

E-commerce expertise

Logistics

Level of experience in China

Digital marketing knowledge

Others (after sale, translations...)

INVESTMENT IN THE PROJECT





Realistic entry options for SMEs on Chinese E-commerce

Misconceptions:

- A vast majority of **SMEs fail** when approaching China for the first time because they simply do not know how the market works and they do not offer anything different compared to what other thousands competitors do. This is even more so in the case of e-commerce.
- If the Company wants to keep a certain control of the online operations of its products in China, they will need to invest a lot of money. More control, more investment needed
- The online strategy must be totally integrated into the "China strategy", because regardless whether the company wants it or not, e-commerce is an omnipresent channel.
- The same Wall that somehow is built for traditional trade, is replicated also online.



4. Selling through E-commerce

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OUTSIDE CHINA



Selling directly to the platforms as clients (Normally FOB)

CBEC platforms

WeChat shops

Direct deliveries

FROM CHINA



Selling directly to the platforms as clients (Normally DDP)

Your own shop in their platforms (like a shop in a shopping mall)

DIRECT SALES TO PLATFORMS



SHOP N SHOP





OUTSIDE CHINA



FROM CHINA



"Sounds great"

Concerns:

- Only selected products
- Rough conditions
- Products to last or to fuel the machine?
- Opens short-term opportunities

"Sounds good"

- Conditions improved since work is partly done
- Still on selected products
- Careful with pricing issues
- What type of product is yours?

CBEC

CBEC main platforms

WeChat shops

How about direct deliveries?

E.g. Tmall

Operates as an "online" shop

"You" must take care of everything (outsourcing is posible)

It has great requirements and costs and you still must attract traffic

DIRECT SALES TO PLATFORMS



SHOP N SHOP





OUTSIDE CHINA



FROM CHINA



Growing number of platforms use this model, namelly Jd, Missfresh





Mostly Tmall, Jd or WeChat shops







Between these extremes (shop n shop vs direct purchases) there are some intermediary positions where the platform provide/facilitates different services to make it easier to run a shop, such as Forex, delivery and customer care

A large number of platforms use this model for some products, such as Chunbo, Jd, Missfresh, Benlai, Fields







Many platforms use this model, but especially Tmall

天猫 TMALL.COM

DIRECT SALES TO PLATFORMS



SHOP N SHOP

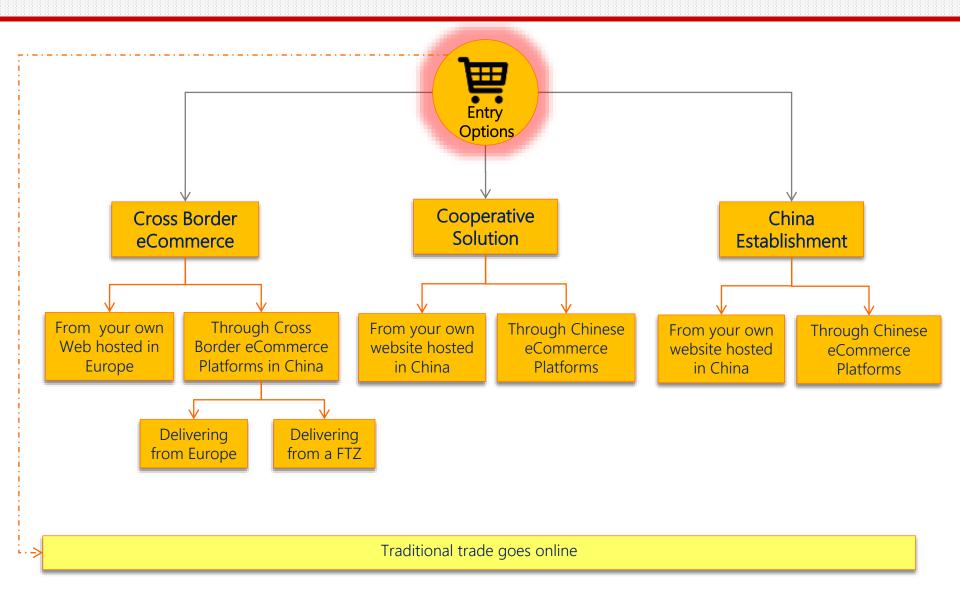




- ✓ E-commerce platforms rarely ask for exclusivity... because they normally sell cheaper
- ✓ E-commerce expansión has made very difficult the regional segmentation, since the prices are transparent nationwide and the Internet has memory
- ✓ E-commerce relies heavily in Price discount and promotion
- ✓ For E-commerce there are two kinds of products:
 - Meant to last (long-term development expected)
 - Meant to fuel the machine shot-term (to supply constant new and cheaper products)
- ✓ Make sure which profile you are filling and if that suits you
- ✓ Then, according to performance, they trade up or down









4. Selling through E-commerce

Online environment at glance

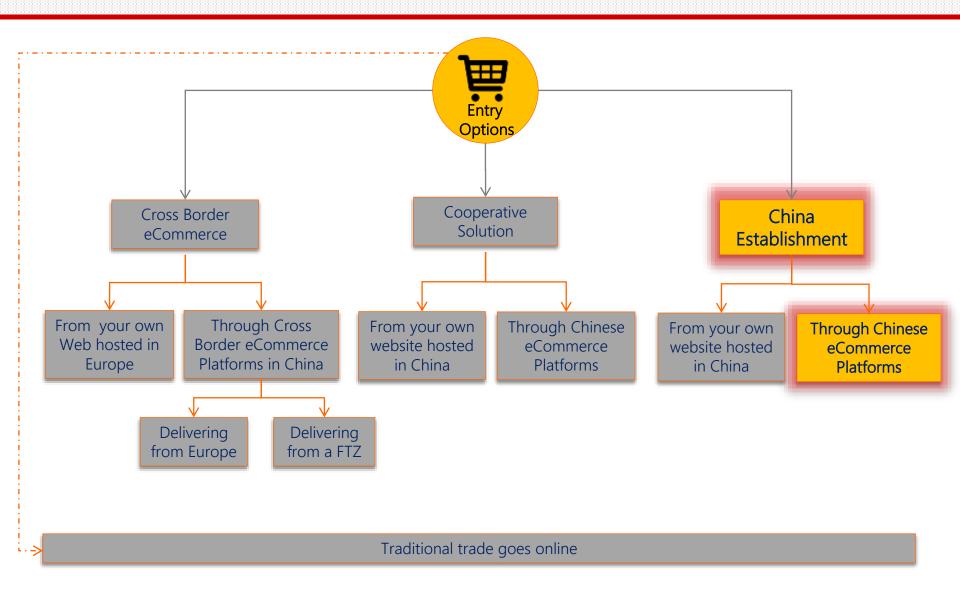
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Establishing in China requires a big investment and big effort...



But guarantees the best results...



Costs will increase creating a structure in the country





Investment in Marketing is required



Example: China Establishment





Example: China Establishment

Nutrilon





How to find a product in Tmall:

1. Here we choose Tmall



■ 2. Enter the item you want to see (e.g. Finnish alcohol 芬兰酒) and click search to get resuts





How to find a product in Tmall:

3. You can order products according to their <u>popularity</u>, <u>sales</u>, <u>price</u>, <u>etc</u>.





How to find a product in Tmall:

4. Select the product to get more information

General info



Cocktail suggestions 黑莓之惑 50毫升原球状特别 6至7枚新鲜素標料 昆士梨 50毫升原球伏特加

How to find a product in Tmall:

4. Select the product to get more information

Different flavours

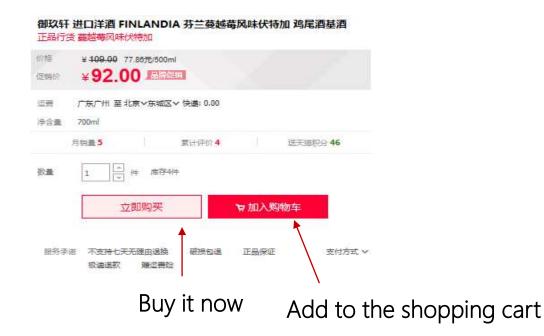


https://detail.tmall.com/item.htm?spm=a220m.1000858.1000725.11.a08f23b44BONL8&id=571 683065641&areald=110100&user_id=1740313238&cat_id=2&is_b=1&rn=00a425f965791a1d71 766dc4a3de58dd



How to find a product in Tmall:

✓ 5. You can select "add to the shopping cart" or "buy it now".





How to find a product in Tmall:

√ 6. Confirm the purchase



✓ 7. Finally, you can pay with Alipay or bank card.





In order to determinate your product price, you need to consider several factors



Setting up a platform



Shipping and logistics



Warehousing







Opening an online platform involves three kinds of costs...



Activation Costs

Market Place

eTailers

Website

Social Network

Digital Assets

2

Operational Costs

Warehousing

Shipping

Pick Pack

Customer Service

Returns

Currency change

3

Traffic Acquisition Costs

Content Creation

CPC

CPM

CRM

Etc...



▶ Platforms > Opening an Online Shop

Two big players offer/require to use companies that are either from their group or their 'partners', simplifying but making the selling process more expensive



Sign contracts with TP, Cainiao, and other partners

Congratulations!

Once Tmall Global gives the green light, proceed to sign contracts with your chosen TP, Cainiao and other partners if applicable. Next, prepare online application documents



CAINIAO菜鸟网络





TP: Tmall Partner "A TP (Tmall Partner) is a party that provides Tmall Global merchants with high quality, transparent and one-stop cross-border e-commerce operation services. "



The costs will vary depending on the type of shop, product and platform...

		天猫 TMALL.COM	TMALL GLOBAL™	JD.京东	15\$ yhd.com			
Refundable One time Fixed cost	Security Deposit	Specialty Store*: TM = 150,000 RMB ® = 100,000 RMB	150,000 – 300,000 RMB	50,000 RMB	50,000 RMB			
Annual Fixed Cost	Annual Platform Fee	30,000 RMB	30,000 - 60,000 RMB	6,000 RMB	9,600 RMB			
	Commission Fee	2%	2-5%	3%	4%			
Cost	Operation Agent Commission	10%						
Variable Cost	Platform Payment Cost***	2-3%						
>	Platform Mandatory Promotion fee	0.5%						



▶ Entry options - Taobao

What characteristics has Taobao?

On Taobao, you can buy food, clothes, electronics, jewelry, cosmetics, furniture, etc.



主题市场

女装 / 男装 / 内衣 鞋靴/箱包/配件 童装玩具/孕产/用品> 家电/数码/手机 美妆 / 洗护 / 保健品 珠宝/眼镜/手表 运动 / 户外 / 乐器 游戏/动漫/影视 美食/生鲜/零食 鲜花/宠物/农资 工具/装修/建材 家具/家饰/家纺 汽车/二手车/用品 办公 / DIY / 五金电子 > 百货/餐厨/家庭保健 学习 / 卡券 / 本地服务:

They often have various discounts







But there are also many fake products



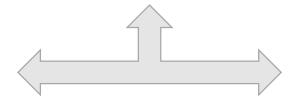


► Entry options - Taobao

What relationship do Taobao and Tmall have?













- Buying products on Taobao is from personal seller to individual buyers.
- There is basically no cost to open a store in Taobao. Requirements: access the Internet and to be 18 years old

- Shopping on Tmall is from a business seller to individual buyers.
- A company needs more than 100,000 RMB to open the store (a large part is a deposit)
- Goods purchased by individual buyers must have an invoice
- Sellers must provide support 7 days period return.



► Entry options - Taobao

Attracting traffic



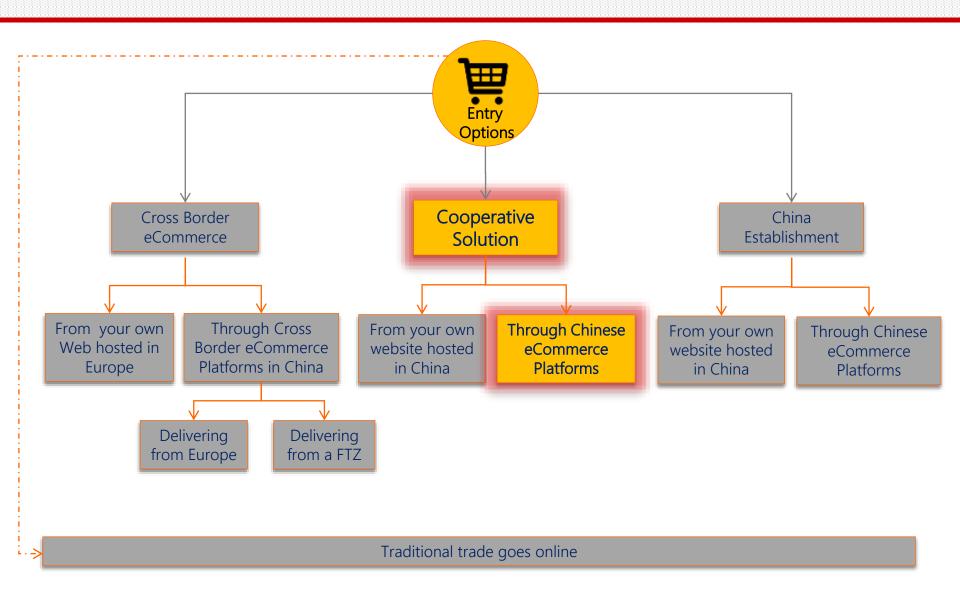
北京

- Shops on Taobao not only have one item for sale, they usually sell the same variety of products.
- Like this store, they not only sell Finnish alcohol, but also other types of alcohol.
- The more products, the higher sales volume are; the more shop views, the higher ranking of the stores is.
- "Clean out treasure to train" is the best traffic attraction tool
- It charges by keyword and number of clicks.
- The minimum fee for each keyword is 0.05 yuan. The maximum fee, is 99 yuan and the minimum price for each price added is 0.01 yuan.





三 计京东阳器状





It is possible to host a website in China, but will it work for eCommerce?



Your own website will not attract traffic!

Solution: join efforts with other companies to open a shop at a Chinese eCommerce Website







Investment from each company is lower



Example: Cooperative

Canadian Seafood Pavilion in JD.COM: http://canadian.jd.com/





Example: Cooperative

Canadian Seafood Pavilion in JD.COM: http://canadian.jd.com/

- Launched in 2015, after an official delegation visit composed by companies and industry associations
- The Minister of Agriculture and Agri-Food Canada (AAFC) signed a cooperative framework agreement with JD.com
- Under this agreement, the parties will seek to increase the number of Canadian agri-food and fish and seafood products available on JD.com's online stores







Example: Cooperative

Canadian Seafood Pavilion in JD.COM: http://canadian.jd.com/





Example: Cooperative

https://netherlands.tmall.com/































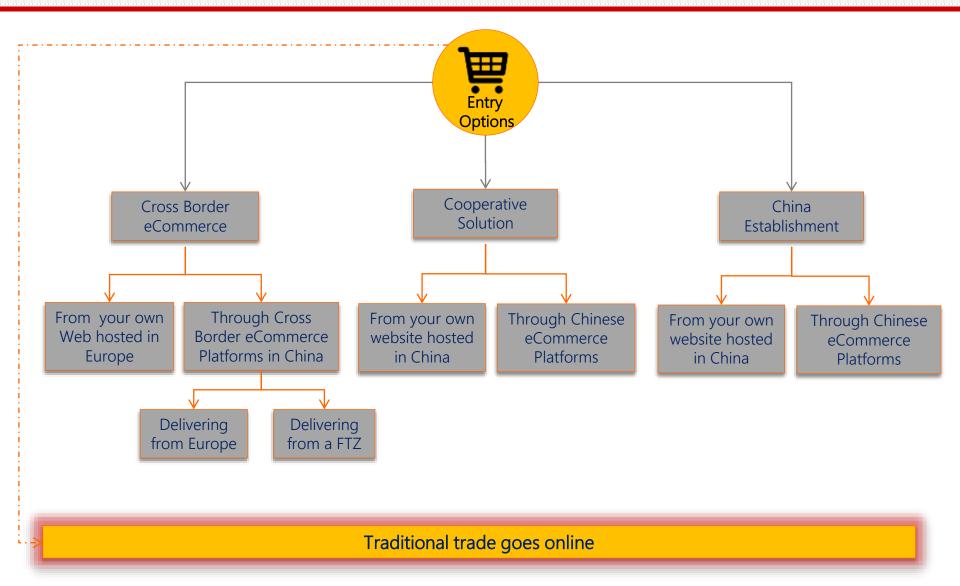


Example: Cooperative

https://gedijinkou.jd.com/









Entry options > Traditional trade goes online

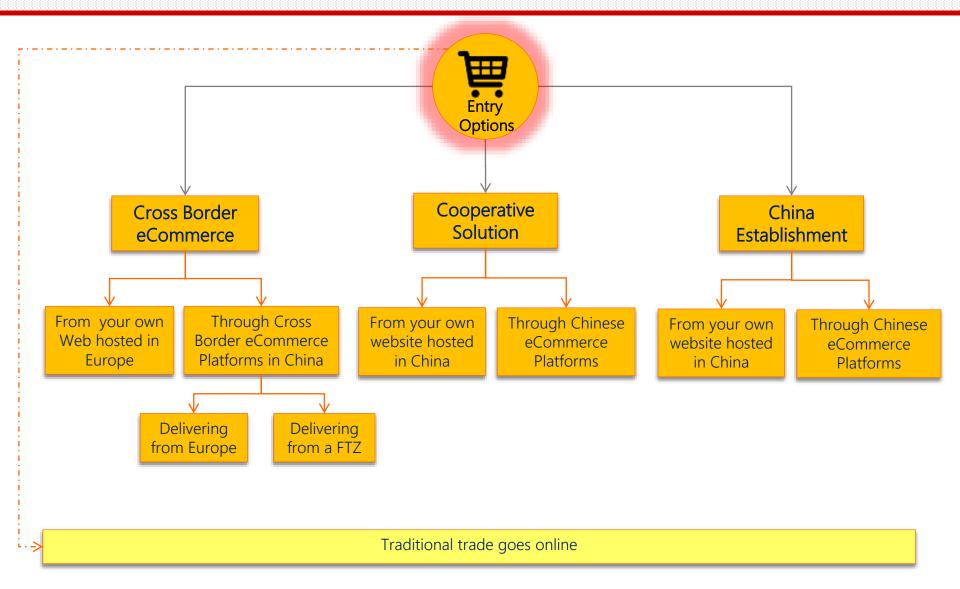
Most of the products found and bought online in China do not reach the consumer by neither of the entry options described before...

China online landscape is somehow very similar to the traditional distribution:

- High investment and expertise needed to sell on your own
- Regulatory environment difficult to navigate for foreign companies

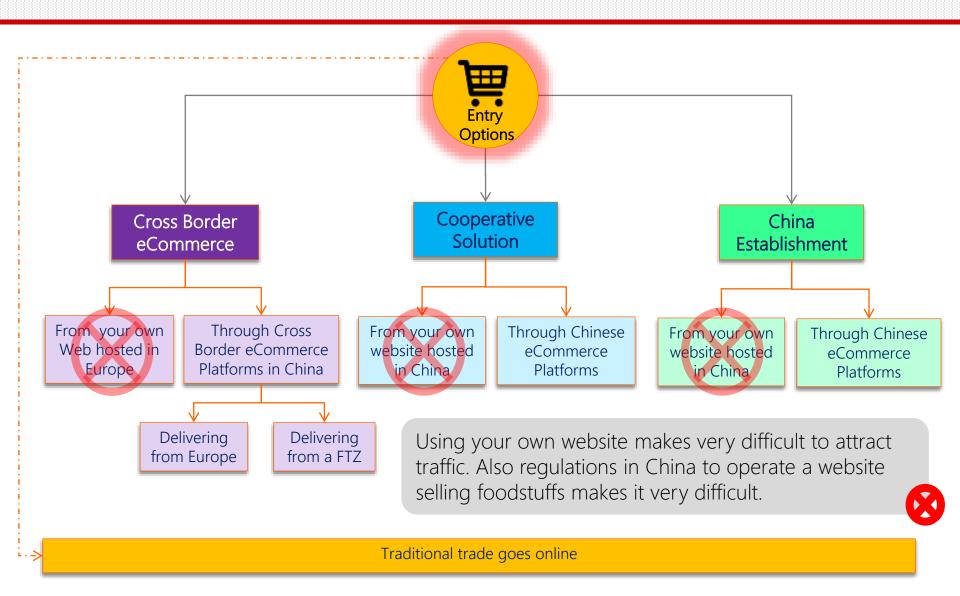


Decision making process to choose entry mode





Decision making process to choose entry mode





▶ Contents of today's training

4. Selling through E-commerce

Online environment at glance

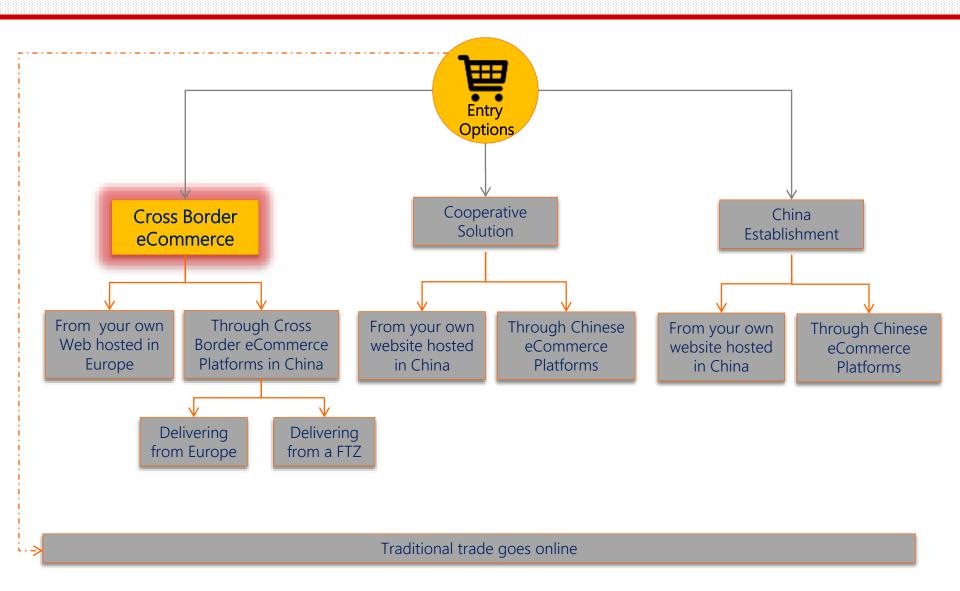
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▶ Entry options > Cross-Border E-Commerce

What makes Cross-Border eCommerce an option?

We already know China offers irresistible commercial appeal...



And Cross-Border seems to offer great advantages:

- ✓ Lower taxes
- ✓ Easier to operate
- Lower entry requirements

TS THAT SO?





When is Cross-Border E-commerce interesting?

When products are:



In the positive list



Expensive relative to their size



Highly taxed



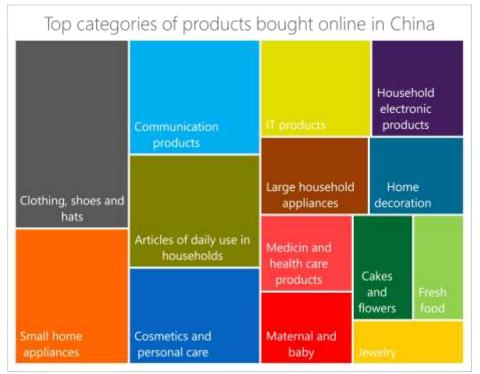
Highly regulated

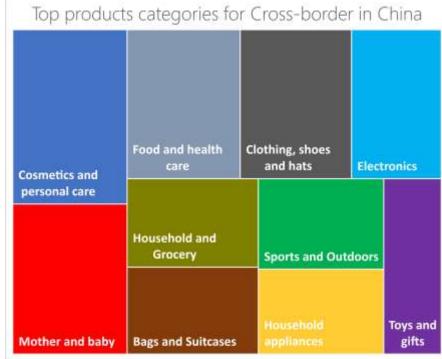
And for learning?



Easy to transport







			22.700/
Clothing, shoes and hats	60.30%	Large household appliances	23.70%
Small home appliances	43.30%	Home decoration	20.80%
Communication products Articles of daily use in	42.20%	Medicine and health care products	19.80%
households	41.50%	Maternal and baby	18.70%
Cosmetics and personal care	35.40%	Cakes and flowers	17.80%
IT products	30.10%	Fresh food	15.00%
Household electronic products	25.20%	Jewelry	13.70%

Cosmetics and personal care	45.70%	Household and Grocery	26.60%
Mother and baby	39.30%	Bags and Suitcases	26.10%
Food and health care	38.60%	Sports and Outdoors	26.00%
Clothing, shoes and hats	38.00%	Household appliances	24.40%
Electronics	30.60%	Toys and gifts	23.10%

Source: iResearch





▶ Entry options > Cross-Border E-Commerce

Different types of Cross-Border eCommerce in China

	Traditional trade	CBEC through Chinese platforms or Bonded Warehouse	Direct purchases from overseas
Customs Inspections?	Yes	Yes Grace period	No
CBEC Positive list applies?	No	Yes	No
Taxation	TariffVATConsumption tax	If: - Annual purchases < 20,000¥ and - Transaction < 2,000¥, 70% VAT + Consumption tax Otherwise: Same as traditional trade	 Revised Postal Tax (15%-30%- 60%). Exempted below 50¥



▶ Entry options > Cross-Border E-Commerce

CBEC positive list

On November 20th 2018, the Ministry of Finance announced a <u>new Cross-</u> Border E-commerce (CBEC) positive list.

The new list includes 1321 items (HS codes), 63 more than the two previous lists.

Cheese **奶酪乳酪** 040610, 040630, 040690

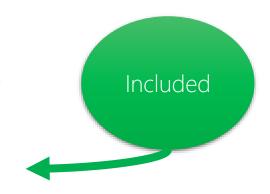
Milk and cream 奶 040110, 040120, 040140, 040150, 040210, 040221, 040229, 040291, 040299

Yogurt, 酸奶, 酸乳 040310

Butter 黄油, 乳酱 040510, 040520

Pork 猪肉 16024910, 16024990, 02101900

Bakery 面包 190510, 190531, 190532, 190540, 190590 chips **薯片** 200520



In red bonded warehouse



► Entry options > Cross-Border E-Commerce

Taxes

Starting 8th April, 2016:

70% (VAT + Consumption tax) when:

- Transaction ≤ RMB 2,000, and
- Annual transaction record of the consumer ≤ RMB 20,000

	Since 8th April, 2016	Previous Personal Tax
General F&B products	11.9%	10%
(transaction value over RMB 500)	11.970	10 %
General F&B products	11.9%	0%
(transaction value below RMB 500)	11.970	U 70
Wine and other liquors	18.9%	50%
(transaction value over RMB 100)	10.970	30%
Wine and other liquors	18.9%	0%
(transaction value below RMB 100)	10.370	U 7/0



▶ Entry options > Cross-Border E-Commerce

New tax policy

On November 20th 2018, the Ministry of Finance announced a new tax policy for CBEC purchases.

- The single transaction limit for CBEC retail imports will be raised from RMB 2,000 to RMB 5,000, and the annual transaction limit will be raised from RMB 20,000 to RMB 26,000.
- Additionally, if one transaction is valued more than RMB 5,000 but just one product is purchased, and the buyer has not exceeded the RMB 26,000 annual limit, CBEC conditions will still apply. But once the annual limit is exceeded, traditional trade conditions will apply.
- Goods purchased through CBEC are for personal use only and cannot be resold. Outside the special bonded houses, all CBEC transaction procedures must be done online, so "online purchase + offline pick-up" is not allowed.



Entry options > Cross-Border E-Commerce

Taxes

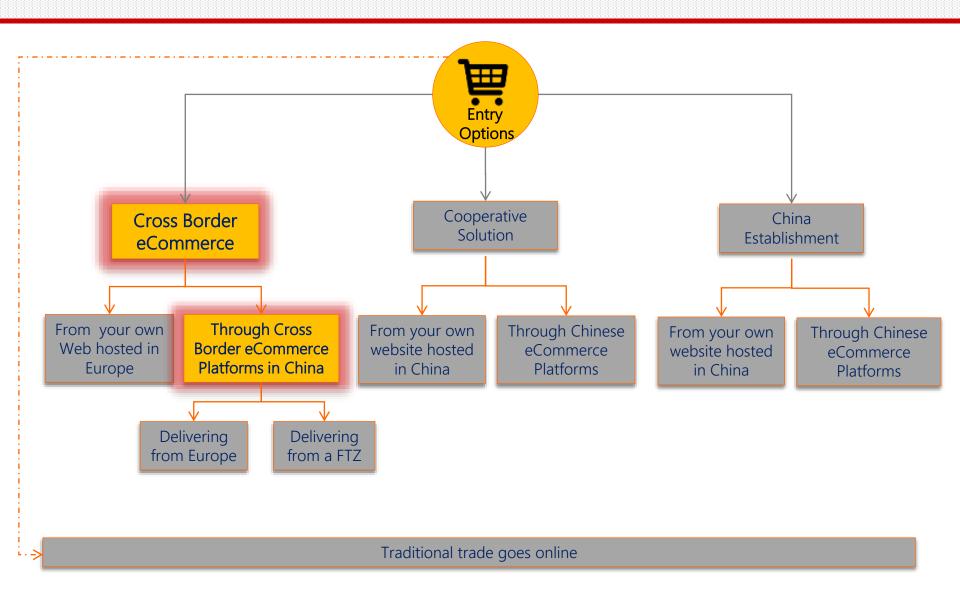
Starting 1st January, 2019:

70% (VAT + Consumption tax) when:

- Transaction ≤ RMB 5,000 (or higher, if purchasing only one item), and
- Annual transaction record of the consumer ≤ RMB 26,000
- Online ordering and offline pick up is not allowed.









Cross-border eCommerce platforms bring Chinese consumers the possibility to acquire products that are normally hard to reach...

Main platforms:



Tmall Global



JD Worldwide

Expensive to set up a shop and operate it



Kaola



Amazon



Both Tmall and JD Cross-Border platforms allow to have storage located abroad...

Tmall Global



- Started in July 2013
- More than 140 merchants listed up to now
- Only to foreign entities
- Shipping directly from overseas or from bonded warehouse
- Cannot list the same products as Tmall Local, if operated by the same brand flagship

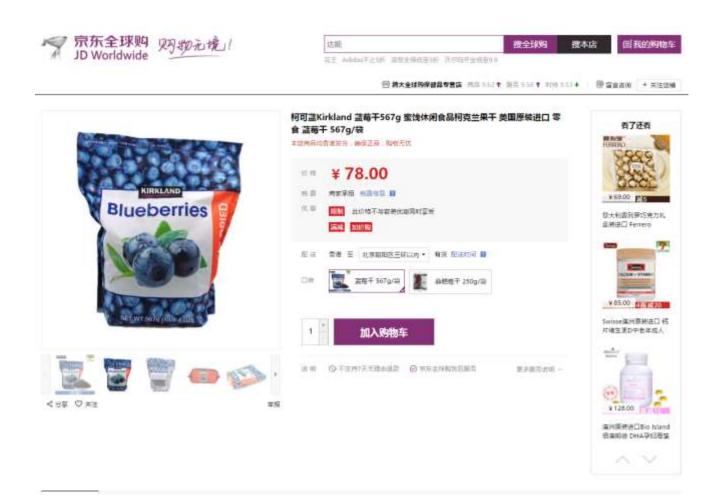
JD Worldwide



- Started in April 2015
- More than 1200 Brands listed up to now (merchants + proprietary)
- Strong connection with social marketing
- Only to foreign entities
- Shipping directly from overseas or from bonded warehouse



Example: dried blueberries from USA (sold from HK)





Example: organic quinoa from Australia



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常分享 ♥ 关注



▶ Entry options - Finnish Products on CBEC

Chocolate in Tmall



Karl Fazer芬兰原装进口红莓牛奶巧克力200g*2袋 排块夹心巧克力红莓牛奶巧克力



Bottled Water in JD





Costs of setting up and managing a CBEC store

	Tmall Global	JD Worldwide
Deposit	USD 25,000	USD 15,000
Annual fee	USD 5,000-10,000 ^[3]	USD 1,000
Sales commission (food products)	2-3% <mark>[4]</mark>	2% <mark>[5]</mark>
Payment commission	1%	1%
Partners	Depending on services	Depending on services
Marketing	15-20%	15-20%



¹¹ https://www.tmall.hk/wh/tmall/import/act/howtojoin

¹²¹ http://www.jd.hk/service/joinus.html

Depends on the category: for food including infant formula and nutritional supplements is USD 5,000. For maternity nutrition is USD 10,000.

⁴ Depends on the category: for all food products is 2%, except for nutritional supplements that is 3%.

https://www.jd.hk/rulePage/UdWcT8X8UeV1TdTd.html

Kesko – K Group shop in Tmall

- https://kesko.tmall.com/index.htm?spm=a1z10.1-b-s.w16296112-17237800064.10.a8f4556dlrX50p&scene=taobao_shop
- Opened on 29 Sept 2017
- Selling Finnish products
- ✓ Goods in the initial phase: cereals, muesli, berry products, coffee and biscuits
- ✓ The range will expand to include chocolate, and beverages





sales

Entry options

Kesko – K Group shop in **Tmall**

Most purchased products are oats, chocolate, cereal bars and biscuits





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