Kingdom of the Netherlands

CROSS-BORDER E-COMMERCE GUIDEBOOK

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CONSULATE-GENERAL OF THE KINGDOM OF THE NETHERLANDS IN SHANGHAI

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PREFACE

The world nowadays is becoming more digital than ever before. Nearly everything imaginable can be arranged on your mobile phone: from booking train tickets, paying for utilities and shopping for clothes or groceries, it can all be settled within the blink of an eye from a mobile device. These online developments are particularly prevalent in China, where the leading e-commerce platforms like Tmall and JD are representing an increasing number of international brands that sell global record-breaking amounts of products to the large and diverse Chinese consumer base.

The interest and expansion of many businesses to the China's (cross-border) e-commerce market, together with the implementation of favourable policies to further stimulate market development in 2016, led to the publication of the first edition of the cross-border e-commerce guidebook in early 2017. Although only 2,5 years ago, the Chinese (cross-border) e-commerce market has strongly developed and changed since. For example, the role of social media, not only in people's daily life but also for businesses, continues to grow as a marketing tool to reach and sell to consumers, and which consumers in turn employ to review the products they have bought online. Moreover, the market has become more data-driven. By using the latest technologies, consumers' preferences can more easily be discovered, and marketing campaigns can be targeted at the right group of consumers.

Another development, that was the most important reason for updating this guidebook, is the implementation of China's first E-Commerce Law which is aimed to further regulate and stimulate the market.

As China has turned into an economy largely driven by consumption, the Chinese e-commerce market keeps attracting the interest of many (Dutch) businesses. However, this market and its opportunities can be quite complex to grasp. For example, which rules and regulations apply, which logistic solution is best for your type of products, which consumers to target etc.

Therefore, this guide aims to provide an introduction for those that have an interest in selling their products in China without, immediately, establishing a Chinese business entity. This leads to a focus on the Chinese **Cross-Border E-Commerce** (CBEC) market, which is exclusively established for foreign entities that sell their products directly to Chinese consumers.

The structure of the book is as follows. In the first chapter, an overview is given of the current Chinese cross-border e-commerce market, which products categories are most popular, what the average consumer looks like, the market growth and size, and a background on the history of CBEC in China. Then, intellectual property rights are discussed.

The following chapter shows 'how to sell CBEC online in China' by introducing entry strategies, online sales channels, logistic and payment solutions, and finally third-party service providers.

The third chapter is dedicated to marketing in China by elaborating on the prevailing marketing tools and the role of social commerce, platforms that combine social media with e-commerce, in China.

In chapter four the updated rules & regulations applicable to foreign entities engaging in cross-border e-commerce activities are explained, among which the previously mentioned E-Commerce Law. The next chapter, 'Beyond China', sketches other e-commerce markets in a few South-East Asian countries.

In the final chapter you can find the list of companies that have shared their expertise and contributed content to this updated guidebook.

1. OVERVIEW

1.1 INTRODUCTION TO CROSS-BORDER E-COMMERCE AND CHINESE CONSUMERS

In emerging markets, especially with a huge domestic market such as China, consumers may face difficulties when searching for affordable imported goods in their local retail stores. A growing middle class with increased exposure to the internet and foreign products, which are often considered of higher quality and status, makes Chinese demand for overseas goods increase steadily every year.

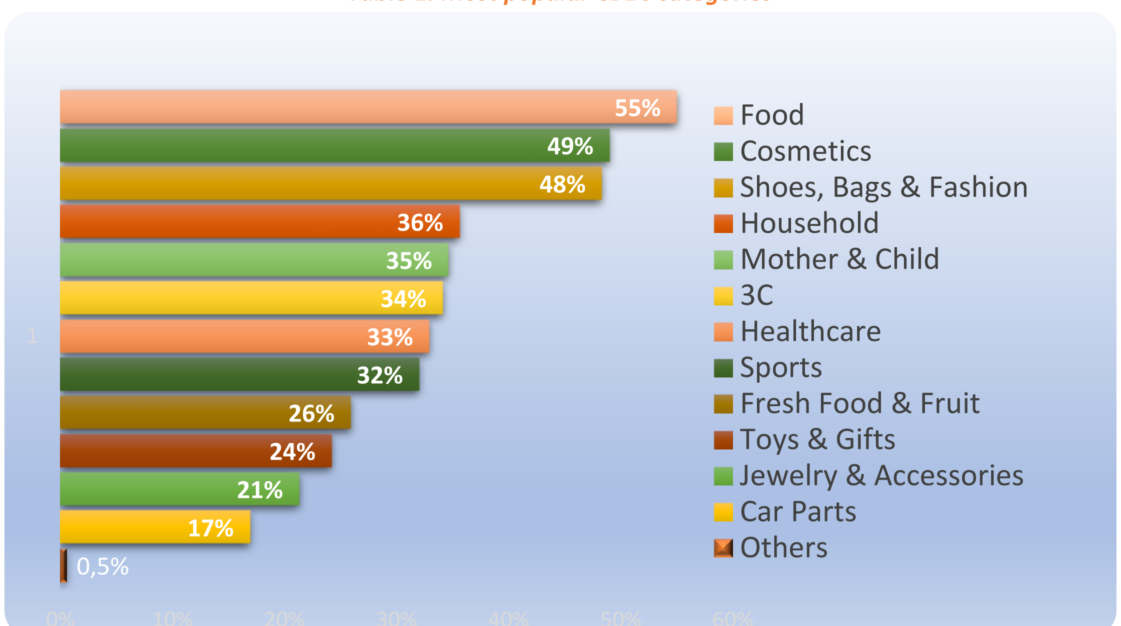
Accordingly, to purchase these foreign products, Chinese consumers use overseas websites or separate domestic e-marketplaces. These marketplaces are specialised in international e-commerce and host international suppliers to buy imported goods.

This process of buying overseas products directly from foreign retailers and suppliers via the internet, without the specific need for an intermediary business entity in China, is called: cross-border e- commerce[1] (CBEC) retail import.

Chinese consumers often feel that products purchased via cross-border e-commerce platforms guarantee a higher level of quality and offer protection against counterfeit goods (examples include infant milk formula, cosmetic products, handbags etc). In recent years, there have been countless examples and nationwide scandals in which counterfeits passed for real products, especially in non-first tier and non-coastal cities.

Chinese consumers' concerns about product safety and rising incomes have driven the demand for imported products. Table 1 below shows the categories of products purchased by CBEC shoppers on CBEC platforms during March 2017 to March 2018. Food (55%), Cosmetics (49%) and Shoes, Bags & Fashion (48%) were the most purchased by CBEC shoppers during the surveyed period. See table 2 for an overview of consumers' reasons to purchase CBEC products and table 3 for the average Chinese consumer portrait.

Table 1. Most popular CBEC categories



[1] Hereafter cross-border e-commerce retail import is shortened to cross-border e-commerce or CBEC to increase the readability of this report.

Table 2. Motivation for CBEC purchasing in China

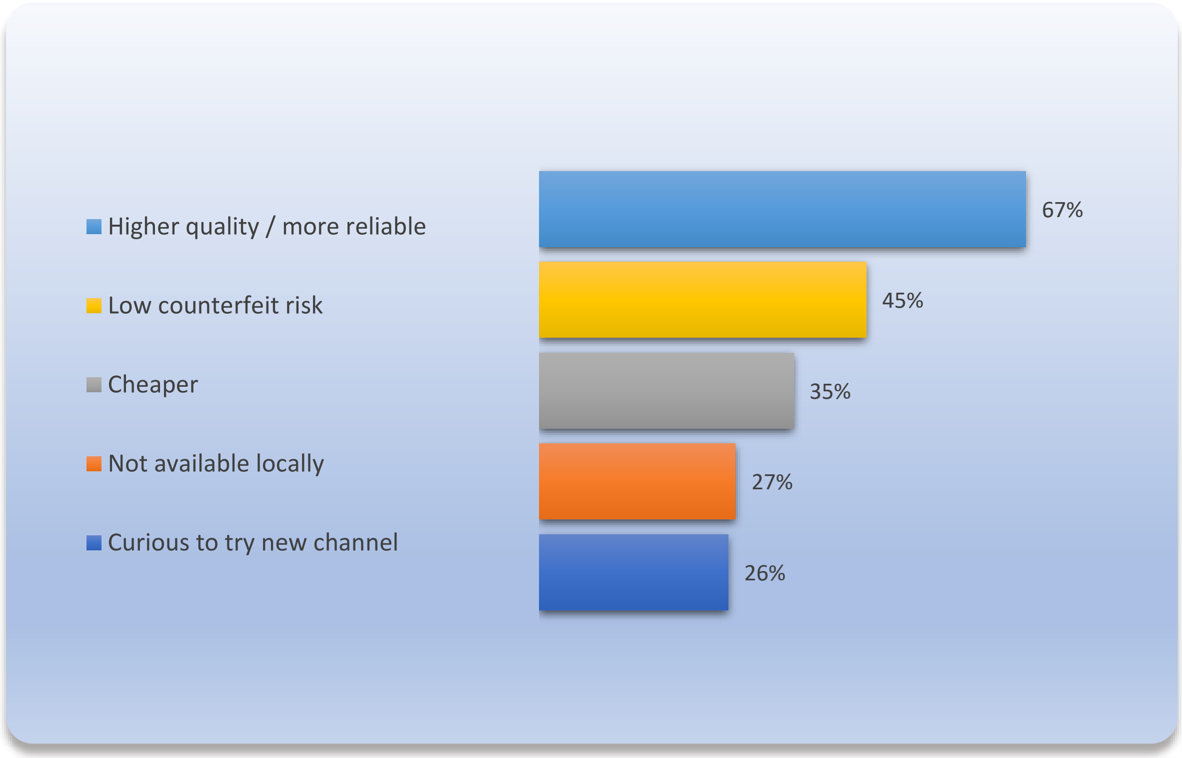
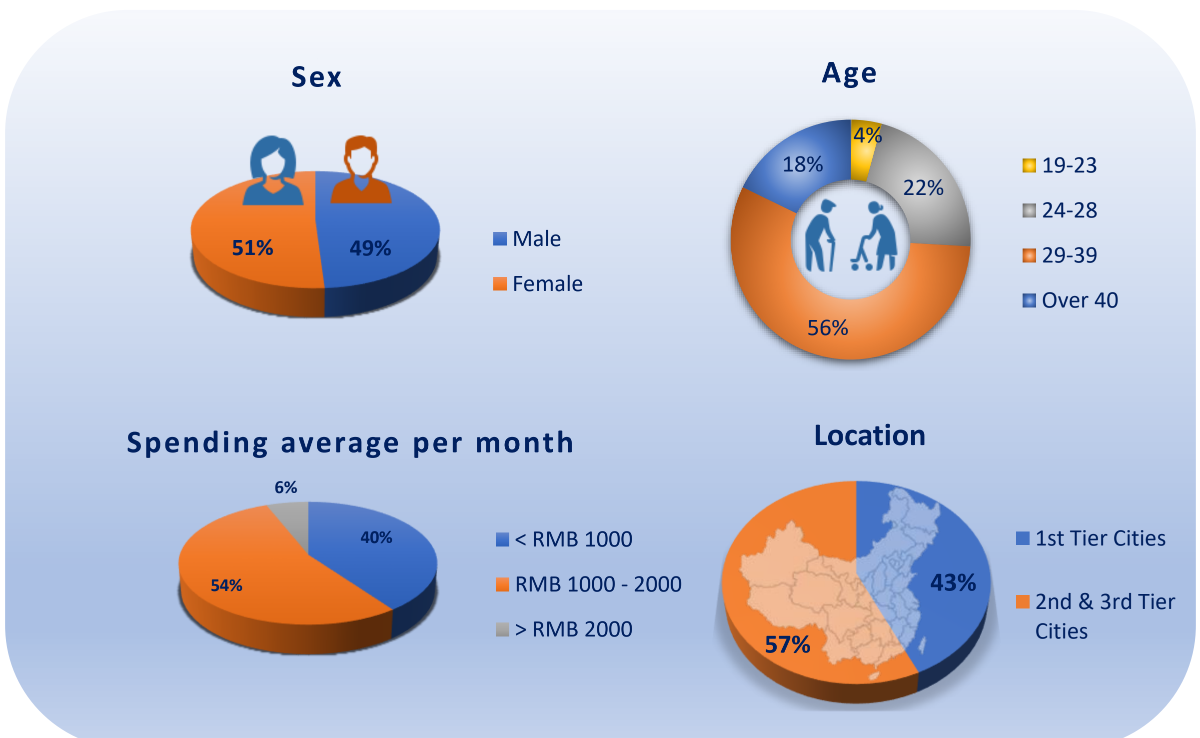


Table 3. Average Chinese Consumer Portrait



1.2 OVERVIEW CROSS-BORDER E-COMMERCE IN CHINA

Busting initial assumptions

Companies are often tempted when presented with the figures on China's quickly expanding consumer population. Though mesmerizing, consumer and growth numbers stated in popular media, business reports and by consultants only reflect a part of the reality of taking one's business to China. Therefore, before venturing on their cross-border e-commerce journey and setting up a business plan, companies would be well advised to consider the following often overlooked facts about selling on the Chinese e-commerce market

| WESTERN BRAND |

Western brands do not appeal to such an extent that merely making one's brand available to China's enormous consumer base will automatically translate into sales. This perception is often based on the outdated idea that 'the Chinese consumer' is eagerly waiting to buy whichever product, solely because it is 'Western'. Although this might hold true for some product categories, in itself this presumption has been proven unsound. The emergence of online shopping and the huge number of foreign merchants and brands created hyper-competitiveness and oversaturation of the Chinese e-market.

| SUCCESFUL OUTSIDE CHINA |

Being successful outside of China does not mean you will automatically replicate this in China. Simply because a product is popular with Dutch or Western consumers, has a long heritage in Europe, or enjoys a certain brand reputation, does not equal success in the Chinese market. Although globally well-known brands do attract Chinese online shoppers' attention, building brand awareness and demand for niche products sold by foreign SMEs in China requires efforts that should not be underestimated. Again, a brand's success in the Chinese market is not solely dependent on the availability of its products.

| HOMOGENE CONSUMER BASE CHINA |

Moreover, there is no homogeneity among China's current 200 million cross-border e-consumers. As anywhere else, but particularly in a country the size of China, Chinese consumer demands can vary substantially depending on age group, income level and region. Needless to say, 'the Chinese consumer' does not exist. Though this fact to a certain extent puts a limit on the notion that 'the sky is the limit' regarding the consumer base, at the same time it opens new doors for niche sectors.

Selling via CBEC is an entry-level strategy in order to acquire market share, brand equity, and a relevant consumer base in China. As volumes of products sold increase, it will become more beneficial for companies to engage in traditional trade methods for tax and registration purposes. Thus, ultimately, foreign merchants may use CBEC as a stepping stone to achieve an omni-channel sales strategy whereby they sell their products via traditional channels both off- and online. Although CBEC is a comparatively low-cost entry method, (because of minimum trial-and-error costs and shorter value chains), merchants should keep in mind that selling cross-border still requires high investments. Estimated costs of being present on the biggest platforms range from a minimum of 1 million RMB (± 130.000 euro) in expenses (including branding, logistics etc.) per annum. Moreover, deriving from experts' experience, continuous human and capital investments, as well as sustained efforts and commitment on operational and management level are required to succeed.

1.3 MARKET SIZE AND GROWTH TRENDS

As a consequence of the abovementioned added value for Chinese consumers, cross-border e-commerce's popularity is growing exponentially in China. According to iResearch, the transaction value of the CBEC (import) retail market increased by 49.6% year-on-year (yoy) to 111.3 billion RMB[2] in 2017 and is expected to balloon to over 350 billion RMB by 2021 (see chart 1). This growth is driven by an increasing number of consumers purchasing from cross-border e-commerce channels. This number is set to exceed 270 million in 2019 (see chart 2). In 2019, the value of cross-border e-commerce purchases is estimated to be over 144 billion USD (see chart 3)

Chart 1. CBEC transaction value

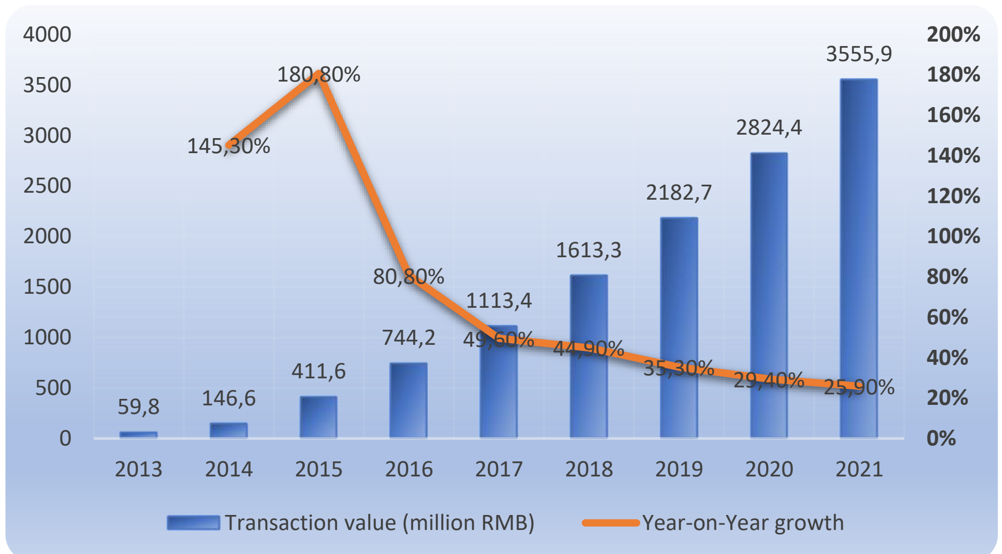
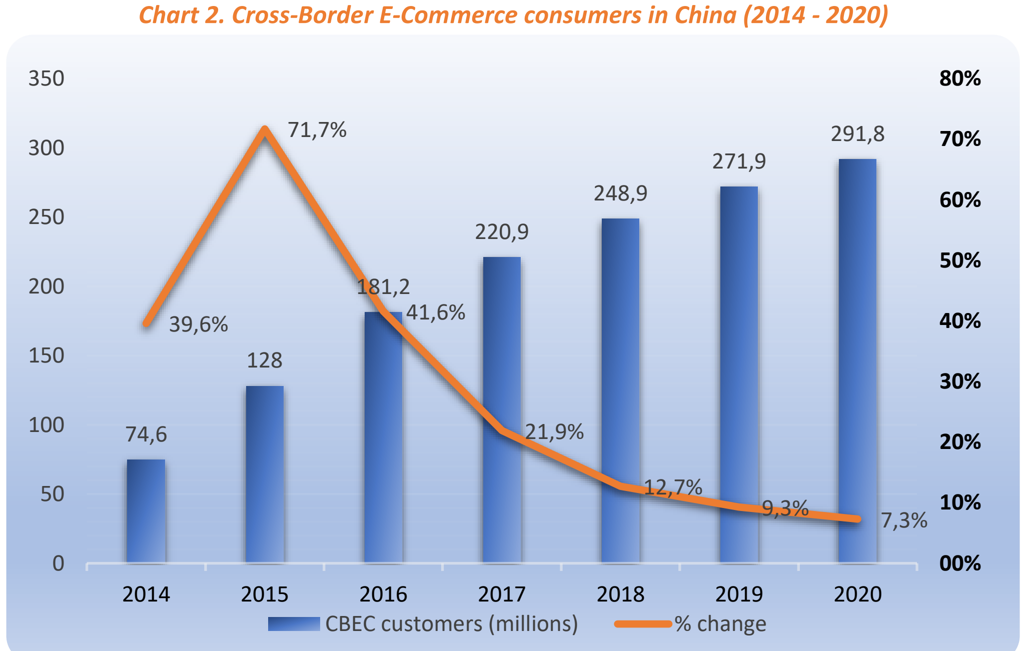
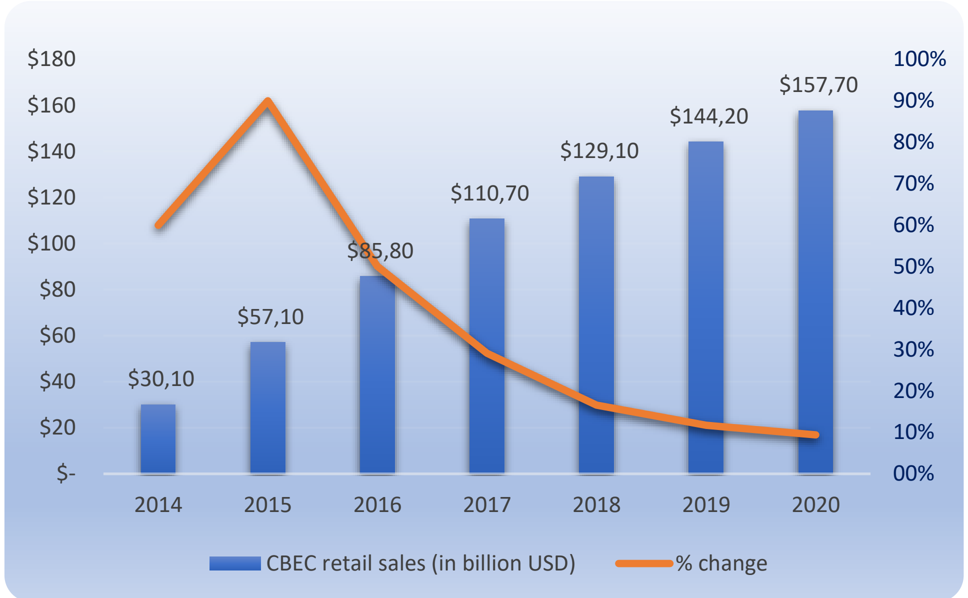


Chart 2. Cross-Border E-Commerce consumers in China (2014 - 2020)



[2] 113 billion RMB approximately equals 14,5 billion euros with the average exchange rate of July 2019.

Chart 3. Cross-Border E-Commerce retail sales in China (2014-2020)



So far, the Chinese CBEC market has experienced three stages:

| CBEC 1.0 | 'Daigou era' | 2005-2007 |

The number of consumers was limited, and demand was relatively low. Consumers mainly bought products from overseas students, relatives, acquaintances or professional buyers, so-called '*Daigou*'. In this stage, it was difficult to distinguish whether the product was genuine or not.

| CBEC 2.0 | 'Haitao era' | 2007-2014 |

The scale of the overseas shopping market was increasing rapidly and '*Haitao*' became more mainstream. Consumers bought products from online Haitao platforms such as Ymatou and Haitao.com, which offered good logistic methods and affordable shipment prices to China. At the same time, some CBEC platforms sprung up.

| CBEC 3.0 | 'CBEC era' | 2014 - now |

Buying overseas products online has become more regulated and product quality more stable. As an important CBEC law has been implemented since 1st Jan 2019 by the Chinese government, it has become harder for Daigou sellers to maintain their market share. They need to legally register themselves as a market entity or company in the state industry and commerce administration system and pay tax. The new regulation provides more opportunities for large(r) size e-commerce platforms and foreign brands. Currently the CBEC market is largely monopolized by Tmall Global, JD Global and Netease Kaola.

Due to increasing levels of regulation, cross-border e-commerce trade is less about grey-market importers (Daigous) and more about legitimate businesses operating in compliance with local laws and regulations. This change has mainly been precipitated by changing tax regulations and increased supervision regarding operations.

1.4 INTELLECTUAL PROPERTY RIGHTS

Risks

Intellectual Property Rights (IPR) violation are a concern for many international companies that do business in or with China. Even those overseas companies that have acquired a business entity in China indicate that IPR violation is one of the most pressing challenges they face – despite being familiar with Chinese IPR regulations and having registered their IPR at an early stage. Therefore, brands that use Cross-Border E-Commerce as their initial entry point to the Chinese market should be extra vigilant of the risks they may face in this regard.

It goes without saying that if brand owners do not register their IPR in China, they run the risk of copycats abusing their unregistered trademarks, logos, designs, etc. for counterfeit products. Furthermore, trademark squatters may attempt to rush-register these brands in China under their own names, with the aim to extract a hefty fee when true brand owners lay claim on them. Emerging brands, luxury products (e.g. fashion items, cosmetics, jewellery) and imported food (e.g. milk powder, pet food) are frequent targets.

Dutch companies – the true brand owner – will face difficulties when they enter the Chinese market if their brands, trademarks, company names and possible domain names (.cn) are already registered by an infringer. When a true (Dutch) brand owner imports products into China via CBEC, those products may be detained by the Chinese customs for reasons of trademark infringement.

In fact, the infringer (the official trademark registrant in China), may even sue the true Dutch brand owner, its distributors and even the e-commerce platforms in China.

In addition, leading e-commerce platforms, such as T-mall and JD require potential shop owners to present their Chinese IPR registrations before they allow an online shop to open, regardless of whether you are the true brand owner or not. Even for opening a Tmall Global Flagship Store, which normally only requires the true brand owner's IPR registration proof in its home country, Tmall might still reject the true brand owner's request to open a store. Legally, e-commerce platforms are obliged to take down webpages if the official trademark registrant in China (i.e. the trademark squatter) files a complaint. Therefore, if someone else registers a trademark before the true brand owner, this can severely complicate the registration process of the true brand owner when starting its cross-border e-commerce business.

Since social media platforms like WeChat and Weibo play a central role in Chinese e-commerce, the rapid distribution of infringing information presents another problem for those brand owners seeking to engage in CBEC business. It is difficult to trace online infringers, because they can easily operate through different and smaller e-platforms and marketplaces that do not have strict (IPR) requirements. These infringers might use fake business licenses and ID information and can frequently change their sales channels.

Trademark Registration

In order to avoid any of the above complications, even if a brand owner does not have any business plans for China in the near future, they would be well advised to register their trademark(s) sooner rather than later. Besides a relatively long application process (an average of 12 months), China follows the 'first-to-file principle', as opposed to 'first-to-use' principle. This means that, in principle, authorities will not check if applicants are the true brand owners. Dutch companies may discover that their Trademark has already been registered by an infringer. Foreigners and foreign companies can only register through a trademark agent. Trademarks must be registered with the Trademark Office of The State Administration for Market Regulation of the People's Republic of China (SAMR[3]).

The first steps of trademark registration include choosing relevant classes (product categories) in which to register one's trademark, conducting a registration availability check and also checking the current registration of possible copycats and/or trademark squatters. Trademark agents have access to a more elaborate register than the Chinese public registry provides. The recent trends in IPR infringement are trademark registration of domain names, slogans, search machine key words and packaging of certain consumption products. Therefore, these trademarks should also be included in the check and registration.

In addition, it is strongly advised that brands prepare and register a Chinese version of their IPRs which includes not only the brand's names in Chinese, but also the Chinese company's name. Companies should also be aware that distributors or the public may have already created a Chinese name for their brand; therefore, they should consider registering this name as well. I.e. the US pet food brand Nature's Variety and Instinct failed to register the Chinese "nickname" "Bai Li Ben Neng" 百利本能 of their brand and were therefore faced with a trademark squatter, who filed trademark infringement complaints against Nature's Variety's authorized distributor on Alibaba Taobao.

If an IPR has already been registered by an infringer, the true brand owner can take legal measures. Conducting possible legal proceedings (and other measures) depends on the status and phase of the registration or application by the infringer and the identity of the infringer.

Preventing IPR violations through CBEC-platforms

If counterfeit products are found on (leading) e-commerce platforms like Tmall Global or JD Worldwide, foreign brand owners can turn to the platform's trademark infringement help centres. These platforms have an obligation to take remedial measures. If such measures are not taken, the platforms can be held jointly liable for the infringement. Unfortunately, it is not always easy to prove a violation. Even if a brand owner provides all the relevant trademark registrations, the platform may decide that a violation has not taken place because it believes the counterfeit product is not similar to the brand owner's registration. Gathering evidence in this respect usually includes the notarization of webpages and infringing products by a Chinese notary public.

Companies are advised to do regular checks on e-commerce platforms and search engines to identify potential infringers and to search the database of the China Trademark Office for new filings that may constitute an infringement. Some trademark agencies and law firms provide such a "trademark monitor service".

China Customs is empowered to seize shipments of infringing goods if IP rights owners record their IPs with China Customs IP Protection Filing & Query System. The highly recommended recordation procedure is straightforward and timesaving.

The recordation of your IPR with customs serves to notify the China Customs of the status of your IPR, providing them with details about whom to contact in case of suspected infringement, and including pictures or

[3] http://www.samr.gov.cn/

samples of the product and its packaging. It will facilitate the detection by customs of the infringing goods, increase the probability of hits by customs. Please refer to the Customs IPR Enforcement website: https://english.customs.gov.cn/service.

For instance, it is possible to try to have the infringers' registration invalidated based on bad faith by providing adequate evidence of the true brand owner's historical and international use of the trademark. Moreover, foreign companies can provide evidence of earlier registrations elsewhere and of the original trademark development. They may also demonstrate possible ties between the true trademark owner and the (Chinese) infringer or show other registrations in the infringer's name. The cancellation action needs to be initiated within 5 years from the registration of the infringing registration, so true brand owners are always advised to monitor the trademark register on a regular basis. In addition, periodic collection of its own reputational evidence (i.e. sales contracts, exhibition records, consumer reviews) is also important for the true brand owner in future legal disputes. An overview of methods to prevent IPR violations is presented below (figure 1).

A recent amendment to the Trademark Law of China, that will enter into force on November 1st 2019, improves the legal position of brand owners vis-à-vis bad faith registrations. However, be advised that legal recourse is costly and time consuming.

Figure 1. Methods true brand owners can utilize to prevent

1. **Add an IPR clause in agreements with local agents, suppliers, producers or distributors**
It is critical to have well drafted IP clauses in agreements with other parties. It should be made clear that involvement in the production, distribution, logistic channel, etc. does not grant such parties use of the IPR and that such parties are not allowed to register the trademarks under any circumstances. If the brand owners decide to work with a local factory, it is important to include a non-disclosure, non-use and non-circumvention ("NNN") arrangement.

2. **Register the IPR at the local customs**
By registering the IPR (usually trademarks, designs and patents) at the local customs, the Chinese customs can take action by checking imports and exports for infringement and detaining fake products at the border. For more information on customs IPR registration, please refer to the Customs IPR Enforcement website: https://english.customs.gov.cn/service

3. **Turn to the governing authority the State Administration of Market Regulation (SAMR)**
If a company producing or providing infringing product can be identified, the true brand owners can (1) start a trademark invalidation application with the Trademark Office, (2) file a claim with the local AMR to take action against an infringer or (3) sue the infringer in court based on trademark infringement. These authorities may take remedial measures if it decides the scale of infringement is significant.

4. **Issuing cease and desist letters**
The true brand owner can issue a cease and desist letter demanding that infringers take down the infringing webpages and/or stop providing the infringing products and services.

Helpdesk

Furthermore, the China IPR SME Helpdesk supports European Union (EU) small and medium sized enterprises (SMEs) to both protect and enforce their Intellectual Property Rights (IPR) in or relating to China, through the provision of free information and services. For free expert advice on China IPR, EU SMEs can e-mail questions to enquiries@china- iprhelpdesk.eu, and they will receive a reply from one of the Helpdesk experts within seven working days. The China IPR SME Helpdesk is funded by the European Commission's Directorate-General for Enterprise and Industry (DG ENTR) under the Competitiveness and Innovation Framework Programme (CIP). The China IPR SME Helpdesk Webpage can be accessed here: www.china-iprhelpdesk.eu

2. HOW TO SELL CBEC ONLINE IN CHINA

2.1 ENTRY STRATEGY & BUSINESS DEVELOPMENT

In selecting a suitable CBEC entry strategy into China for your specific product, it is important to understand the history and developments of the Chinese online market. With the transformation, from being dominated by small personal sellers in the 'Daigou era', to being dominated by large CBEC platforms in the current 'CBEC era', entry methods have changed as well. An important and necessary step before entering the market is executing in-depth market research. For new entrant merchants, exploring or planning to make first steps into China with 1.4+ billion consumers, multiple questions need to be answered and decisions have to be made. And as with any business venture, the business case needs to show a positive figure down the line. Armed with a solid feasibility study and a data-driven approach, companies are better able to make a well-considered market entry decision. The following factors are suggested to be taken into consideration when entering the Chinese CBEC market:

1. The size of the company	*4. Rules and regulations*
2. The product	*5. The budget*
3. The sales channel	*6. The marketing tools*

The size of the company

Large CBEC platforms are generally looking for well-known and bigger brands that represent good quality products, have a good reputation, stability as well as more investment. Some platforms have even shifted towards an invitation-only policy, meaning only companies are welcomed that meet their criteria. As an SME company it has become harder to enter one of the larger e-commerce platforms. These platforms generally require SME's to show substantial sales in other Chinese platforms or visibility in social media platforms. Taking this into account, SMEs should find other ways to enter the market, such as small(er) niche[4] platforms or social commerce[5] platforms.

The product

Each platform is specialized in different product categories and therefore it is important to select the platform that best matches with your product category. Tmall Global is a comprehensive platform for a various range of products. JD global is specialized in electronics products, household appliances and mother and baby products. Netease Kaola is seen as a cosmetics and baby products platform. There are also numerous smaller and niche platforms within the (local) Chinese e-commerce space which will be elaborated on in chapter 2.2.

Sales channels

| PLATFORMS[6] |

Large companies will normally enter the market by setting up a flagship store on the mainstream CBEC platforms. SMEs also can sell on platforms, but the cost of opening a store is very high for many SMEs and certain requirements have to be met. Another way to sell on these platforms is contact their direct procurement department or find third parties who have pop-up/multi-brand stores on the platforms.

| SOCIAL MEDIA STORE |

Foreign companies can open stores on social media channels. WeChat and Little Red Book offer this functionality for some overseas countries, whereas Douyin requires brands to have a local entity. The cost of social media stores is less than the big platforms, which is a good starting point for SMEs.

[4] See chapter 2.2
[5] See chapter 3.2
[6] Tmall Global, JD Global, Netease Kaola, VIP etc.

| DAIGOUS[7] |

Personal sellers usually have accumulated lots of loyal buyers as those are acquaintances or people introduced by acquaintances. Some larger sellers have stores on Taobao[8]or WeChat, which can make Daigou sellers a good choice for SMEs to cooperate with.

The budget

A company's budget has impact on many decisions regarding their entry strategy. Bigger budgets enable bigger marketing efforts, making it easier for brands to include tools such as major platform promotions, WeChat advertising or working with larger KOLs (Key Opinion Leaders). However, this doesn't always result in faster brand awareness, as smaller brands are more inclined to test and experiment with different tools and find creative ways to seek collaborations with smaller KOLs and Daigou sellers.

The budget also has an impact on the internal operations regarding China e-commerce. For instance, the decision companies face is whether to work with a third-party service provider or to set up an in-house third-party team.

Rules and regulations

The Chinese market changes rapidly and regulation changes fast as well, therefore keeping an eye on the policies and regulations is always very important to any business entering or active in China. For instance, with the implementation of the new e-commerce law in 2019, foreign companies that want to sell products on platforms should have a trusted Chinese company to be a joint liability party. Platforms require provision of related information about the Chinese party; thus, selecting a trusted party should be done with caution. Above is just an example of the impact from the new E-commerce law, more relevant rules & regulations will be mentioned in chapter 4. Companies can contact related parties to receive more information.

The marketing tools

The Chinese consumer is extremely sophisticated with social media and online shopping. Online channels are deeply integrated into their lifestyle and understanding this is key in building your brand position in China. Basically, online marketing tools for e-commerce includes two main directions: online shopping platforms and social media channels. Many popular brands will open a store on the mainstream online shopping platform first, drive traffic inside of the platform and then make use of (external) social media. Some social media channels are elaborated on below.

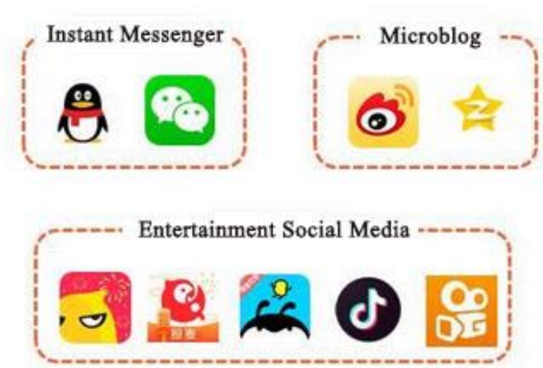
| INSTANT MESSENGER |

Instant messenger is a closed-loop, social messaging platform such as WeChat[9]and QQ. WeChat has a function called Moments where users can post their pictures with text content or share articles from WeChat Official Accounts [OA]. Brands can launch new products, publish interesting articles and manage marketing activities via their own WeChat OA or KOL's account.

| MICROBLOG |

A microblog has an open environment, everyone can see the post and it can drive traffic to online shopping platforms. A well-known microblog is Weibo, where brands can share content and engage with their followers. Due to its open environment, lots of third-party software and tools emerge that use data mining techniques to obtain users' information. They can analyse the data to understand user behaviour and user profiles.

Figure 2. Main social media channels in China



[7] Even though Daigous should be registered as a legal entity in China under the new CBEC regulation, we still refer to them as personal sellers
[8] Taobao is Alibaba's daughter company and functions as a C2C marketplace
[9] All functions of WeChat are elaborated on in chapter 3.2

| SOCIAL ENTERTAINMENT CHANNELS[10] |

Kuaishou and Douyin (also known as TikTok) are the most popular short video platforms in China with 200 million and 160 million daily active users respectively. Brands can open an official account and publish short videos, helping them create brand awareness. Douyin's main users are people from 1st and 2nd tier cities while Kuaishou's majority users are from 3rd and 4th tier cities. Brands should consider the use of a short video app based on their target consumers.

| RED |

When it comes to social media platforms, Xiaohongshu, which means little red book and is known as RED, forms a kind of its own in the marketplace. It is a good combination of a marketing tool and mobile store. Users can post anything they want on the Red App, they share lifestyle posts, product reviews and travel blogs via short video and photos. Big companies hire KOLs and celebrities to share products on RED, whereas small companies hire "regular consumers" to write products reviews on RED.

After considering how the factors influence the selection of the entry strategy into China, two potential entry models are provided below that are applicable to a large company (figure 3) and an SME (figure 4). Please be aware that it is crucial to register your trademark when doing business in China, this is extensively discussed in chapter 1.4.

Figure 3. Large companies (high cost, faster growth)

[10] Includes short video apps such as Kuaishou and Douyin, and live stream apps such as Huajiao and Huya.

Figure 4. SMEs (low cost, lower growth)

2.2 ONLINE SALES CHANNELS

The demand for foreign products and brands together with the vast development of CBEC activities in China have mutually reinforced and contributed to CBECs current, enormous status. After thorough consideration of why a brand's merchandise could be successful with Chinese consumers, an initial scan of the e-commerce market, registering their trademark, and checking the rules and regulations that may apply to one's products, businesses should be ready to consider the sales channels through which they can actually sell their products. The purpose of the 'sales channels' section is to provide companies interested in Chinese CBEC with a comprehensive understanding of those main marketplaces and their characteristics available for CBEC.

Background on online sales channels

On an individual level, Chinese online consumers find and purchase foreign products through various e-commerce channels. Nowadays for example via customer to customer (C2C) platforms such as Taobao, where daigous sell small quantities of overseas product which they acquired from abroad directly. These products are then sent to the consumers by means of direct mailing, without paying any import duties, nor passing by mandatory customs inspections as would be the case with normal trade.

Despite their success, due to current developments in CBEC, more official business to customer (B2C) channels are quickly replacing C2C daigous. The introduction of CBEC regulations requiring daigous to obtain licenses and register as legitimate businesses, the expansion from 15 to 37 CBEC Pilot Zones, and an increase of products on the Positive List are all contributing to why B2C is winning terrain from C2C. It will in turn lead to more revenue from e-commerce platforms.

According to iResearch Global, in 2012 the ratio of percentage online retail sales of imported goods via C2C vs. that of B2C channels was 98.9% vs. 1.1% respectively. Only four years later, in 2016, this ratio was 43.6% for C2C vs. 56.4% for B2C. As merchants on B2C platforms have to be established and authorised abroad, these companies and traders are generally considered more trustworthy. This is a great advantage and offers opportunities for Dutch merchants. Moreover, with the new regulations effective from 2019, consumers will seek to purchase more from B2C sellers via CBEC. Important to note is that Chinese consumers rarely buy overseas products via stand-alone websites or third-party platforms outside of China. The high shipping costs, slow delivery, problems with dissimilar payment methods, slow or difficult website access due to the 'Great Firewall', risks of blockage by customs, and the lack of customer services (e.g. return policy), let alone the language barrier, are reasons for this reluctance.

Nearly all major e-commerce platforms in China opened new B2C channels specifically for products from abroad. For instance, the biggest marketplaces on the Chinese domestic e-commerce market, Alibaba's Tmall.com, and Jingdong's JD.com, initiated their CBEC variants: Tmall.hk and JD.hk.

Respectively Tmall Global and JD WorldWide (among others) sell foreign products directly from abroad, either via direct sourcing or via bonded warehouses in Mainland China, to Chinese consumers.

Cross-border e-commerce models

Currently there are five main models for brands to sell their products via CBEC to Chinese consumers: shop fronts on online marketplaces, self-operated hypermarkets, vertical specialty marketplaces, flash sales sites and social commerce channels such as WeChat[11] stores. Although all of these models have channels that can be used to sell foreign products without obtaining a business license in China, some sales channels are far more well-known than others. Nevertheless, using massive, leading e-commerce platforms will not guarantee success. Instead considering less evident or niche sales channels may very well be more lucrative for Dutch SMEs and smaller brands.

Below, advantages and disadvantages of each model, their entry requirements, and general entry procedures will be introduced. Moreover, the most famous marketplaces in each model will be briefly introduced to provide companies with a well-rounded view of all options available. For an overview of China's main CBEC platforms, refer to Figure 5 below.

Chinese consumers almost exclusively shop on third-party online marketplaces to buy their goods rather than on standalone websites (either domestic or foreign based). 54% of Chinese consumers want to shop on global market places in the future, 65% (also) do so on the global channels of Chinese e-commerce sites.

Different from domestic Chinese websites that require a Chinese business entity, there are separate markets for products which are imported or sent from abroad. Many domestic e-commerce platforms have a section, or entirely different website, for products from outside of China.

Only companies with a Chinese entity can open a store on regular B2C platforms, while only companies with a foreign entity can open a shop on cross-border platforms. Chinese third-party CBEC platforms come in a variety of models. As these platforms offer a lot of business potential for foreign merchants, it is essential to have a good overview of the possibilities, requirements and costs that come with each model. Dutch companies may approach different platforms directly to obtain relevant information.

Figure 5. Overview of China's CBEC platforms

[11] WeChat stores are elaborated on in chapter 3.2 regarding Social Commerce.

CBEC online sales channels

| ONLINE MARKETPLACES |

Online marketplaces are large, well known, marketplaces where consumers can roam around to select items from different independently operated *shopfronts* (flagship stores). They provide a centralised platform (similar to an offline mall) where goods from a variety of individual shops can be purchased from a merchant directly with a single transaction via the overarching marketplace checkout system (B2C). The most famous online CBEC marketplaces in China are Tmall Global (www.tmall.hk), JD Worldwide (www.jd.hk), and Netease Kaola[12] (www.kaola.com). These marketplaces are the main way to do CBEC business. An extensive overview of, for example, their entry requirements and fees can be found on page 20.

Figure 6. Philips Flagship Store on Tmall Global

| HYPERMARKETS |

The hypermarket model, different from the online marketplace model, is based on B2B2C Cross-Border E-Commerce. In other words, Chinese consumers are reached indirectly by overseas suppliers. The intermediary is the hypermarket marketplace that charges a mark-up from the wholesale price to retail prices on their online platform. 'Pure' hypermarkets, such as Jumei (www.bj.jumei.com) purchase a great variety of popular goods directly from overseas companies and add them to their own product assortment. As a result, they only have one shopfront, and not countless individual[13] brand shops.

In turn, products are stored and delivered through their own online platforms and distribution centre. Foreign companies are not required to manage the distribution or operate flagship stores on these e-commerce platforms. Companies can sell to a hypermarket via a procurement manager with whom they negotiate the price. Furthermore, popular brands and high-turnover items may find it easier to sell their products to hypermarket platforms, as they are more confident to bear the risk of storing and distributing these items.

Many CBEC platforms currently offer both the online marketplace and the hypermarket model to foreign merchants. However, for direct purchasing, these hybrid platforms tend to focus on certain categories and brands for overseas products, which they exhibit on either their domestic or CBEC platforms.

Figure 7. Philips Store on Jumei

[12] Netease Kaola is China's second-largest cross-border e-commerce platforms, respectively, holding 24.5% of the market. Alibaba Group has acquired Netease Kaola, the two companies will integrate it into Tmall, creating the largest cross-border e-commerce platform in China, but Kaola will continue to operate independently under its own brand.

[13] Even though they are known for being an online marketplace with multiple shopfronts, platforms such as Tmall.com also have a hypermarket-like programme called TDI (Tmall Direct Import), purchasing directly from overseas suppliers, JD.com possesses a similar programme.

| VERTICAL SPECIALTY MARKETPLACES |

The specialty marketplaces typically buy goods directly from overseas suppliers. Different from hypermarkets, they focus on specific product categories, target audiences or geographical regions. In recent years many specialty marketplaces have started competing with the largest online marketplaces and hypermarkets.

Despite the fact that consumer traffic is lower, and the product catalogue is limited, specialty marketplaces provide brands in niche-markets with a valuable opportunity to sell their goods which would likely remain under the radar of consumers on large e-commerce platforms. Traffic on specialty marketplaces tends to be more cost-effective, with a higher conversion into sales.

An example of such a company is Yiguo (www.yiguo.com). Founded in 2005 and based in Shanghai, is the leading fresh food e-commerce platform in China in terms of volumes of fresh food sales. Yiguo sells over 3600 SKUs of fresh fruits in 8 categories. It is a one-stop fresh-food service provider that manages each step of the food procurement process, cold chain quality control, order processing and food distribution. Moreover, since 2014 it partnered with Alibaba, making Yiguo the exclusive operator of Tmall Supermarket's 'Fresh Food' category.

| FLASH SALES WEBSITES |

Flash sale, or 'branded sales' sites focus on offering limited quantities of new-to-market, or surplus products at highly discounted rates for a limited period of time (according to the gone=gone principle). Despite the fact that these websites sell 'limited quantities' of products, the market size of the Chinese flash sales websites is substantial. Therefore, foreign sellers ought to keep in mind that the 'limited quantity' of products that are allowed to be sold via these websites during a certain period of time can still be a large amount of goods that need to be supplied by small to medium sized companies once the products prove popular. Therefore, SMEs may encounter sudden stock shortages when dealing with these platforms' procurement demands. When said products prove to be in high demand, new negotiations with flash sales websites for larger quantities can be initiated.

VIP.com (www.vip.com) is a flash sales website and was launched in 2008. They opened their CBEC-website, VIP International (global.vip.com) in 2014. They have 200 million registered users. Being a flash sales website, they specialise in offering products that are either completely new to the Chinese market, discontinued or surplus stock. For overseas products VIP's main focus is on mother and baby products.

Figure 8. Homepage of Yiguo

Figure 9. Homepage of VIP.com

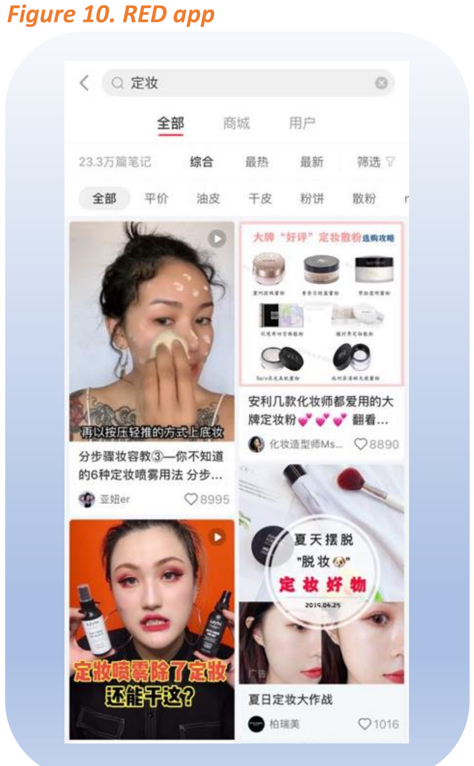
| SOCIAL COMMERCE|

Platforms that combine social media with e-commerce business are RED and WeChat. As RED and WeChat, although differing from each other, are both part of a larger social commerce trend, they will both be elaborated on extensively in chapter 3.2.

RED (www.xiaohongshu.com), for example, is a rapidly growing CBEC platform with over 17 million registered users. As the key example of a social selling, it allows Chinese users to discover and purchase foreign products posted by like-minded users. Being a large word-of-mouth marketing platform, RED is the gateway to reach Chinese consumers, especially females under the age of 30. Social platforms are mostly used to discover cosmetics, skin care, food, nutrition, mother & baby, household, small appliances & electronics, and fashion categories (figure 10).

It is noteworthy that Social e-commerce platform Pinduoduo (www.pinduoduo.com) is expanding into China's booming cross-border e-commerce business and wants to bring affordable, imported items to shoppers in China's smaller cities and rural areas.

Figure 10. RED app



An invitation-only version of the platform, called Duoduo International, has been up for selected merchants already on its main platform as well as prospective sellers. There are four store types, including a hypermarket format for sellers with at least 35 registered brands, and a flagship store for merchants with exclusive brand distribution rights. The platform is charging zero commission at present for key accounts including consumer brands and online retailers. Global FMCG giants including Nestle, Unilever, and Beijing-based Japanese consumer goods retailer Wandougongzhu have filed their applications.

The business of Pinduoduo is known for the social group-buying model, offering cheap (sometimes counterfeit) goods that initially appealed to users from the lower tier cities of China, but have gradually attracted more price-sensitive consumers. The fast growth of Pinduoduo proves its strong appeal among merchants and consumers. However, Dutch businesses should be careful if they would like to work with Pinduoduo, as Pinduoduo is often seen as the online market for counterfeit goods.

Cross-border e-commerce online marketplaces

Tmall Global | www.tmall.hk | the sister-website of China's leading online marketplace Tmall, is China's largest official cross-border B2C platform. Owned by Alibaba Group, it was launched in 2014 and sells imported merchandise only via foreign merchant's stores hosted on Tmall Global's website. As China's biggest cross-border e-commerce platform for nearly five straight years with 32% of the market share, Tmall Global has retained its leading position by sourcing the latest and most-popular overseas products for Chinese consumers. Tmall Global currently hosts more than 20,000 brands in over 4,000 categories from 77 countries and regions. It uses Alibaba's online payment escrow service, Alipay, to complete transactions in a preferred currency.

JingDong (JD) Worldwide | www.jd.hk | is the largest competitor of Tmall Global as China's second largest online marketplace. Moreover, JD is China's largest (direct sales) hypermarket, with a 54% market share. JD dominates in home appliances and consumer electronic goods. Direct sourced foreign products are shown on JD's domestic website (www.jd.com) and indicated by a special sign.

JD has seven fulfilment centres and 200 warehouses across China. Furthermore, it operates with more than 5000 of its own delivery and pickup-stations. JD launched its cross-border website, JD Worldwide, in 2015. For its hypermarket model JD Worldwide purchases inventory from overseas companies and resells it to Chinese consumers. For its online marketplace model JD Worldwide hosts foreign brands' flagship stores similar to Tmall Global. JD uses Tencent's online payment escrow service, Tenpay, to complete transactions in US Dollars.

NetEase Kaola |www.kaola.com | is the third largest CBEC online marketplace of China and is fighting with JD.com and Tmall.com for leadership in CBEC. Kaola is a marketplace but is mainly self-operated. Similar to Tmall and JD it buys products directly from overseas sellers. The major difference with JD.com and Tmall.com is that it is a curated platform. It has a strong selection procedure before a brand or a product can be sold via Kaola.com. In this way Kaola.com keeps its product offering unique, authentic and there is little to no price competition between sellers who sell the same products on Kaola.com. Regarding payment service, Kaola uses both its own online payment service 'Netease payment' as Alipay to complete transactions in a preferred currency.

Suning | g.suning.com |is the CBEC online marketplace of China's largest commercial company, Suning, and launched in 2014. It currently features about 300 foreign shopfronts and offers integrated logistics (4 aviation hubs, 12 automatic picking centres and 660 urban distribution centres), and store operator and financial support services. Their most popular product categories are electrical appliances and maternity & baby. It uses its own online payment escrow service, Yi-Pay, to complete transactions in RMB or foreign currency.

Fees of China's largest CBEC online marketplaces

The general characteristics on the entry process, operating models and the basic licensing requirements for selling on each of the largest cross-border marketplaces can be found below. Both opening as well as operating a shop front on the largest platforms is generally very costly. Besides continuous commitment and investments in their own e-commerce team and third-party service provider (TP[14]), companies that seek to open a shop on one of the CBEC platforms should take in consideration the following fees.

Table 4. Breakdown of deposits and fees.

	天猫国际 TMALL GLOBAL	京东全球购 JD Worldwide	苏宁易购 suning.com	网易考拉海购 KAOLA.COM
Security Deposits	150.000 RMB or 300.000 RMB, depending on the type of products sold by the merchant	10.000 USD or 15.000 USD, depending on the category of products	10.000 USD	10.000 – 15.000 USD depending on the category of products
Annual Platform Fee	30.000 RMB or[15] 60.000 RMB	1200 USD	5000 or[16] 10.000 USD	1000 USD
Commission Fee	0,5% - 5,5%, based on the category of the product sold.[12]	2% - 10%, based on the category of the product sold.	2% - 6%, based on the category of the product sold.	2% – 10% based on the category of the product sold
Payment Service Fee	1% commission per transaction via Alipay.	N/A	N/A	N/A

[14] A third-party service provide can help you as a merchant or brand to open and operate stores on CBEC platforms, such as Tmall Global, JD Global and others. An extensive elaboration on the services TPs provide is given in chapter 2.5
[15] Depending on different operating categories
[16] Depending on different categories

Assessment of China's biggest CBEC marketplaces

The section below will provide the general characteristics on the entry process, operating models and the basic licensing requirements for selling via each of the largest cross-border marketplaces.[17]

天猫国际 TMALL GLOBAL

ENTRY PROCESS

There currently are 3 types of Tmall stores:

1. Flagship store (brands/merchants)- Tmall Global allows foreign brands, or exclusive authorized merchants of a certain brand, without a Chinese business entity to sell to consumers directly by opening their exclusive flagship store. Since March 2015 companies are required to use authorized third-party service providers, so called 'TPs'. A local TP will help the foreign brand to open a Tmall shopfront. The brand or merchant is responsible for the products, branding and marketing strategy whilst it outsources daily operations of the storefront to the TP. After investing considerable time and resources into entry preparations, setting up a shop will take 4-8 weeks.
2. Specialty store – Merchants that have been given distribution rights by the true brand owners to sell products (without geographical restrictions) in China can apply for such a store. However, the merchant can only sell up to two product categories.
3. Authorized store – Different from the specialty stores, merchants that possess an authorized store can sell multiple products in several categories if they have been given the rights by the brand owners.

   Next to opening one of the above-mentioned stores, another operating model of Tmall is called TDI (Tmall Direct Import) where Tmall directly sources products from the foreign brand and sell it themselves via their Tmall Global marketplace.

BASIC REQUIREMENTS

- A registered corporate entity outside of Mainland China.
- Retail and trademark outside of Mainland China.
- Own the brand or be an exclusive authorized distributor.
- Chinese customer service must be provided.
- Product returns should be handled in China.

ADMISSION PRIORITY

- Well-known international brands without official presence in China.
- Merchants with a turnover of at least 100.000.000 RMB.

[17] More information about the store types can be found at: https://about.tmall.com/tmallglobal/opening_a_store?spm=3.7128685.0.0.3e4e7132hwGhqp#place. More information on the Tmall Global Flagship model, the TDI model, or the application form: https://merchant.tmall.hk/

京东全球购
JD Worldwide

ENTRY PROCESS

JD has three operating models:

1. Franchise Business Partner – brands open a storefront on JD Worldwide. JD is fully responsible for warehousing, delivery and customer service.
2. Licensing Business Partner – companies can set up their own store and handle all logistics, JD will supervise customer service and invoicing.
3. Self-Operation Partner – brands open a storefront on JD Worldwide and take care of warehousing and delivery themselves.

In order to sell products or open a store on JD Worldwide, merchants should directly contact JD according to the product category of goods they wish to sell. Their contact details can be found on JD Worldwide's website. Although not required, it is strongly advised to use a reliable TP for business on JD Worldwide.

BASIC REQUIREMENTS

1. A registered corporate entity outside of Mainland China.
2. Retail and trade mark outside of Mainland China.
3. Own the brand or be an authorized distributor or franchiser.
4. Chinese customer service must be provided, and product detail page should be written in Mandarin.
5. Products must be dispatched within 72 hours after order placement.
6. Product return centre must be available in Mainland China.

ADMISSION PRIORITY

- Reputable overseas products.
- Excellent operation team and infrastructure.
- Reputable B2B/C2C online companies, or experience brand owners and retailers in e-commerce.
- Following categories: maternal and baby, apparel and accessories, cosmetics and personal care, health supplements, food, bags, luggage, watches etc.

苏宁易购
suning.com

ENTRY PROCESS

As a hybrid platform Suning Global has two operating models

1. Entry model – Suning provides a store operator, logistics and warehousing services
2. Procurement model – Suning purchases from overseas partners directly

On Suning Global, although not required, it is strongly advised to use a reliable TP.

BASIC REQUIREMENTS

- A registered corporate entity outside of Mainland China.
- 100% foreign sellers, 100% overseas goods mailed from abroad or bonded areas.
- Own the brand or be an authorized distributor or franchiser.

PREFERRED REQUIREMENTS

- Famous overseas brand or B2C website that has not entered China yet.
- Operating team with experience in e-commerce of at least two years.
- Following categories: mother & baby products, clothes, cosmetics and health products, footwear, bags and suitcases, food.
- Members of Tmall Global, JD Worldwide and other overseas B2C websites.

网易考拉海购
KAOLA.COM

ENTRY PROCESS

Kaola has two operating models :

1. Sourcing cooperation (Direct procurement from Kaola)
2. POP or Flagship store

For model 1 and model 2 the following steps are to be taken in the entry process:

- Submit application online. Here you need to fill in basic requirements on your brand and the products you want to offer to Kaola.com
- Kaola will make an evaluation on your brand and, if you get accepted, they will send you an offer letter.
- Once you receive an offer letter you are invited to the on boarding process which is an online application. Once completed you can sell your products to or on Kaola.com depending on the operating models.

PREFERRED REQUIREMENTS

- Give exclusivity to Kaola to be accepted quicker.
- Offer unique products of famous brands or famous brands that are currently not being sold on Kaola.

BASIC REQUIREMENTS

For model 1 the requirements vary per brand. What is most important is that you have a unique product that is not currently being sold yet on kaola.com. For others, you need to provide an attractive wholesale price to Kaola.com to be accepted as a sourcing partner and be close to the source in the supply chain to be a reliable partner for Kaola.com.

For model 2 the following requirements apply:

- A registered corporate entity outside of Mainland China.
- Retail and trademark outside of Mainland China.
- Own the brand or be an authorized distributor or franchiser.
- Chinese customer service must be provided, and product detail page should be written in Mandarin.
- Products must be dispatched within 72 hours after order placement.
- Product return centre must be available in Mainland China.

2.3 LOGISTICS

2.3.1 LOGISTIC SOLUTIONS

After placing the order for overseas products and having used their e-payment platform to deposit their payments[18] in escrow, all Chinese e-consumers can do is wait for their products to arrive at their doorsteps.

In general, Chinese consumers are used to, and expect, reliable and quick delivery. In first-tier cities, locally warehoused products can be delivered the next day, though buyers are a little more patient for overseas orders. Due to the integration of track-and-trace systems, Chinese online shoppers can follow the entire logistic process; from the moment their parcels are dispatched from the warehouse, to the minute the *kuaidi*[19] last-mile delivery drivers park their electric-scooters and ring the doorbell.

In order to both meet the high expectations of demanding Chinese e-consumers and choose the most convenient logistic model for themselves, foreign companies should develop a good understanding of the logistic options available to them. This chapter should give more insight into the logistic developments for CBEC in China.

As the e-commerce ecosystem in China is continuously changing, so are the logistic solutions. The main complexity for logistics is the import custom clearance and regulations. Finding the optimal logistic solution for your China strategy can be quite challenging. Getting the goods from A to B is not very difficult, but due to the required import licenses, product registrations and changing regulations, it is not that easy and straightforward.

CBEC Comprehensive Pilot Zones

Cross-Border E-commerce import started mainly via sales of daigous living abroad offering foreign products on a Taobao store. The packages were sent by post to the Chinese consumer. When this kind of CBEC really started to thrive, many postal parcels sent from abroad would enter China without any legal registration, ownership or payment of taxes. In response to the mushrooming of semi-legal cross-border shipments from overseas daigous, the Chinese government started opening several Free Trade Zones in late 2013. They were designed to offer a more regulated and reliable Cross Border E-Commerce solution. Accordingly, in January 2016 the State Council officially approved the establishment of Cross- Border E-Commerce Comprehensive Pilot Zones. In August 2018 this was expanded from 15 to 37 cities (figure 11). The CBEC Comprehensive Pilot Zones are designated areas, generally near large trade ports, that provide a favourable business environment and infrastructure for CBEC activities. The main features of these pilot zones are the so-called bonded warehouses, which will be elaborated on below.

Initially the advantages of these zones were that it made the physical distance between the product and consumer much shorter. Furthermore, no import licenses or test reports were required, and only a one-time company and product registration was needed. Moreover, lower (postal) taxes are applied for brands that used bonded warehouses, making CBEC Pilot Zones both an easier and cheaper launching pad for new and unknown products from abroad. The Pilot Zones have boosted the growth in Cross-Border E-Commerce, but, as in practice the collection of government taxes was mostly avoided, new rules were introduced as mentioned in chapter 4.

[18] This will be extensively covered in chapter 2.4 regarding Payment Solutions.
[19] *Kuaidi* is a Chinese word used to describe the last-mile delivery.

Figure 11. CBEC Pilot Zones

1. Beijing
2. Chongqing
3. Changchun
4. Changsha
5. Chengdu
6. Dalian
7. Dongguan
8. Fuzhou
9. Guiyang
10. Guangzhou
11. Hangzhou
12. Harbin
13. Hohhot
14. Haikou
15. Hefei
16. Kunming
17. Lanzhou
18. Nanning
19. Nanchang
20. Nanjing
21. Ningbo
22. Pingtan
23. Qingdao
24. Shanghai
25. Shenzhen
26. Suzhou
27. Shenyang
28. Tianjin
29. Tangshan
30. Wuhan
31. Wuxi
32. Weihai
33. Xi’an
34. Xiamen
35. Yiwu
36. Zhengzhou
37. Zhuhai

Logistic solutions for different import models

After the goods have been purchased online, cross-border e-commerce platforms will process the order in their own domestic distribution system. Generally, for sales on online marketplaces, products will either be shipped from a manufacturer's overseas warehouse to a bonded warehouse in Mainland China or be distributed via direct purchase imports. In order to guarantee reliable and quick delivery service, many e-commerce platforms operate their own logistics infrastructure. Overseas brands may outsource (part of) their logistics to the platform or a consortium of logistics providers recommended by them.

For self-operated distribution, companies that seek to export their products to China and sell them on e-commerce platforms, generally have two ways to do so which will be elaborated on in section 'Direct Mailing Imports'.

Choosing the most suitable logistic solution can control companies' risk, investment and operating margin. In China, more than in other countries, logistic solutions are dependent on rules and regulations. Which of the options mentioned below is most suitable to a particular merchant depends foremost on (the newest) regulations that apply to the type, weight and value of those goods. Moreover, the business model of the CBEC platform will have an impact on what logistic solutions a foreign company can opt for.

|BONDED IMPORTS | B2B2C |

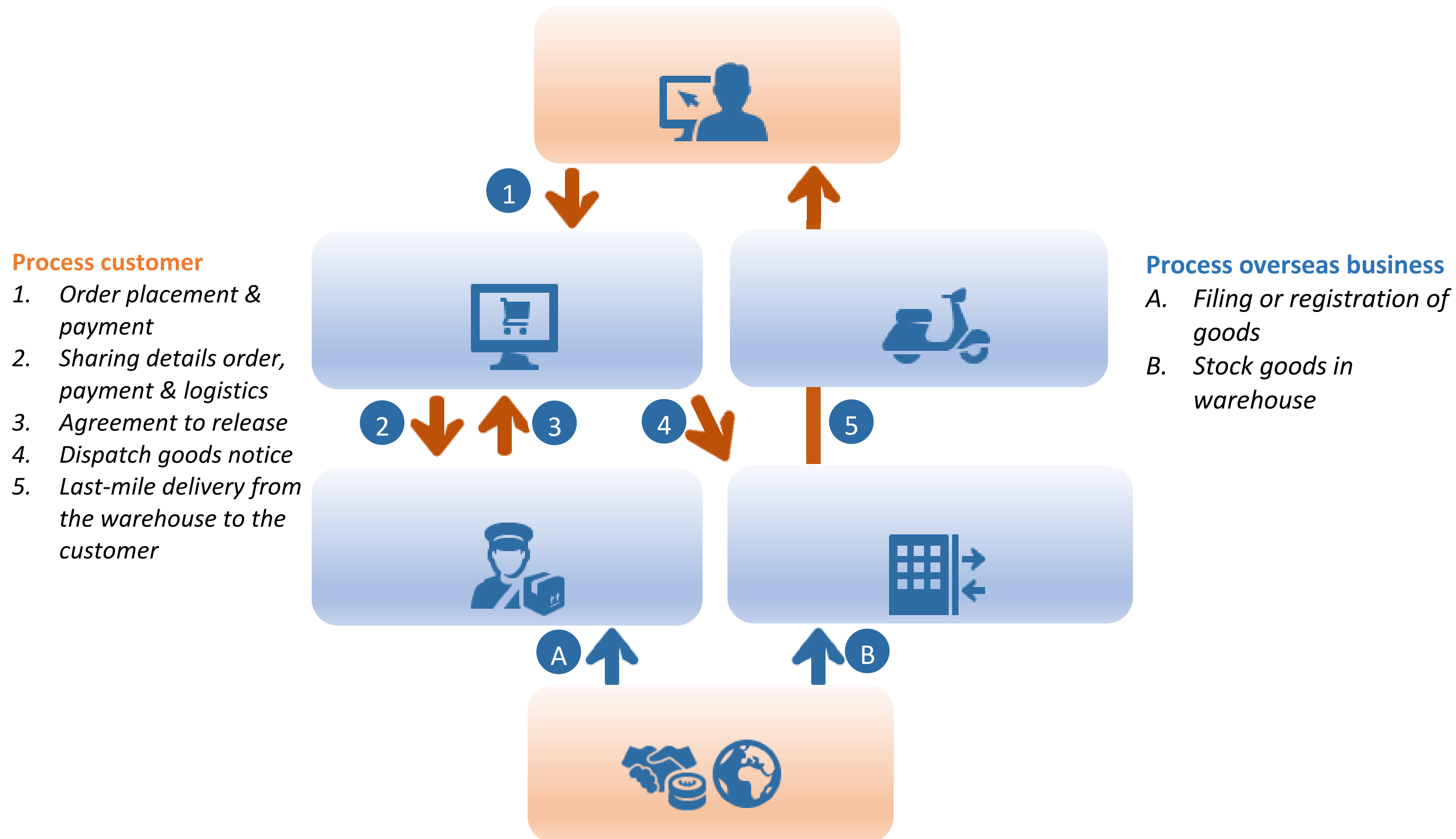
Bonded warehousing (B2B2C) is a quicker option in terms of logistics to sell products in China via cross-border e-commerce. A bonded warehouse is a building or secured area in a special customs supervision area in China where dutiable goods may be stored without payment of duty under customs supervision code 1210[20]. So, ordered products generally arrive quickly at the customer's home (see figure 12). Moreover, with the expansion of the Cross-Border E-Commerce Pilot Zones, the Chinese hinterlands can be served more easily.

Only if a brand's goods are on the positive list, it can consider holding its goods in stock in a bonded warehouse. Simplified and faster product registration will apply, overseas companies can postpone import duty and VAT charges, and it is easier to move their revenue to a foreign bank account. Furthermore, no local Chinese business entity is required.

Therefore, bonded import is an excellent method to test new products on the Chinese market. By stocking a small initial batch of goods in bonded warehouses, which can quickly be distributed to the Chinese consumer, companies can simulate selling CBEC in China without risking large losses as a result of high investment in stock. Thus, for new to the market, medium turnover, or larger items with steady demand, reasonable stocking in China is advisable to decrease operational costs, logistics costs and turnaround time. For continuous and matured sellers, high investments in stock (which may expire) and limitations in adaptability of one's transhipment are possible disadvantages to this mode of logistics

[20] See Chapter 4 for an elaboration on the different custom supervision codes

Figure 12: Bonded Imports



| DIRECT PURCHASE IMPORTS | B2C |

The direct purchase imports model is run under the bonded import and direct purchase imports clearance, with the requirement that products should be on the positive[21] list. The goods are not physically stocked in a bonded warehouse, but the bonded warehouse is only used as a hub to arrange the custom clearance. Therefore, direct purchase imports have a different customs supervision code, 9610, in order to be distinguished from bonded imports. All individual parcels are packed and labelled in an overseas location and put on pallets. The custom clearance is done by data exchange with data about shipping, product and payment information. This data is submitted in advance to determine the content and value of the goods upon arrival. Finally, last-mile delivery to the consumer is taken care of by any preferred local express company.

| DIRECT MAILING IMPORTS | C2C |

Despite the majorly reduced delivery time for bonded imports, Chinese consumers generally accept longer delivery times for products coming from abroad directly. Direct shipping, and its longer service time, is often even considered more trustworthy because goods undoubtedly come from overseas. After the goods have been ordered online and the product, VAT and customs duty have been paid by the consumer, the goods (in individual parcels) will be dispatched from overseas warehouses by direct mailing. This solution is suitable for brands that seek to introduce new to the market products, small products, or low turnover, high value items. There are two types of direct mailing imports – postal and personal express- and they differ significantly.

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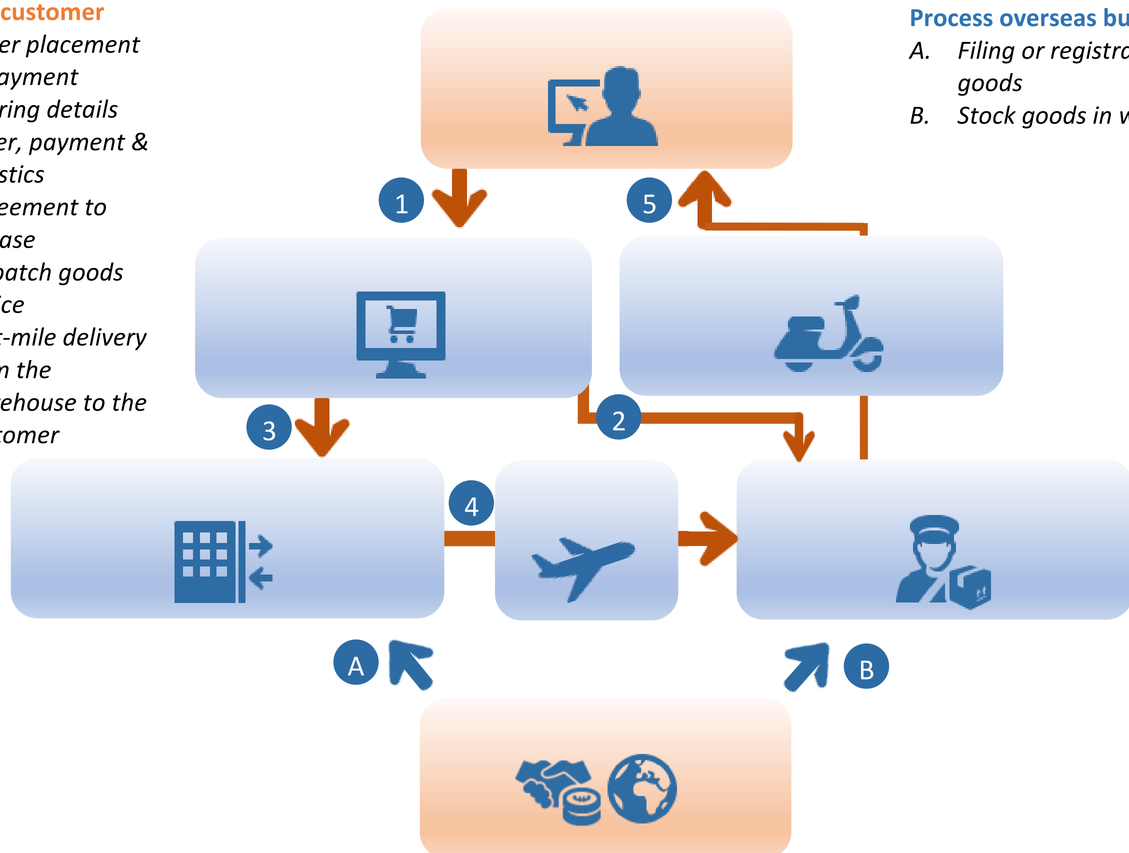
[21] The positive list is elaborated on in chapter 4. A link to the physical positive list can be found in the appendix.

Figure 13: Direct Mailing Imports



Process customer

1. *Order placement & payment*
2. *Sharing details order, payment & logistics*
3. *Agreement to release*
4. *Dispatch goods notice*
5. *Last-mile delivery from the warehouse to the customer*

Process overseas business

A. *Filing or registration of goods*
B. *Stock goods in warehouse*

|POSTAL |

Postal was the most common way to send individual parcels into China before bonded warehouses were introduced. This mode falls under the postal import clearance rules as described in chapter 4. In this mode, the goods are custom cleared by China Post, which since 2019 has merged with the well-known EMS service but operates solely under the China Post name. No data interface is required as clearance will be based on the description and value written on the postal label. The customs inspection will be done on a sample size, so there is a chance products will not be taxed. However, the customs system has recently been integrated into a nationwide system which gives a comprehensive database for stricter checks on goods sent by post. Since the introduction of the following personal express and direct purchase import options, the total volume sent by post has reduced significantly. The main reason is that international postal rates are higher than B2B freight charges combined with local solutions. However, the convenience and lack of data requirements still renders postal a viable solution.

| PERSONAL EXPRESS |

The personal express solution is a mix of the direct purchase and postal options and operates under the same customs supervision code as direct purchase imports, 9610. This mode falls under the postal import clearance rules as described in chapter 4. Similar to the direct purchase import option, data about shipping, product and payment information is required, and companies can choose their preferred last-mile operator. In addition, besides the clearance rules, the main difference from the direct purchase model is that a copy of the consumer ID is required for the clearance, making personal express much more difficult to implement as a logistic solution for CBEC.

| GENERAL TRADE IMPORTS | B2B |

Although technically not CBEC, by means of general trade, goods will be imported via regular import where, upon arrival in China, import duty and VAT will be paid for the whole bulk shipment. After the goods are cleared, they can be sold via local (i.e. non-cross-border) e-commerce platforms.

Warehousing and fulfilment will be done from a non-bonded warehouse under customs supervision code 1239 and the revenue will be received on a local Chinese bank account. To the Chinese consumer also a fapiao (official purchase invoice) can be provided for their online purchase.

This solution is suitable for established brands that are both focused on selling high turnover products online and offline, as well as for companies that have opted for a procurement strategy with domestic or CBEC platforms, essentially selling their products B2B2C.

Table 5. Comparison main logistic solutions

	Bonded	Direct Purchase Imports	Postal	Personal Express
Customer lead time after placing order	2- 7 days	5-12 days	7-21 days	7-15 days
Logistic costs	Lowest	Medium	Highest	Medium
First-mile	Boat	Air(bulk)	Air(post)	Air(bulk)
E-commerce inventory location	Bonded warehouse mainland China	Country of origin	Country of origin	Country of origin
Last-mile	Free selection		China Post (EMS)	Free selection
Customs clearance	Under CIQ supervision pre-approved; tax paid by shipper		Manual by postal	Automated
Taxes	70% of Consumption Tax and VAT; temporary 0% import tariff		13%, 20%, 50%	
Customer experience	Reliable and transparent		Possible custom delay due to random inspection, ID-check, HS code-check	
Taxes applicable	CBEC taxes		Personal import taxes (if checked)	

Advantages and disadvantages

Which of the above import options is most suitable entirely depends on the type, weight and value of the to-be-sold goods. As mentioned before, different taxes and duties apply to different goods. Therefore, companies should consider different import modes for different products if they want to take advantage of lower tax schemes. Again, goods that are not on the Positive List cannot be imported via the bonded mode as per the August 2018 regulations.

Nevertheless, despite possible lower taxation under bonded imports, this logistic solution may not be your preferred option due to stocking concerns. For instance, for quick delivery and lower taxes and duties, food (snacks) opt for the bonded import model. However, foreign sellers face the risk that if their products are not ordered online, they may expire and go to waste. It may be costly and less easy for them to move residual stock to consumers elsewhere. Instead, in these cases, sellers could opt for general trade or direct mail solutions.

Companies should take into account that their import modes can change drastically over time. Infant milk powder, one of the main goods sent from Europe, exemplifies this well. Before the introduction of the CBEC Pilot Zones most infant milk powder products were sent by post by daigous. After the launch of pilot zones a lot of milk powder stock moved to bonded warehouses as it was cheaper and faster. The advantages and disadvantages of each logistic solution are summarised in Table 6 below.

Table 6. Summary advantages and disadvantages per operating model

	Advantage	Disadvantage
Bonded Warehousing	No Chinese business entity required Taxes paid upon clearance Simplified product registration	High investment on stock Risky for good with expiration date Limited product categories due to positive list
Direct Purchase Imports	No stock in China required Limited customs requirement Faster customer clearance	Longer transit time until delivery Higher costs No tax exemption IT integration required Customers' ID number and ID copy required
Postal	High value single items are accepted Tax exemptions <50 RMB No data exchange required No 100% customs checks on goods	Slower transit time Lower customer experience Highest costs
Personal express	Tax exemption <50 RMB Faster customer clearance	IT integration required Customers' ID number and ID copy required
General trade	Suitable for selling offline and online Lower logistic warehousing costs Taxes paid on CIF value	Product registration and import licenses required Duty and taxes to be paid upon arrival

2.3.2 FRESH FOOD AND COLD CHAIN LOGISTICS

The increasing demand for better quality food led to the fresh food delivery boom. In 2018, 37.9 million people got their groceries delivered while the industry penetration rate reached 3.44%, an increase of 99.6% compared with last year. So to speak, the latest trend in e-commerce is food delivery, in particular, fresh food delivery. Today, with a simple click on a smartphone, Chinese consumers can get oysters from France and cherries from Chile delivered to their front door within a couple of hours. Among food purchased online, fruits are the most frequently bought while dairy products and vegetables rank second and third respectively.

Accordingly, online platforms have jumped on the bandwagon and many specialized fresh food platforms have emerged: Yiguo.com, Missfresh, Tmall Fresh, and Hema fresh to name a few. Yiguo is currently the largest e-commerce fresh produce marketplace in China, with the number of orders exceeding 50,000 per day. All of those platforms are continually searching for more varieties of fresh products from abroad to cater to the ever-changing and more demanding tastes of Chinese CBEC consumers.

Although CBEC creates excellent new opportunities for foreign businesses to sell easily to the yearning Chinese market, moving highly perishable goods is an interesting challenge - especially when potentially high value goods are to be shipped via CBEC to the other side of the world. Therefore, there are higher requirements for effectiveness, quality, and cost control. International fresh food suppliers often experience logistical challenges when entering the Chinese market. To overcome these challenges, ensuring food safety and quality of internationally sourced fresh produce, a sophisticated logistics system and an unbroken cold chain is essential. The entire logistics distribution includes overseas export warehousing, cross-border shipping and air transport, imported bonded warehousing, food inspection etc. Given the complexity of the cross-border fresh food e-commerce market, it is highly recommended that foreign businesses team up with local operating companies that not only are equipped with professional storage facilities and cold chain logistics, but also have extensive knowledge and rich experience in fresh food industry. Furthermore, experienced local partners (TP) can also help to determine the export volume based on their professional estimation on sales. A good TP with experience in the fresh categories will be able to help you determine whether it makes sense to enter the market and how you should position yourself.

Figure 14. Fresh food packaging at Yiguo

The margins for fresh food e-commerce remain low because of high operating and logistics costs. A number of e-commerce start-ups in China selling fresh food fell out of the market due to the high costs and large investment they needed to win customers. Ultimately, JD, Alibaba and those leading fresh food e-commerce/supply chain companies are likely the only winners in the fresh food segment. Therefore, it is highly recommended that foreign fresh food companies first try to sell via the direct sourcing model that is offered by leading e-commerce platforms. In other words, e-commerce platforms such as JD/Alibaba will act as the distributor. They will be in charge of online selling, and take full control on the entire cold chain logistics. This model requires less investment of foreign fresh food companies.

Most e-commerce platforms rely on third party warehousing and logistics. At present, domestic third-party cold chain logistics enterprises are growing fast, which has resulted in a highly efficient and relatively low-cost logistics network. For instance, JD aims to reach overseas farms or manufactures via direct sourcing in order to control and reduce the cost of purchasing, logistics and the storage. Consequently, e-customers can receive imported fresh food as fast as in four days. The 'Farm to Table' concept is happening. Chinese consumers can enjoy safe, imported fresh food by direct overseas sourcing. It should be noted that currently there is insufficient chilled bonded facilities available to cover demand in all of China, but in major cities where the demand is the highest it has been working well for the last year.

| 'Chilled' versus 'frozen' |

For cold-chain logistics there are two options to deliver fresh products. Depending on the product and preference of the seller or consumer they are either stored 'frozen' or 'chilled'. For the quality of the product, chilled is the preferred option, though the margin of error compared to frozen products is higher.

Therefore, taking beef as an example, chilled beef is handled with priority since it is far more perishable compared to its frozen counterpart. Customers will pay for the higher priorities since the product is of higher value when it arrives - thus making chilled products more expensive. Chinese consumers have developed a slight preference towards frozen delivery to ensure that the product does not perish- and is therefore safe. It is important to note that chilled is not always an option since not all countries are allowed to export chilled meat for example. Currently only Australia and New Zealand can import chilled beef versus frozen beef for the US, Chile and Uruguay.

| Last-mile delivery |

Last-mile delivery is commonly executed by *kuaidi (delivery people)* on electric delivery scooters. In the area of perishable goods this mode of transportation forms an additional challenge. Even in the world's most populated country it appears hard to find a working business model in which a refrigerated truck, rather than an ordinary electric bike, commits to last-mile chilled delivery for a competitive price. This continues to be the missing link in cold-chain logistics. Currently, foreign-sourced timely delivery of chilled products (which require a quicker distribution) is insufficient to cover all parts of China. At this time, for chilled foreign sourced products, it is only possible to engage in last mile delivery to first tier cities.

Several Chinese cold-chain logistic companies, like ExFresh (Yiguo's subsidiary) are rolling out nationwide coverage by establishing transportation hubs all over the country – see Figure 15**.**

Figure 15: Yiguo's cold-chain logistic hubs in Mainland China.

| Reverse logistics |

A major influence in cold-chain logistics is of so called reverse logistics. In every shipment a margin of error exists, and perishable goods are no exception – unfortunately, fresh foods are sometimes sent back; and upon return there is no means to save them.

However, non-delivery (e.g. if a customer is not home to accept the order) forms a more pressing problem. Non-delivery usually results in the delivery being returned to non-cooled local distribution centre. In a country like China, where storage temperatures regularly hit 40+ degrees Celsius, this is not preferred and goods are bound to expire.

In order to cope with the nationwide coverage and reverse logistic challenge, many platforms have adopted a delivery appointment system, which means customers can choose the delivery time, and platform will deliver ordered products accordingly. This will help to reduce the delivery loss.

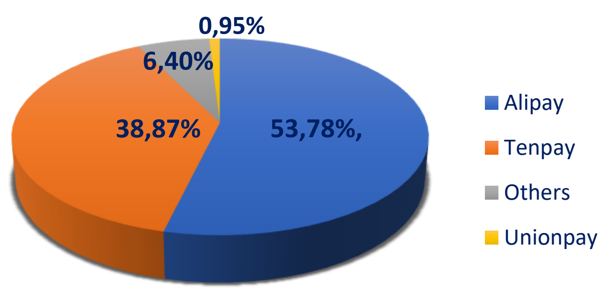
Experience teaches that economising on warehousing costs in China creates substantial risks, often because of language barriers or other unforeseen issues that accompany cheaper (cold-chain) logistic partners. Therefore, cooperating with a trustworthy local logistic partner or using the CBEC platforms integrated logistics will, in the end, result in higher return on investments and help overseas companies to succeed in the logistic challenges that CBEC business entails.

2.4 PAYMENT SOLUTIONS

To any brand, financial security is among the top priorities of doing business abroad. Hence, they seek secure payment solutions. For foreign companies without a legal entity or bank account in China, getting paid for selling their goods on Chinese CBEC platforms can seem challenging at first. However, Chinese cross-border payment methods are generally very sophisticated and convenient, and Dutch companies should not be discouraged to engage in cross-border e-commerce because of them.

After searching for foreign products and comparing prices on the various CBEC platforms, Chinese consumers pay for their purchases through a single transaction via the overarching marketplace checkout system. Although available, credit cards (MasterCard and Visa) are particularly unpopular payment methods for Chinese e-consumers. Instead, they usually opt to pay via third-party online payment platforms such as Alipay, Tenpay or UnionPay. These have been integrated into all cross-border marketplaces and serve as transaction intermediaries.

Chart 4. Online payment platforms market share (total transaction value Q4 2018)



Source: www.analysys.cn

Chinese online payment platforms work similar to PayPal; both the consumers' and corporate online payment accounts are linked to their respective bank accounts. However, different from an instant cash transfer like on PayPal, Chinese e-consumers typically prefer to pay via escrow payments, which they consider to be safer (see Figure 16). After ordering a product, but before delivery, a customer's payment is put in an escrow account hosted by one of the third-party payment platforms. As soon as the customer receives the order and confirms the delivery on the online payment platform or marketplace, the online payment platform will release the payment to the merchants. Apart from the fewer risks suffered by the consumer, foreign companies selling via CBEC will also be protected from scams. When a malevolent consumer takes no action to confirm the receipt – the payment will not take place without confirmation – than the online payment platform will automatically confirm it after 10 to 30 days depending on the transport method.

For companies without a bank account in China, Alipay and Tenpay, among others, offer cross-border e-payment solutions. This allows Chinese shoppers to pay in RMB for their CBEC purchases. Accordingly, once the RMB payment is converted into a foreign currency, the sum will be remitted into the company's overseas bank account. For these services no Chinese bank account is required. To sell on their marketplaces many CBEC platforms require a mandatory connection with their integrated online payment system. For example, opening a flagship store on Tmall Global requires a corporate Alipay account. Therefore, in order to get paid, foreign brands that seek to engage in CBEC in China should consider what cross-border e-payment solutions they want to, should or can use when choosing for a CBEC marketplace. Although all e-commerce platforms have integrated online payment systems, government regulation stipulated that e-payments have to be independent from e-commerce platforms as to ensure transaction safety. At the same time Dutch companies are advised to choose a licensed, certified third party payment service provider with a foreign trade license. Fourth- or fifth-party service providers should generally not be approached, because foreign brands have little resources to guarantee their credit background.

Figure 16: escrow payments

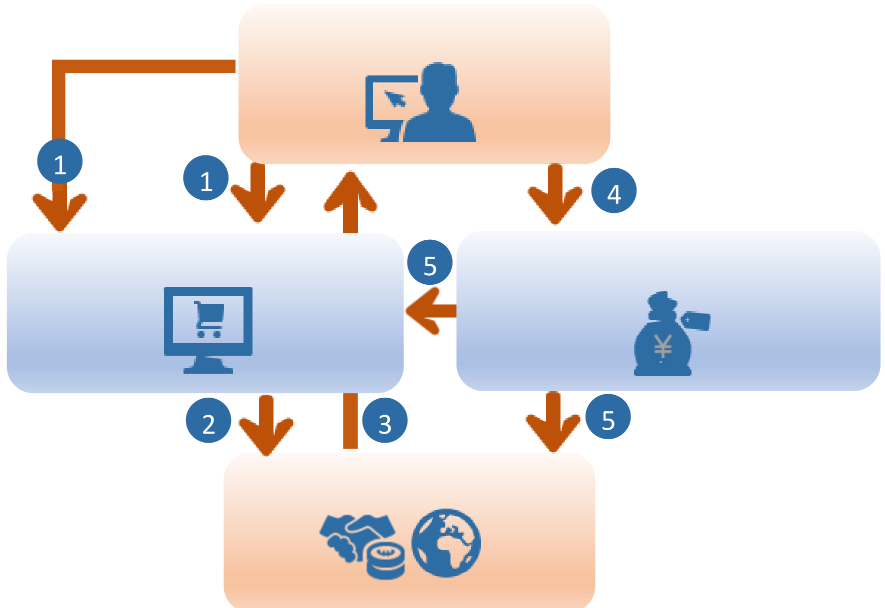
Process customer

1. *Order placement*

1* *Simultaneously, payment (in RMB) in escrow*

2. *Sharing details order& logistics*
3. *Delivery of goods*
4. *Confirms delivery*
5. *Release escrow to platform OR*

5* *release escrow payment to merchants in other currency (depending on business model)*



China's main payment solutions

Alipay is Alibaba's proprietary online payment system. With 400 million users, it has the largest market share (53.78%) among all third-party online payment platforms in China.

Its cross-border website and mobile payment service currently supports 14 foreign currencies. The spot rate is determined by the Bank of China and China Construction Bank. Currently, applying for a cross-border Alipay account is free.

Foreign companies can settle payment by turnover, meaning that once a company's turnover accumulates to 5000 USD (lower limit), Alipay will transfer the payments to the company's bank account immediately. Alternatively, payment can be settled on a weekly, monthly or quarterly basis. A transaction fee of 1,6%-2,2% of the transaction value applies. The higher the transaction value, the lower the fee.

Application: https://survey.alipay.com/apps/zhiliao/PW-kps1eV

Tenpay is an integrated payment platform launched by internet giant Tencent (founder of WeChat). It has 1000 million registered users. Tenpay is often used by consumers on desktops to checkout at major CBEC platforms like JD Worldwide. Furthermore, Tenpay's payment portal WeChat Pay is highly popular among Chinese consumers for (cross-border) mobile payments - especially via WeChat.

The transaction fee for WeChat cross-border payment (WeChat Pay) is between 2-2,5%. Settlement date is T +1 (T being the transaction date). Currently, applying for a cross-border WeChat Pay account is free of charge.

Application: http://global.tenpay.com/

Unionmobile Pay (UMP) was founded in 2011 and is a third-party service provider that specialises in cross-border e-commerce payment solutions. According to iResearch 2016, it was the 4th largest facilitator of mobile payments in transaction volume. UMP is certified by the Chinese government and the settlement date is T +1 (T being the transaction date) to companies from all over the world.

Application: https://intl.umfintech.com/

UnionPay (UP) is the only network authorised to handle (credit) card transactions in RMB in China. With more payment cards issued worldwide than Visa and MasterCard combined, China UnionPay is increasingly expanding its payment services across the world through its subsidiary, UnionPay International.

Although not currently the most popular payment method, UP facilitates cross-border e-commerce with strategic partnerships that integrate UP payment options on overseas e- commerce platforms. This allows Chinese e-consumers to purchase overseas products directly from foreign platforms. Moreover, UnionPay consumers can already use its "Shop the World" CBEC platform to make cross-border purchases. Therefore, UP is a payment method well worth consideration for Dutch merchants engaging in CBEC with China. The cross-border online transaction volume of UnionPay cards increased by nearly three times in 2015. In the summer of 2016 China UnionPay and PayPal agreed to a partnership to nurture cross-border e-commerce between Europe and China.

Application: https://www.unionpayintl.com/en/

For more detailed information on cross-border e-payments, please refer to the websites of the respective third-party online payment platforms.

2.5 THIRD-PARTY SERVICE PROVIDERS

The main advantage of entering the Chinese market via CBEC is that foreign merchants or brands do not need a Chinese business entity to sell their goods from abroad to Chinese consumers. When entering the Chinese market via CBEC a merchant or brand needs to cooperate with a local (Chinese) third-party service provider due to the high localization that is needed to be successful in the Chinese market, also via CBEC. These third-party service providers for CBEC are often referred to as "TP-partners" (淘拍档), which actually stands for TaoBao partners but is often used in synonym with Tmall partners. TP-partners are service providers who can help you as a merchant or brand to open and operate stores on CBEC platforms such as Tmall Global, JD Global and others. A significant part of your success as a merchant in the Chinese CBEC market depends on choosing the right TP-partner. This section will give a brief overview of the tools and benefits that TP-partners (can) offer foreign merchants. We will advise how to choose a trustworthy and suitable local TP-partner.

Introduction to TP-partners

Large platforms such as Tmall Global and JD Worldwide only accept foreign merchants if they cooperate with approved TPs. To ensure quality and authenticity of both sellers and service providers, TPs are certified by these e-commerce platforms after meeting certain requirements, such as several years of experience with CBEC, (overseas) bonded warehousing options, multilingual staff etc. Platforms such as Alibaba release a list of approved TPs they work with every quarter (figure 17).

Besides lobbying for a presence on the platforms, TPs can assist in a wide range of secondary services related to all the topics mentioned before (figure 18). Though, the expertise they provide depends on the needs and product categories of the foreign counterpart and, therefore, differ widely per TP. Some TPs offer one-stop solutions that encompass the entire chain of online cross-border selling, from brand building, logistic solutions, to daily operations and everything in between. Others offer specific solutions.

Additionally, TP-partners can act as authorised store owners. In this case, the foreign brand sells products directly to a TP-partner as under a distribution or agent agreement, like the vertical hypermarket and specialty market models, which then re-sells the products on its own online storefront or via affiliated authorised re-sellers.

As the local team will understand the Chinese online market best, they can assist with quick responses to demands from the big platforms. They speak the local language and help tailor one's brand to the Chinese market, whilst leveraging between a brand's image abroad and the Chinese market. In short, they are the local handhold for one's CBEC strategy.

Figure 17: TP-qualification for Tmall

The TP-partners get qualified by Tmall on their performance or ability of:

- Last 90 days transaction value of Tmall Global stores operated
- The operating capability of the TP (e.g., SEO and SEA capabilities, merchandising and data analytics, CRM capabilities and logistic handling)
- Average dynamic seller rating scores
- Complaint and incident handling

Figure 18: Services list TP

Besides the qualification list mentioned above, each TP-partner needs to be able to provide the following services to be able to get certified as a TP-partner:

- Cross-border e-commerce experience
- Multi-lingual team
- ERP system and IT interface integration ability
- Cross-border logistics experience
- Overseas offices
- Cross-border warehousing facilities

Costs TPs

In general, TPs charge either a fixed monthly service fee, a commission on sales, or both. Merely collaborating by revenue sharing is usually not the most beneficial cooperation model. This is because TPs cannot guarantee that they will spend a fixed amount of time on a brand's shopfront. Reality teaches that for this kind of collaboration TPs tend to focus on the low hanging fruits and if a foreign companies' products are not a direct sales hit, their focus will be switched to the products that are currently popular.

Depending on the additional services and commission, employing a TP may bring extensive costs, which are often overlooked when determining the budget for CBEC. A resourceful TP charges anywhere between 35.000 to 150.000 RMB per month and charges a revenue share percentage of 5 to 10%. This excludes CBEC platform deposits, fees and commissions. Though, depending on their reputation, services and size of their clients' online sales, the annual costs of enlisting a TP can be a multitude thereof. These costs might seem very high for entering the Chinese market via a seemingly low-cost entry option like CBEC. However, TPs will help foreign companies to achieve economy of scale. Companies are advised to contact TPs directly to enquire about the costs of their individual services.

Possible challenges when working with TPs

While TPs are a vital and valuable part of one's CBEC ventures into China, Dutch companies should take into account that besides extensive costs, engaging TPs may also bring additional challenges.

The necessity to cooperate with TPs to set up a flagship store on one of the big platforms has complicated the process of expanding foreign business. Firstly, the burgeoning cross-border e-commerce market has resulted in the mushrooming of a massive amount of TPs without an extensive track record or experience. Secondly, foreign companies are increasingly dependent on them, even if they boast their own e-commerce operations and branding departments. In fact, being certified does not warrant quality of service.

As mentioned before, one of the most important challenges overseas brands encounter is directing a sustainable amount of traffic to their online stores and products. Although most TPs offer solutions such as business strategy development, sales promotion and digital marketing to advance the traffic, a complaint often heard from companies that already sell in China is that eager TPs sell traffic only. However, the sustainable traffic that results in the conversion brands are looking for is often lacking.

More extreme, but not unheard of, are stories about unreliable Chinese TPs that engage in selling their clients' sales and consumer data, counterfeiting or other abuses of IPR.

Choosing a trustworthy TP

One major factor that will determine the success of cross-border e-commerce is to partner up with the right TPs. Experts advise that brands themselves should first create their own long-term CBEC strategy. Subsequently, they should let their TPs determine the best local execution thereof to maintain control of their CBEC business in China.

Foreign brands should analyse which sales channel they mainly want to focus on. A TP gives a one-stop solution to penetrate Tmall but not all TPs have the capability to help merchants on other booming cross-border e-commerce companies like NetEase Kaola and JD.

Execution of one's e-commerce strategy is impossible without a reliable TP. Choosing a trustworthy and suitable TP is not straightforward and foreign brands looking to establish an online presence on one of the earlier mentioned platforms would be well advised to invest sufficient time and resources in establishment consultation. Foreign companies could ask for recommendations from other companies that already operate in the same region, on the same CBEC platform or sell products in a similar category. A comprehensive overview of TPs' responsibilities when opening a store is presented below in figure 19 below.

Figure 19. Responsibilities TP in opening a CBEC store in China

1. Initial application and setup of the store
2. Design of the store, store population, product upload, translation, photo shooting, etc.
3. Merchandising, price, promotion and marketing planning
4. IT integration between the e-commerce store and the client's ERP / WMS or related order and / or accounting system
5. Ongoing operation of the store in terms of order management, payments, etc.
6. Warehouse & fulfilment centre operations, oversight of cross-border or bonded warehouse logistics
7. Customer Service: pre-sales and after-sales
8. Digital Performance Marketing inside and outside of the marketplaces SEO, SEM, CPS
9. Management of live streaming, sales driven KOL selection & management, etc.
10. ATL brand advertising to support e-commerce sales, specifically through the Alibaba Alimama extended ad ecosystem
11. Client financial accounting
12. Handling of returns, cancellations, complaints, etc.
13. Ongoing monitoring of competitors, counterfeits, parallel imports and liaison with the marketplace partner and client to counter and decrease these
14. Weekly, monthly, quarterly reporting and planning
15. Coordination with other agencies (PR, creative agency, brand agency, etc.) on integrated campaigns and client brand and sales development
16. Cooperation with offline sales partners (Online to Offline O2O)

3. MARKETING

3.1 MARKETING & LOCALISATION

For SMEs or startups yet unknown in China it might be challenging to conquer market share in an increasingly saturated marketplace. With tens of millions of SKUs on platforms like Tmall Global, standing out is no easy task. A search query for 'milk powder' on JD Worldwide results in around eight thousand products to choose from. Investing in marketing is the only way to be conspicuous and attract quality traffic, which will convert into sales. This chapter will list some of the most decisive factors and recent strategy innovations that need to be taken into consideration for a solid marketing strategy in China.

| Research|

With a potential audience of 292 million CBEC consumers in 2020, smaller brands need to choose a targeted and specific audience group before embarking on their Chinese cross- border e-commerce voyage. Doing so will generate more opportunities to connect with the Chinese target audience, avoid unnecessary cost and enhance the chance of success. This requires three steps. The first is analysing the category and consumers. This is often built on the back of quantitative and qualitative research in-country. The second is using that analysis to identify market segments. Proper segmentation across age, incomes, education, city tiers, personality traits, and category expectations is rarely done. Instead, many new entrants settle for segmentation on age, city tier and income. This is insufficient, leading to costly errors when marketing as visual and communication cues take on a spaghetti-against-the-wall approach, rather than being tailored for a specific audience. Finally, on the understanding that a company's resources are limited, there needs to be a choice as to what segments to target and which to forgo. This is the art and science of targeting. It goes without saying that targeting's success relies heavily on proper segmentation, which is in turn built on solid research.

| Product Proposition and Brand Equity |

For brands planning to enter China (either via CBEC or through other channels) a very critical, but often overlooked, self-reflective question is: "why would a Chinese consumer buy this product/service?" Over recent years the market has become hyper-competitive in almost any industry and for every single product, many different alternatives are readily available. At the same time, international companies are flooding in. Foreign brands are not only competing with local vendors, but also with providers from all over the globe. Therefore, a compelling product proposition (i.e.: why this product?) and brand proposition (i.e.: why this brand?) are two critical questions. Many foreign companies are striving to localise their brand image and products as much as possible. However, while localisation to the Chinese market is a 'must-do', overseas brands should be wary to overdo it. It could compromise or confuse product origin claims or could be perceived as insensitive. Brands can take cues from the product category, understanding what images, symbols and linguistic cues are in vogue, and moulding the brand's overseas image to meet these where relevant for the targeted segment.

| Pricing |

Pricing also affects brand equity. Most foreign brands believe that their foreign nature allows them to ask for a higher price for their products — this is only partially correct.

On the one hand, Chinese e-consumers tend to associate high prices with good quality. Traditionally they have been willing to pay high prices for these foreign quality and luxury items; and foreign vendors do need the additional charge to compensate for import fees.

On the other hand, many local brands are catching up and even leading the market, leaving the premium positioning unsustainable. At the same time, now that the Chinese middle-income consumer base has increasing interest in making purchases via CBEC, affordable foreign quality products are ubiquitous. In this case, the pricing should be both competitive to similar imported goods and reflective of the product quality.

Moreover, periodic promotions and participating in nationwide campaigns is a valuable tool to attain more exposure. Shopping holidays such as the behemoth sales event variously called Singles Day, Double Eleven, and 11-11 (taking place on November 11th) have been manufactured to promote greater spending not just through traditional discounts but through word of mouth hype and excitement via pre-sales, flash sales, coupons, and exclusive deals, encouraging consumers to share the best deals they've found with their friends, or trade tips and secrets to getting the most from the sales holiday.

Consider that CBEC platforms will often pressure foreign brands to lower their product prices upon market entry as to create attractive prices for their customers and attract more visitors. Again, a clear proposition on brand image is fundamental. Dutch companies are advised to refrain from inconsistent pricing because once brand equity is established, this impression is often irreversible.

Specific nuances to note

In order to develop a market entry strategy tailored for the Chinese CBEC market it is first and foremost imperative to recognise its unique ecosystem. The Chinese online environment and consumer journey are unique and require companies to rethink their marketing approach and business strategy.

| ICP License |

If you want a serious web presence in mainland China to ensure your message is getting across to Chinese consumers and clients, you will need an ICP (Internet Content Provider License). Applying for an ICP license is a mandatory step before your website goes public.

| Purchase cycle |

In most European markets, users often start their online customer journey through a search engine. Even if they know the website they want to go to, or the product they are looking for, the search engine is the default entry-point. In China this is not the case. Because the Chinese internet space developed in its own distinctive way, search engines are not a major part of the purchase cycle. Product discovery will mainly happen through social media, while product research is done directly on the big platforms like Tmall Global and JD Worldwide. It is still useful to have a marketing presence on the regular search engines; however, most companies will need to rethink their strategy if the majority of their online marketing investment usually goes to Search Engine Marketing.

| Social Media and KOLs |

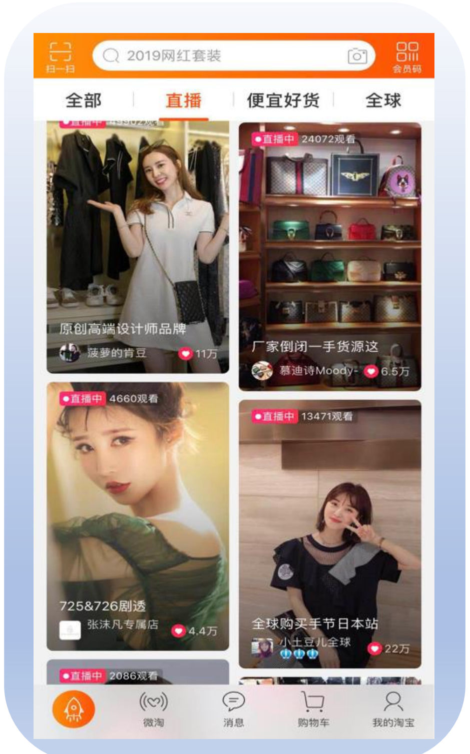
An introduction on the relevance of KOLs to reach Chinese consumers on platforms such as WeChat can be found in chapter 3.2 However, to be able to promote products, it is important to understand the nature of the social media space. Unlike most global social platforms, Chinese social platforms like Weibo and WeChat have not (yet) optimised their target-advertising tools for companies. That rules out Facebook-ad precision. In China this gave rise to KOLs that help commercial players find their target audience and communicate with them. They can leverage the potential of the local market. The e-commerce social platforms will help brands to understand what is most preferred and popular among Chinese consumers (e.g. Japanese and Korean cosmetics).

While trustworthy recommendations from well-credentialed and established KOLs can go a long way, some KOLs are relatively ineffective at being able to convert attention into sales. This combined with widespread instances of 'fake followers' and 'fake engagement' makes due diligence essential. Third party service providers can assist foreign companies to reach out to KOLs.

While trying to keep track of the ever-changing KOL scene can be difficult, let alone doing so in China from overseas, websites have sprung up to help companies research and make informed decisions about which KOLs would be a good match for their business or product, such as bilingual site http://www.parklu.com/

As with purchasing banner ads on KOL Official Accounts, prices vary considerably and no standard pricing model exists – it is very much up to the KOL's discretion, which may depend on their popularity and interest in your brand. KOL endorsements are especially valuable to lesser-known brands and smaller businesses, where the personal recommendation to a huge audience can help massively boost awareness and compensate for any consumer wariness.

Figure 20: Taobao KOL



| Customer service |

The Chinese user expects and demands personal service. In China customer service is available at least 7 days a week, 16 hours a day – much wider coverage then consumers are used to in the Netherlands. 83 percent of all customer service happens via web-chat or WeChat and customer service by email is nearly non-existent.

Besides availability, another important distinction can be found in the way e-consumers actually use customer service in China. In Chinese (cross-border) e-commerce a whopping 85% of all customer services take place pre-sales. Indeed, 90 percent of consumers, prior to purchasing products, will inquire with customer service staff about the product they are considering to purchase. These enquiries range from questions about product origin and authenticity to size and delivery of the goods.

For brands that offer less coverage, the conversion rate (and thus revenue) will be seriously affected. As such, to succeed in China companies will need to be able to accommodate these customer services standards and integrate them into their cross-border e-commerce strategy. There are TPs specialised in customer care that could provide foreign companies with a customer service team in China.

Innovative social strategies

As social commerce has moved from its earlier form of product parties held in friends' living rooms to embracing the powerful tools provided by social media, we are seeing more and more innovation not just in forms of advertising but also sales strategies and business models in general. China is not only quick to adopt the strategies that emerge from the rest of the developed world but is also innovating itself to suit its unique social media ecosystem and digitally engaged population. Some of the recent strategies that have emerged in the Chinese Social Commerce sphere include:

|Subscription-based product purchasing |

A diverse range of products, including flowers, wine, health products, and fresh fruit, have seen a fair amount of success by adopting a subscription-based purchasing model, wherein subscribers pay a regular fee and are sent products or bundles of products at regular intervals. These selections are often presented as being curated by experts or taste-leaders, and so relieve the subscriber from having to risk making any wrong decisions in these product categories.

| Purchase guidance |

Some services, like that offered by Philippine bakery supplier Puratos, go further than just selling goods to their customers – by integrating guidance, suggestions, and recipes into their e-commerce presence, they can push buyers towards matching sets of products depending on the customers' needs and preferences without appearing to merely be pushing sales. This helps a company establish a relationship with their customers that goes beyond merely a retailer or supplier; seeing the company become teacher, assistant, and valuable resource all in one, while enhancing customer trust and reliance upon their services.

| Micro-group buying |

A popular model pioneered in China by Pinduoduo is micro-group buying. This model sees a customer pay full-price for an item and then recruit friends to purchase alongside them as part of their micro-group – when the number of buyers in the micro-group reaches a certain threshold, every buyer receives a discount in the form of a partial refund. Some variations on this model have the price drop by a certain amount for each new buyer that joins the group purchase.

| Digital pop-up stores |

In imitation of the physical pop-up stores that first became fashionable around a decade ago in the West, digital pop-up stores provide time-limited access to products or promotions, to generate awareness and interest among their target consumers, while also helping serve as a valuable market testing tool for companies to measure the potential of a product, brand, category, or price point. Such pop-up promotions often appeal to consumers beyond their limited availability through offering limited edition products or customizability that would not be available with a mass-market version of the product.

| User-generated content |

Following on from customizable products in pop-up stores, customizability, personalization, and user-generated content in general are proving capable of attracting customer interest. Chinese rice-wine (baijiu) brand Jiangxiaobai, for example, launched a custom-label service which let customers customize their own label online for the product before ordering (or sending it as a gift).

|Integration of traditional promotional forms|

Familiar promotional strategies such as vouchers, coupons, and loyalty cards have had new life breathed into them through digital integration – for example, WeChat's 'card wallet' functionality that collects membership cards or vouchers within the app for later redemption using the app, making sure users always have such cards on them and don't leave them at home or in an old (physical) wallet.

| Cost-per-click (CPC[22]) campaigns |

More traditional, but not less effective, are CPC campaigns, which continue to be a low-cost investment for a diverse public. Unlike the use of KOLs or personalised communication, these campaigns are often static and not tailored to diverse audiences on a personal level. On the other hand, this entails that CPC is relatively cheap. Needless to say, brands can attract a wider audience than by means of KOLs if the quality of the CPC campaign is sufficient to attract many people to click on one's advertisement. Subsequently, after redirection, this may result in more diverse traffic on a brand's web-store. The payment settlement is usually handled via fixed payments per click.

| Design |

Finally, due to hyper-competitiveness the overall look and interaction of any product or service offering in China needs to be optimised to perfection. Chinese consumers are not used to anything less than that. In general, overseas companies should adopt Chinese design and UX guidelines from Tencent and other leading Chinese tech companies to make sure users feel familiar and 'safe'. Moreover, as the vast majority of Chinese CBEC shoppers purchase on their mobile phones, all information, websites and web stores should be easily accessible on a mobile device. To accommodate the tailored fit for CBEC customers hiring (at least) one full-time designer is recommended. The designer will need to design the shopfront, create product details pages, promotions and other marketing campaigns.

[22] **Pay-per-click** (**PPC**), also known as **cost per click** (**CPC**), is an internet advertising model used to drive traffic to websites, in which an advertiser pays a publisher (typically a search engine, website owner, or a network of websites) when the ad is clicked.

It is evident that the Chinese market requires a dedicated and tailored marketing approach. The marketing landscape and online ecosystem demand companies take a holistic approach and assess the different channels and audience groups before making the big step to China.

3.2 SOCIAL COMMERCE

Social commerce is an emerging sales medium that is particularly suited to China, where consumers are increasingly accustomed to having an active social media presence and making purchases online via their smartphones. Social selling is the blending of social media with e-commerce, combining the consumer trust and word-of-mouth advantages of the former with the ease and convenience of the latter, increasingly all within a single app. The integration of these two powerful forces has led to the establishment of a growing ecosystem for browsing, shopping, and sharing – which can then lead to a feedback loop where both sides enhance and encourage greater interaction with the other.

China in particular represents an incredibly exciting market, as the cutting edge of technological and social integration is combined with commerce and the ways fashion and consumerism interact with our lives.

Social shopping business models are still developing but this development is rapid and several leading trends have already emerged. Consumers are being encouraged to group up with their friends to share new fashionable items, keep ahead of flash sales and other promotions and foster an atmosphere of wanting to buy more to keep up with their social circle. Social media apps are able to facilitate this through convenient one-click links to information on items that can also be used to purchase the item, without ever leaving the app interface. Additionally, artificial intelligence is being used to predict and recommend products for each user via complex algorithms, which if successful can then be shared socially by that user.

The global rise of KOLs – Key Opinion Leaders – and "influencers", an emerging class of micro-celebrities whom consumers look to for shopping and lifestyle guidance, further enhances both the fashion factor and the social angle of selling products by presenting them as being high quality, good value, the latest hot item, or some combination of all three. The influence of such individuals is experiencing a meteoric rise, rivalling and in some cases exceeding the influence of traditional celebrity endorsements, which consumers have come to see as more bought-and-paid advertisements than genuine recommendations or fashion choices from these celebrities.

Social messaging and digital wallet app WeChat has led the charge in the Chinese social commerce arena, becoming a ubiquitous part of daily life in China. People are able to purchase rail and flight tickets, pay for utilities, split cheques in restaurants, and go shopping and fishing for bargains, all from the comfort of this single app.

Recently, social media app RED (Xiaohongshu) – which initially operated as a space for users to share product reviews, lifestyle and travel tips with one another – has integrated cross-border e-commerce (CBEC) into its platform by offering Chinese consumers the opportunity to buy international products directly from their website.

Today, more and more businesses are scrambling to seize the social commerce opportunities presented by WeChat and competitors such as RED.

3.2.1 WeChat

The most powerful force in Chinese social selling, marketing, and commerce as a whole is indisputably the app WeChat. Not just an instant messaging tool nor limited to the traditional boundaries that define a social media platform, the "meta-app" has worked its way into being a part of almost every corner of daily life in China. As of 2019, the app now boasts a daily active user count of one billion, who sent an average of 45 billion messages each day in 2018. The app's integrated e-Wallet ("WeChat Pay") has been a resounding success, becoming a market leader with 900 million monthly users. It has been estimated that WeChat was responsible for driving 50 billion USD into the Chinese economy in 2017, and estimates put 2018 as having an even bigger impact. Building on the success of WeChat Pay, the app provides in-app services ranging from ticket purchasing and bill payment to e-commerce platforms and the sharing of monetary gifts (referred to as "red packets", modelled after the tradition of gifting money in red envelopes on special occasions) between friends and colleagues. It is fast becoming the norm in Chinese e-commerce for companies to establish a presence on WeChat and reach their customers (existing and potential) through the interface on which they spend so much of their lives. Chinese consumers have overwhelmingly embraced this model, which saves them the inconvenience of having to switch between multiple apps and interfaces to browse, go shopping, or keep up with deals and the latest information on their favourite brands. In this section we will elaborate on the types of accounts, how to set these up and how to do WeChat marketing.

Official Accounts

Companies and official entities can set up Official Accounts, which have different functionalities to the general user account most individuals opt for. There are around 20 million active Official Accounts on WeChat, with e-commerce modalities present in around 30% of all Official Accounts. To make sure a company's identity is consolidated into a single public-facing account, and to avoid multiple accounts per brand flooding users with too many different Official Accounts to browse and search through, the number of Official Accounts permitted for each corporate entity has dropped from five (per business entity) to just two. Official WeChat accounts come in two main relevant[23] forms: Service Accounts and Subscription Accounts.

| SERVICE ACCOUNT |

A company looking to set up a WeChat store generally opts for a Service Account, which provides this functionality in addition to customer service, payment, and article/blog-publishing features. This posting feature uses push notifications to help companies grab their customers' attention more easily, but is limited to 4 postings a month, each of which is able to contain 1-6 articles/blog posts.

| SUBSCRIPTION ACCOUNT |

An emerging trend is the use of Subscription Accounts, which don't require a legal entity to set up. They are proving popular with individual bloggers or fans and have less tight limitations on posting (once per day, again 1-6 articles per posting) but are not given the WeChat store functionality offered by Service Accounts. Consumers pay a regular fee for membership privileges, or to be provided on a regular basis with either access to a range of items of their choice or a curated selection of items. This kind of user engagement synergises well with the strengths of social media platforms and the desire among consumers to be seen by their peers as being at the cutting edge.

Overseas companies setting up Official Accounts

WeChat segregates its online ecosystem somewhat when it comes to Official Accounts. An Official Account made outside of mainland China will not be visible to mainland users, preventing overseas companies from gaining easy access to mainland consumers in this way. Therefore, overseas companies wishing to sell to mainland

[23] Another form of Official Account is the Enterprise Account. However, this account is not relevant for eCommerce purposes on WeChat as it is intended for internal company use, such as intra-office communication.

consumers have three main options: finding a local partner or agent, establishing a mainland legal entity or opening a store on an existing WeChat marketplace.

| LOCAL PARTNER OR AGENT |

The first option is finding a local partner or agent that can set up and manage an Official Account and WeChat-based store on one's behalf. This allows an overseas company to operate as though they had their own legal entity in the mainland but will of course rely on finding a reliable partner or agent and coming to a satisfactory mutually beneficial agreement that can keep both parties happy. Additionally, this option has been impacted by the recently reduced limit on number of Official Accounts per entity (down to a maximum of two per company), as agents are less able to offer this service to multiple clients.

| MAINLAND LEGAL ENTITY [24] |

Establishing a mainland legal entity is not always a company's first choice, as it involves numerous legal processes and a significant time investment in order to set up a legal entity. However, with a mainland entity, an overseas company can operate within the same lines as any local company, and faces no further restrictions, and as such the rewards of opting for this solution may be worth it for a committed company.

| STORE ON WECHAT MARKETPLACE |

Opening a store on an existing WeChat marketplace is the easiest option for an overseas company not looking to make a major commitment to the Chinese market right away, as no mainland legal entity is required and there is no need to go searching for reliable partners/agents or to negotiate a deal. However, selecting this option does mean being at the mercy of such marketplaces' increasingly strict rules and conditions, including rising sign-up and commission fees.

Online shops

The two major forms of online shops within WeChat platforms are the more traditional H5 stores and the recently emerged Mini-Programs.

| Mini-Programs |

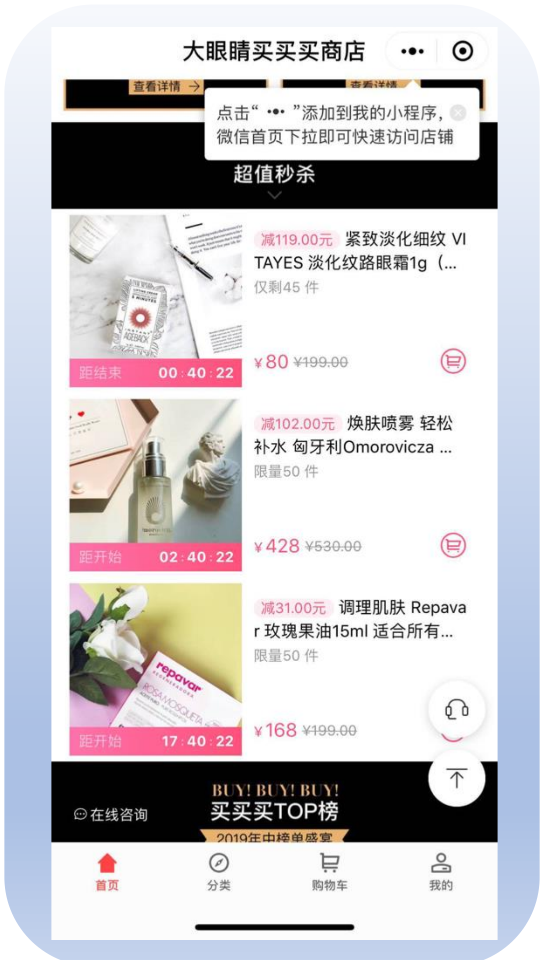
Recent years have seen the rapid rise of Mini-Programs within WeChat. These "micro-apps" are limited to WeChat's ecosystem and cannot be accessed outside the app, but are growing in popularity nonetheless, due to just how widespread WeChat is. Not being able to access them outside of WeChat is not much of a concern to the many customers who are already spending so much of their screen-time in the app anyway.

Within WeChat, accessing them is extremely easy and facilitated by compatibility with a number of features, including the search function, pinning, social sharing via groups and QR-like Mini-Program codes, and so on. Mini-Programs also offer a respectable range of API support, including GPS, gyroscope, and camera functions. These Mini-Programs take many forms, but companies have been quick to realize their potential for e-commerce as it is now the second largest kind of Mini-Program in terms of daily traffic, with most users spending more than 200 RMB on Mini-Programs each month. This success comes in part from Mini-Programs' wide range of features, including group buy functionality, streaming capabilities, and more. Additionally, Mini-Programs tend to be quick and easy to develop and run smoothly without slowing down the user experience with lengthy loading times.

Inspired by the rapid rise of WeChat Mini-Programs, other social media platforms and apps in China have started to develop their own Mini-Program functionality, including rival e-Wallet Alipay and social media platforms Toutiao and Douyin, as well as internet giants QQ and Baidu.

[24] Please note that by becoming a legal mainland entity, the imported products will be considered general trade, not cross-border e-commerce.

Figure 21. Mini-program on WeChat



| H5 STORES |

A mobile H5 store is a kind of online shop that offers both integration into the WeChat app and full support on mobile and desktop browsers outside of the app. These stores are typically linked to an Official Account, which is the easiest way the account holder has of notifying customers of store updates, promotions, and so on.

Because H5 stores are not limited to one app's ecosystem, they are able to offer a host of payment options, including WeChat's rival e-Wallet Alipay (though non-WeChat Pay payment methods will not work when the H5 store is opened using WeChat, only from a browser). However, when it comes to user access, H5 stores have only limited options – users can only access the store through a link or through an attached Official Account.

Additionally, on the technical side, H5 stores are fairly complex, leading to relatively slow loading times and higher investment required to develop them in terms of both time and money.

WeChat marketing

WeChat has become a powerful tool in a marketer's arsenal, and advertising takes many forms on the platform. There are 4 general tools within WeChat marketing: Official Account posts, Moments, Banner Ads, and KOLs' recommendations and endorsements.

| OFFICIAL ACCOUNT POSTS |

The most direct channel is probably posts made by Official Accounts to their subscribers, accompanied by push notifications to alert the user of the new posts. This is just as true for Subscription Accounts (which offer no e-commerce functionality) promoting an offline business or ad-supported online content, as it is for e-commerce-enabled Service Accounts. WeChat users subscribe to the Official Accounts of their preferred brands in order to keep up with new product releases, promotions, discounts, and such. Some brands leverage their offline stores to encourage customers in-store to subscribe to these accounts via promotions and/or prominently displayed QR codes. Official Account posts perform best for brands with large, dedicated followings that hang on their brand's every word, eagerly awaiting each new product announcement or deal.

| MOMENTS |

Official Accounts can also use WeChat's 'wall'-like feature, "WeChat Moments", to post where social media users can see them, between their friends' postings. This functions much like posting adverts on Facebook's Timeline, but is limited to 40-character posts and six pictures (or 6-15 seconds of video content). The post may also link to a Tencent-hosted html5 page.

These ads can be targeted in a number of ways – sent to those already following the associated Official Account, those already using an associated app or Mini-Program, anyone who previously showed interest in the company's ads, and so on. Additionally, when a user interacts with an ad, it will boost the likelihood of that ad being shown to their friends. In general, Moments-based advertising works best for established brands or visually engaging ads that are able to hook viewer interest at a glance.

To use this marketing channel, overseas companies must go through a complicated approval process that involves contacting a dedicated WeChat Advertising team at Tencent. To enhance the visibility of the best posts on Moments, WeChat in early 2019 launched its “Wow” feature, replacing the traditional “Like” function with a Wow button which then feeds into a Top Stories feature: a personalized news feed on which articles/posts are ranked by which got the most Wows from the user’s friends.

| BANNER ADS |

A more traditional form of marketing on WeChat is the banner ad. These ads will appear on Official Accounts (especially Subscription Accounts, who may make a significant portion of their income from selling ad space on their articles/blog posts) and represent a fairly typical advertising model, showing a small banner ad to blog readers. The original and standard form of these banner ads cannot be specifically targeted and are notorious for not having very good performance. However, a more recent form allows marketers to make agreements directly with the Official Accounts they wish their ads to appear on, enabling them to better target their ads to be seen by their intended audience. Prices for the Official Account-specific form are negotiated with the Official Account in question but can generally run high on a CPM (cost per 1000 impressions) basis. These more targeted banner ads may produce better results than the under-performing traditional form, as long as the right targeting decisions are made.

| KOLs |

Keeping up with a massively expanding global trend, WeChat is also used as a KOL-enabled marketing channel, even beyond the KOL-optimized banner ads. KOLs are popular social media users who become celebrities in their own right, and whose product recommendations hold considerable weight with their growing, tech-savvy followings. As such, brands that partner with the right KOL to best reach their intended audience can reap the benefits of their broad reach and their enthusiastic following’s trust in the KOL’s recommendations and endorsements. As this trend develops, we’re seeing further innovations such as KOLs launching their own Mini-Programs to further engage their audience or even offer a direct sales line for the products they endorse.

3.2.2 RED

Xiaohongshu, commonly referred to as RED, is a Chinese social media and e-commerce platform. RED allows users to post and share product reviews, travel blogs and lifestyle stories via short videos and photos. It also operates RED Mall, which sells international products to Chinese users. Taken together, RED can be understood as a combination between Instagram, Pinterest and Net-A-Porter (figure 22).

Figure 22. RED's essence

In January 2019, RED reported it has over 200 million registered users, with most of these users born after 1990 (figure 23). RED's growth and youthful user base has made it an attractive proposition for overseas brands to be discovered, cultivate a passionate following and even build a sales track record. This section introduces some key points about RED for overseas brands to bear in mind.

Figure 23. Average RED consumer

Figure 24. Product categories

RED'S evolution

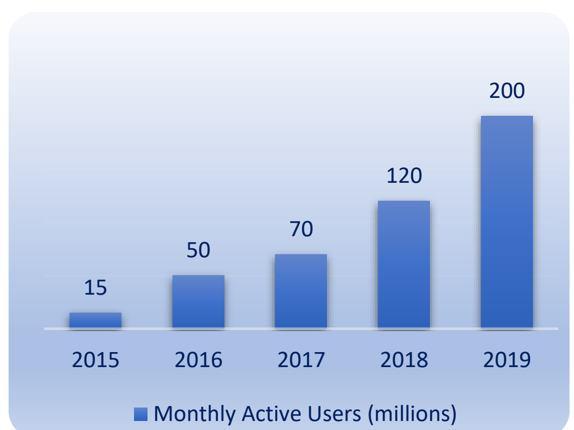
RED had rather humble beginnings. It started as a PDF document of things Chinese tourists should buy when they visit Hong Kong S.A.R. The popularity of that original document led to the creation of a fully-fledged app in 2013. The original intention of creating the RED app was to provide a platform for users to review products bought overseas and to share their shopping experiences with the community.

That overseas theme has continued through much of RED's history. A year after the app launched, RED opened a cross-border e-commerce marketplace, where Chinese consumers can buy products directly from overseas directly.

In the past eighteen months, RED has further built out its commercial ecosystem. Outside the app, it has opened offline retail presences in Shanghai, Changzhou and Ningbo. Within the app, it has introduced advertisements and a platform to connect brands and KOLs into the ecosystem.

As RED's user base has grown, the number of categories users write content on and search for has grown accordingly. Although it originally skewed heavily towards skincare, beauty and cosmetics, RED has branched out to a range of other categories, including clothing, accessories, homeware and travel.

Figure 25. Active RED users



How users engage with RED

Users browse, search, create content and shop on RED. Although a relatively new platform, it has already had a significant, albeit indirect impact on e-commerce in China. An increasing number of consumers use the platform as a research tool. They search for brands, product categories or questions. Even though they don't necessarily buy from RED, the content on the platform can highly influence consumers' purchasing decisions. This is especially the case in high-involvement purchase categories, which often require additional research or comparison.

Potential for brands

RED's previous association with overseas shopping makes it especially helpful to brands targeting sophisticated consumers interested in foreign brands. Although it has cross-border e-commerce capabilities, most users use it as a research and reference tool. That means new brands, especially those without a significant track record through grey-market import (*daigou*) sales, should focus on building word-of-mouth through the platform.

One way to build word-of-mouth through the platform is 'seeding'. This involves brands sending out free samples to influencers, micro-influencers and active users on the platform, with the expectation that this results in a product review. This is a cost-effective way to determine whether your product can find favour among knowledgeable, sophisticated consumers. For those brands that have initial traction and some grey-market import trade, RED's recent introduction of a brand and KOL matching platform gives additional transparency and clarity to further investment in influencer marketing. Brands can shortlist their target KOLs among 8000 verified RED influencers with tags and with their past 30 days performance record. A 'brand presence' on RED is automatically generated when the brand receives a set number of reviews. This 'brand presence' showcases the top reviews of a product, irrespective of whether they are positive or not. That means that brands will invariably have a presence on RED if they are discovered by Chinese consumers. Responding to comments and feeding back consumer feedback into R&D processes is one way to make effective use of the RED community.

4. RULES & REGULATIONS

When entering a new market, one of the earliest challenges companies encounter is the unfamiliarity with local rules and regulations. This is no less true for venturing into Chinese Cross-Border E-Commerce. It is vital to understand these rules, as it may very well impact the way companies (can) sell their products to Chinese consumers. This section will provide businesses with an overview of the current rules and regulations pertaining to CBEC in China.

Inconsistency and unclarity of regulations

Lack of consistency in regulations was one of the biggest challenges for companies engaging in CBEC. At times, the only consistency in regulations apparent in China seemed to be the fact that rules and regulations were ever-changing. This was due to the fact that, although CBEC already was a big market, it was still relatively new and developed rapidly. Chinese authorities sought to better regulate and tax these new economic activities and to crack down on the grey area of individuals (*daigous*) running semi-legal e-commerce networks. Hoping to reduce the size of the grey market, the Government has also obliged *daigous* who sell to Chinese individual consumers via Chinese domestic e-commerce platforms to register as a legal entity. In addition, if such *daigous* want to sell products from overseas to Chinese individual consumers enjoying the preferential treatment provided under the CBEC retail imports from legal perspective, they must register a foreign entity to become the owners and sellers of the goods.

Since 2016, Chinese authorities have implemented several rules and regulations such as tax policies, positive lists and, since the 1st of January 2019, the E-commerce Law in order to improve regulation and stimulate the (cross-border) e-commerce market. Furthermore, 37 pilot zones have been established especially to process CBEC imports throughout China. Accordingly, Dutch companies should pay particular attention to continuously updating regulations. Moreover, any business should be prepared to promptly make their CBEC products compliant to the new regulatory requirements.

Although in China many sectors are heavily regulated, national rules and regulations are often kept general, flexible and inexplicit. In turn, this allows for a broad scheme of interpretations by local authorities as well as regular updates to the rules (for example through the 'positive list'). Be aware that even though the general outlines of CBEC regulations and procedures are similar, pilot zones' detailed protocols might differ quite extensively from location to location. If a company's products can be imported through the bonded pilot zones and the company wishes to do so, they are advised to reach out to different pilot zones or seek professional help to better understand the local procedures, and to find the CBEC pilot zone that best suits their company. Starting out in the right CBEC pilot zone and being able to navigate the local rules and procedures from the beginning can save foreign companies major fines and relocation costs, as well as increased profits by benefitting from local legal exemptions.

Taxation rules

On the 24th of March 2016 the first "Tax Policy for Cross-Border E-Commerce Retail Imports" was introduced that adjusted the tax policy for CBEC retail (B2C) imports. In order to boost cross-border e-commerce purchases, the tax policy was amended[25] on the 29th of November 2018 with the "Improved Tax Policy for Cross-Border E-Commerce Retail Imports". This raised the maximum value of a single transaction from 2000 RMB to 5000 RMB and the total transaction per person per year from 20.000 RMB to 26.000 RMB. Above this value, general trade rules apply.

The new rules will greatly influence Dutch companies in different sectors. The taxation policy has different effects on different import models.

[25] By the Ministry of Finance (www.mof.gov.cn), General Administration of Customs (www.customs.gov.cn) and the State Administration of Taxation (www.chinatax.gov.cn).

Positive list

On 20th November 2018, 13[26] ministries and commissions co-released the "List of Imported Commodities for Retail in Cross-Border E- Commerce (2018 version)" which entered into effect 1st of January 2019. This Positive List involves a total of 1321 commodity categories, categorised in 8-digit HS codes. The goods included in the Positive List are exempt from import licences. However, products under NMPA [27] rules require registration prior to import (see page 56). The new regulations stipulate that only the listed commodities can be imported to China through cross-border e-commerce. For companies that want to make use of the bonded import or formal direct purchase imports, it is of utmost importance to check whether one's products are on the list.

Import models

Before explaining the impact of the new rules, it is important to elaborate on the major import models of cross border e-commerce and how these different models work. There are two main models of cross-border e-commerce retail imports based on currently effective legal provisions: Bonded Imports and Direct Purchase Imports. However, as this report addresses CBEC retail imports from business perspective and covers a wider scope of CBEC retail imports, the Direct Mailing Model is also included in this report. Although not technically CBEC from a legal perspective, it does involve Chinese consumers buying products from overseas directly.

CBEC Retail Imports from legal perspective: Bonded Imports and Direct Purchase Imports

There are two types of bonded imports which subject to two different customs supervision codes: the online purchase bonded imports subject to code 1210 or the online purchase bonded imports A subject to code 1239 dependent on whether the bonded warehouse is located in a pilot city or not.

Bonded Imports and Direct Purchase Imports are subject to the positive list as well as new taxation rules. For Bonded Imports and Direct Purchase Imports the import tariff, VAT, and consumption tax will be levied upon customs clearance. The tax rates under the new CBEC Retail Imports from legal perspective can be found in Figure 26.

| BONDED WAREHOUSE MODEL | B2B2C |

'Stock first, order later': Products on the positive list of 1,321 HS codes can be imported in bulk into approved CBEC bonded warehouse zones across China. After Chinese consumers place orders through CBEC sites, these products go through customs clearance directly in the bonded area and then are delivered. Consumers will normally receive their goods within 2-3 days. For the purposes of supervision and statistics, Chinese Customs apply a 4-digit Customs Supervision Code to represent different models of import and export. Therefore, players in the CBEC industry are used to describe their import models with the corresponding supervision codes. Under the bonded warehouse model, the code 1210 applies to imports to the 37 pilot cities [28] i.e. online purchase bonded imports while the code 1239 applies to imports to the non-pilot cities i.e. online purchase bonded imports A. The different import methods are detailed in Figure 27.

| DIRECT PURCHASE IMPORTS | B2C |

'Order first, deliver later': After consumers place orders on registered CBEC platforms, the platform needs to submit the records of order, shipment and payment to customs. Only then will the products be shipped from an overseas distribution centre that is linked to Chinese customs. Only when these three records of a single purchase are in accordance, the parcel can be released. For Direct Purchase Imports, the Customs Supervision Code 9610 applies.

[26] Ministry of Finance, National Development and Reform Commission, Ministry of Industry and Information Technology, Ministry of Ecological Environment, Ministry of Agriculture and Rural Affairs, Ministry of Commerce, People's Bank of China, General Administration of Customs, State Administration of Taxation, National Medical Products Administration, State Cryptography Administration, General Administration of Customs, National Medical Products Association and State Administration of Market Supervision (http://www.samr.gov.cn/)

[26] http://www.moa.gov.cn/

[27] CFDA has been merged into the State Administration for Market Supervision (SAMR) in 2018. Accordingly, CFDA's new official name is National Medical Products Administration (NMPA). Cosmetics, medical devices and pharmaceutical products are subject to NMPA, while Infant formula milk powder, health food and food for special medical purposes are not. Instead they subject to administration of a separate department under SAMR. Detail NMPA rules please refer to : http://subsites.chinadaily.com.cn/nmpa/lawsandregulations.html

[28] Tianjin, Shanghai, Chongqing, Dalian, Hangzhou, Ningbo, Qingdao, Guangzhou, Shenzhen, Chengdu, Suzhou, Hefei, Fuzhou, Zhengzhou, Pingtan, Beijing, Hohehot, Shenyang, Changchun, Ha'erbin, Nanjing, Nanchang, Wuhan, Changsha, Nanjing, Haikou, Guiyang, Kunming, Xi'an, Lanzhou, Xiamen, Tangshan, Wuxi, Weihai, Zhuhai, Dongguan, Yiwu

For more detailed information on CBEC Retail Imports from a legal perspective, we would recommend the legal guideline of the EU SME Centre on Cross-border E-Commerce in China (2019) at http://www.eusmecentre.org.cn/report/guideline-cross-border-e-commerce-china-2019 .

Figure 26. Tax rates Bonded Imports & Direct Purchase Imports

Bonded Imports Model (B2B2C[29]) & Direct Purchase Imports (B2C[30])	
Tax and duties	**Tax Rate**
Import tariff	Temporarily set at 0%
Value-added tax	Levied at 9.1% (normal flat VAT is 13%)
Consumption tax	Levied at an equivalent to 70% of the standard rate applicable to the type of goods

Direct Mailing Model

Products that are not on the CBEC Positive list can also be shipped directly from overseas merchants (B2C) and individuals (C2C) to China via the postal and courier system or through personal express, elaborated on below. We refer to this as the Direct Mailing Model. Even though it is not a type of CBEC retail import from a legal perspective, based on currently effective regulations, we do consider it as CBEC retail imports from a business perspective and therefore have included it in this guide to give the readers a full picture of relevant e-commerce business models.

| POSTAL AND PERSONAL EXPRESS IMPORT| C2C|

Dutch companies that opt to ship their products from overseas to Chinese consumers directly by using postal and courier service will only be subject to the personal postal articles tax. It is important to note that in the Direct Mailing Model taxes will only be levied when customs check the parcel during regular checks. Furthermore, Chinese consumers are obligated to pay personal postal tax if they purchase goods from abroad (B2C) or through individuals (C2C) that send their orders to China by postal or international courier service. Unlike with CBEC retail imports in a legal sense, which are levied import taxes[31] though administered as products for personal use,

Figure 27. Different import models and respective customs supervision

Import Model	Customs Supervision Code	Customs Supervision Method
Bonded warehouse model	**1210** (37 pilot cities)	The products will be regulated as imports for personal use so the licensing, registration or filing requirements regarding first-time imported goods will not apply.
Bonded warehouse model	**1239** (non-pilot cities)	When the products enter the customs' special supervision areas or bonded logistics centers, they will be regulated as import of ordinary goods for trading; when the products exit from the customs' special supervision areas or bonded logistics centers, they will be regulated as goods for personal use.
Direct Purchase Imports	**9610**	The products will be regulated as imports for personal use so the licensing, registration or filing requirements regarding first-time imported goods will not apply.

[29] From bonded warehouse
[30] From overseas distribution center
[31] Including imported value-added tax and consumption tax (if any) with customs tariff exempted currently

Chinese customs treat the imported product through Direct Mailing Model as a product for personal use. They are taxed by personal postal articles tax: 13%/20%/50% depending on the category. Taxes are waived if products amounts to less than 50 RMB. Additionally, the low personal postal articles tax China benefits from due to international agreements, makes this an attractive mode of import for many Chinese consumers. For the Direct Mailing Model, the newest regulations can be found in Figure 28.

Figure 28. Tax rates Direct Mailing Model

Direct Mailing Model(C2C[32])		
Personal postal articles tax category	**Goods categories**	**Tax rate**
1	Books, magazines, and educational audio-visual products; computers, video recorders and digital cameras; food, beverages; gold and silver; furniture; toys, games, festive and other recreational articles	13%
2	Sports goods, fishing equipment; textiles and textile products; TV cameras and other electrical appliances; bicycles; other goods not included in categories 1 and 3;	20%
3	Tobacco, wine; precious jewellery and jade, golf clubs and equipment; high-end watches; cosmetics	50%

The previously mentioned new rules and regulations affect the personal express option as this is operated under the Direct Purchase Imports with supervision code 9610.

Detailed regulatory requirements differ per product. Therefore, Dutch companies are encouraged to seek professional assistance from third-party service providers (TPs[33]) for tailor-made information and advice on their specific products. For the latest (English) reports on registration and filing requirements, please refer to the website of the Chemical Inspection and Regulation Service (CIRS[34]) and for detailed (English) announcements, rules and regulations on Customs please refer to the General Administration of Customs of the People's Republic of China (GACC[35])

Impacts of the PRC E-commerce Law

On one hand, the biggest advantages of CBEC over general trade were relative low taxation and simpler CIQ and NMPA product filing or registration procedures (Figure 29 & 30). Compared to duties levied on general trade, bonded imports, direct mailing and direct purchase, CBEC import are often cheaper, especially for general consumer goods. Of course, price-wise the best import model does very much depend on the products to-be-imported. This is illustrated by the comparative examples in Figure 31.

On the other hand, since the 1st of January 2019 CBEC is also subject to more and stricter regulation due to the enactment of the PRC E-commerce Law. The E-commerce Law signals China is further opening up to CBEC. However, some of the requirements which are customary to domestic sellers may require extra efforts for foreign sellers under the CBEC models to achieve, such as issuing fapiaos (Chinese official purchase invoice) to end-consumers, consumer rights protection (i.e. return of goods in 7 days without reasons) as well as compliance with other related Chinese laws such as the PRC Advertising Law and Privacy Protection Laws. Therefore, Dutch companies are encouraged to seek professional assistance regarding the up-to date Chinese laws and also consult their local partners about the implementation of these laws in practice. In addition, for different

[32] From (overseas) individuals
[33] See chapter 2.5 for an extensive report on the services provided by third-party service providers
[34] http://www.cirs-reach.com/
[35] http://english.customs.gov.cn/

commodities merchants should consider different modes of import and logistic solutions. The latter is elaborated on in chapter 2.3 regarding logistic solutions.

Figure 29. Customs Clearance of Entry Commodities

Before the new policy regulations went into effect, goods imported through CBEC were generally subject to humbler customs inspections and quarantine (CIQ) procedures.

After the introduction of the CBEC regulations, although CBEC platforms, logistics service providers and payment service providers are still required to register with the local customs for reporting the transaction, payment and logistics information, the procedure has become less onerous due to the introduction of the "unified declaration channel" by the General Administration of Customs in 2018.

Figure 30. Registration and filing requirements for certain products

Currently certain goods imported under the bonded warehouse model and stored at bonded warehouses outside of the 37 pilot cities will also have to obtain certification from the National Medical Products Administration (NMPA) before sale in Mainland China.

According to the Positive List (2018 version) certain product categories will need to follow the same registration or filing requirements required for products imported through general trade channels, or for those products sold at Chinese (non-cross border) e-commerce platforms.

Depending on the product category NMPA demands imported goods either go through 'registration' or 'filing' procedures. Hereby product registration is a lengthier and stricter procedure than filing (see below).

CBEC product categories that require registration or filing are (1) cosmetics, medical devices and pharmaceutical products which are subject to the regulation by NMPA; (2) infant formula milk powder, health food and food for special medical purposes (FSMP) which are subject to the regulation by the Safety Supervision and Administration Department of Special Food under SAMR.

NMPA filing and registration are extremely lengthy procedures (two up to five years) and can be summarized as follows:

Filing procedure:
1. Sample testing;
2. Dossier preparation;
3. Dossier submission;
4. Filing approval.

Registration procedure:
1. Sample testing;
2. Dossier preparation;
3. Dossier submission;
4. Technical evaluation;
5. On-site verification and re-testing;
6. Registration approval

Figure 31. Comparative examples for, respectively, cosmetic products, books and cheese.

Import method	Tax payable	Price after clearance
General trade	• 400 RMB + • Tariff (6,5% - 18%) + • VAT (13%) + • Consumption tax (15%)	566-627 RMB
Direct Mailing Import[36]	• 400 RMB + • Personal postal articles tax category 3 (50%)	600 RMB[37]
Bonded Import & Direct Purchase Imports	• 400 RMB + • Tariff (temporarily 0%) + • VAT (9,1%) + • Consumption Tax (21%)	552 RMB

Import method	Tax payable	Price after clearance
General trade	• 100 RMB + • Tariff (0%) + • VAT (13%) + • Consumption tax (0%)	113 RMB
Direct Mailing Import[38]	• 100 RMB + • Personal postal articles tax category 1 (13%)	100 RMB[39]
Bonded Import & Direct Purchase Import	• 100 RMB + • Tariff (temporarily 0%) + • VAT (9,1%) + • Consumption Tax (0%)	109,10 RMB

Import method	Tax payable	Price after clearance
General trade	• 100 RMB + • Tariff (12%) + • VAT (13%) + • Consumption tax (0%)	113 RMB
Direct Mailing Import[40]	• 100 RMB + • Personal postal articles tax category 1 (13%)	100 RMB[41]
Bonded Import & Direct Purchase Import	• 100 RMB + • Tariff (temporarily 0%) + • VAT (9,1%) + • Consumption Tax (0%)	109,10 RMB

[36] If checked by customs
[37] No waived tax
[38] If checked by customs
[39] Normally 113 but tax is waived
[40] If checked by customs
[41] Normally 113 but tax is waived

5. BEYOND CHINA

E-commerce is thriving in China but in large parts of South-East Asia e-commerce is still developing. For Dutch companies who already are successful in the Chinese cross-border e-commerce market expansion to the South-East Asian market could be a logical next step.

In Singapore, for example, only 5.5% of total retail purchases are transacted online and in Indonesia just 3.1%. That compares with more than 20% in China in 2017, according to Euromonitor. However, E-commerce is expanding rapidly, ranging from 18% to 40% annual growth across the region, according to Google and Temasek.

Nearly every country in this region, except for Singapore, has an emerging and growing economy. It is expected that Southeast Asia's e-commerce market is set to exceed 102 billion USD by 2025. Moreover, cross-border e-commerce accounts for more than 40% of the total e-commerce market in South-East Asia.

South-East Asia is becoming an emerging hub of the e-commerce market with extremely high potential for companies willing to expand their operations in the region. This is due to the fast-growing population, rising middle class, increasing access to internet and developing transport infrastructure across South-East Asia.

Digital payments are also becoming increasingly commonplace in South-East Asia, accounting for 37% of online payments in 2015 and continuing to increase apace since. The growing affordability of smartphones and increasing governmental and commercial interest in developing logistical capabilities and infrastructure is also helping to enhance the e-commerce potential of each country in the region and indeed the region as a whole. Indonesia, Thailand, Singapore, Malaysia, and Vietnam represent strong markets that are continuing to develop and shift from traditional offline retail to digital-enabled sales models.

Indonesia

Population 264 million
GDP – 1.015.539 USD
GDP per capita - 3847 USD

Indonesia is a regional leader in e-commerce, with e-retail sales in the country reaching as high as 5.29 billion USD in 2016. Despite this, the country actually only has a 50% Internet penetration rate and as such has potential for even greater e-commerce growth.

Singapore and Malaysia are the two most important countries for cross-border e-commerce in South-East Asia, together good for over 50% of the total cross-border e-commerce market. Singapore is the dominant player among the countries in South-East Asia. Almost 55% of the online transactions were cross-border e-commerce transactions. There is no Goods and Services Tax (GST) in Singapore for importing goods that are less than 400 SGD, which is an essential factor that drives cross-border e-commerce.

Malaysia

Population 31.6 million
GDP – 314.500.000 USD
GDP per capita - 9945 USD

An increasingly wealthy multi-ethnic nation with strong links to neighbouring Singapore, Malaysia is a rapidly emerging e-commerce hub in the region, perfectly positioned for logistical links to many nations in the region and linguistically connected to several of its neighbours. Like Singapore, it has a relatively small population but a comparatively impressive rate of technological adoption as a healthy and technologically savvy middle class emerges.

Singapore

Population: 5.6 million
GDP: 327.456 USD
GDP per capita: 57.629 USD

By far the wealthiest nation in the region, with a strong and established middle class and easy access to the latest technological devices and developments, Singapore represents a market more similar to other developed nations. Its e-commerce development is more or less in line with developed Western development, and the major hurdles are more focused around convincing consumers to shift from established traditional forms of payment (which are less established in its less developed neighbours, who therefore do not face this challenge). As such, Singapore makes up a disproportionately large e-commerce market for its small population size, but also can be said to have significantly less e-commerce growth potential than the rest of the region.

In Vietnam, for example, e-commerce revenues are projected to leap from just 400 million USD in 2015 to 7.5 billion USD by 2025, and in Indonesia from 1.7 billion USD to 46 billion USD over the same period.

Vietnam

Population 95.5 million
GDP - 223,864 USD
GDP per capita - 2,342 USD

The poorest of the nations profiled here, Vietnam unsurprisingly makes up the smallest share of e-commerce retail sales among them. However, the difference is not so great as one might expect (just 260 million USD behind Malaysia in 2016), and so regional players have expanded here as well to have an established presence ready and waiting for the country's expected development.

Thailand is, next to Singapore, the second-largest market in Southeast Asia. The country is witnessing a high growth, which is expected to register a compound annual growth rate of 14.5% and reach 5.8 billion USD by 2022. Additionally, the markets in Vietnam and the Philippines possess huge potential for cross-border e-commerce.

Thailand

Population: 69 million
GDP: 455.201 USD
GDP per capita: 6594 USD

Thailand has a medium-sized population and a respectable GDP for a developing Southeast Asian nation but is still playing catch-up technologically and in terms of the size of its middle class, and as such represents more potential than some other markets. However, with a retail sales turnover of 2.89 billion USD in 2016, it has already become an important online sales market. Indeed, government attention has been paid to this success and future potential, making moves such as infrastructure and logistics improvements to ease the way for e-commerce companies such as Amazon – who have had a presence in the country for years – to further develop the market.

SEA E-commerce players

As well as expanding the reach of their own platforms into neighbouring territories, China's biggest e-commerce players such as Ali Group and Jingdong are making tactical investments into e-commerce players in SEA: the biggest e-commerce players in Malaysia, for example, are Shopee, Lazada Group, and 11Street, who have received significant investment from Tencent, Alibaba, and Jingdong respectively.

The Lazada Group, founded in 2012 by Rocket Internet, brings a high-quality online shopping experience to Southeast Asia. It is a general online department store and marketplace allowing retailers to sell their products. Lazada's e-commerce websites launched in 2012 in five ASEAN countries, including Thailand.

By 2016, Lazada had recorded an annual total of 1.3 billion USD in Gross Merchandise Value across its markets in Southeast Asia. In early 2016, Alibaba took a 51% controlling stake in Lazada with a US$1 billion investment and more recently increased their holdings by a further 1 billion USD giving them an 83% stake in the company. Together with Shopee.com Lazada are the most significant cross-border e-commerce platforms in South-East Asia.

The pros and cons of the top CBEC platforms in South-East Asia

Selling platform	Pros	Cons
Carousell	Open to everyone Easy to use Free to use unless you promote	Critical buyers Have to settle payment & logistics yourself
Shopee	Free to use (no commission) Open to everyone	Must register business to be listed on Shopee Mall (exclusive to top sellers & official brands) Small reach, new platform
Qoo10	Open to everyone Huge reach Cost effective and easy to promote your shop	One-time registration fee of $100 (regular) or $500 (Qstore) Qoo10 takes 12% commission (regular) or 5% (Qstore) Lack of official resources for sellers
Lazada Group	Huge reach Has logistics infrastructure built in (but it costs money) Good resource centre for sellers	For registered business only (registration fee $315) Lazada takes 3% to 9% of your revenue

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Arctic Solutions provides support and services from A to Z. Arctic Solutions does not only focus on sales but also helps you build your brand on channels like Taobao, Tmall, Jd.com, WeChat, Hema, Suning, Little Redbook, Weibo, Toutiao and Douyin. It means that we cover everything from (cold store) logistics, customs handling, last mile delivery, customer service and marketing.

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Chaoly is a data analytics and growth agency in China. From our offices in Amsterdam and Shanghai we help startups and corporates to achieve rapid and sustainable digital growth in China. Why? Having started in 2013 as a TP/e-commerce agency we witnessed many companies fail or moving out of China. We felt it was time for a new approach: e-commerce based on actionable and transparent data instead of gut feeling and (false) assumptions. We do this by offering three services:

Chaoly Software

A data-analytics tool that tracks, benchmarks and improves your digital performance across major online platforms in China. Platforms include: Tmall, Taobao, Jingdong, WeChat, Weibo, Baidu, Little Red Book

Chaoly Lab

- Validate new products through Chinese data-driven experiments: real-life user feedback, usability tests
- Maximize ROI of existing products and e-commerce stores with Chinese growth hacking tools

Chaoly Training

- Learn to master Chinese growth hacking tools and experimentation.
- Adopting a data-driven mindset for eCommerce managers and store operators

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At **MAiNS international** we want to facilitate cross-border trade. From Europe to China and from China to Europe. For that you need to find a product, ship a product and sell a product. Whether you need one or more of these solutions we are able to add value. For this guidebook we have contributed on the e-commerce logistics as this is the backbone of our solutions. To be able to succeed in logistics you need to understand and connect a trusted supply with a trusted demand.

We strongly believe that you need to localize your presence to be able to succeed in another continent. With our offices in China and Europe we are able to be a bridge and help you define and explore your (hidden) cross-border opportunities.

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Webpower is a leading provider of marketing automation. The company was founded in the Netherlands in 1999 and entered the Chinese market in 2006. Up to now, Webpower has established 10 offices in Europe and Asia. During the past decade, Webpower China has proudly served thousands of companies in over 14 industries. The company strives to help clients achieve personal communication with Chinese consumers. Email, SMS and mobile marketing are integrated to create an intelligent and multichannel approach.

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DigiDutch is a Shanghai-based collective of Dutch companies all specialised in e-commerce in China. Combined they have 50 years of experience and 200 employees at your service. DigiDutch helps foreign brands to sell their products and services online in China.

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APPENDIX

Official Positive list (Chinese, 2018 version):
http://gss.mof.gov.cn/zhengwuxinxi/zhengcefabu/201811/P020181129612836698037.pdf

Positive list helper (English):
https://www.tmogroup.asia/china-positive-list/

TERMINOLOGY

Alibaba (阿里巴巴) – China's largest e-commerce company.

Alipay (支付宝)– Alibaba's proprietary online payment system.

Aliwangwang (阿里旺旺) – Alibaba's proprietary messaging tool used on all Alibaba e-commerce platforms for realtime communication between customers and customer service.

API（应用程序接口) – Application Programming Interface, a set of routines, protocols and tools for building software applications.

AQSIQ (中国质量监督检验检疫总局) – General Administration of Quality Supervision, Inspection and Quarantine.

Baidu (百度) – China's largest and most popular search engine.

Baokuan (爆款) – Currently most popular products.

Baoyou (包邮) – Shipping costs included in the price.

Beihuo (备货) – stock up (in bonded warehouse).

Bonded warehouse (关栈) – a customs controlled warehouse for the retention of imported goods until the duty owed is paid.

Baozun (宝尊) – is a leading, digital and e-commerce service partner in China.

Cainiao (菜鸟) – Alibaba's own logistics network, linking Alibaba with a consortium of logistics providers.

CIF (成本加保险费加运费) – Cost, Insurance and Freight is a trade term requiring the seller to arrange for the carriage of goods to a port of destination, and provide the buyer with the documents necessary to obtain the goods from the carrier.

CIQ（中国出入境检验检疫) – Bureau of Entry and Exit Quarantine and Inspection.

CNCA (中国国家认证认可监督管理委员会) – Certification and Accreditation Administration of the People's Republic of China.

Consolidated shipment (合并装运) - A distribution method whereby an agent (a consolidator) combines individual batches of goods from various companies into one shipment. The benefit of this combined shipment to individual shippers is the preferential rates.

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

Dianpu (店铺) – shopfront on online mall or hypermarket.

Escrow (第三方托管） – a monetary arrangement in which a third party receives and disburses money or documents for the primary transacting parties, with the disbursement dependent on conditions agreed to by the transacting parties. For e-commerce: Alipay, WeChat Pay etc.

ExFresh (安鲜达) – China's largest coldchain logistics service company.

Guanzhan (关栈) – bonded warehouse.

Haitao (海淘) – overseas purchases, often used for cross-border section of e-commerce platforms.

ICP License – ICP license is a legal requirement for all websites hosted in the People's Republic of China.

Jiesuan (结算) – checkout process.

Jingdong (京东) – JD.com.

Juhuasuan (聚划算) – owned by Alibaba, this website offers goods at a limited-time discount.

KOLs (网红) – Key Opinion Leaders are online influencers with a big following on Chinese social media. They are widely used to promote products through word of mouth.

Kuaidi (快递) – express, last-mile delivery (mostly electric scooters).

Kuajie (跨界) – cooperation to promote products from different sectors or industries.

Kuajing (跨境) – cross-border sales.

Lenglian (冷链) – cold chain (logistics).

Miaosha (秒杀) – a time or volume-limited flash sale. Websites like VIP.com make use of this model.

Netease Kaola (网易考拉) – one of the largest CBEC companies in China.

Peisong (配送) – distribution.

Personal postal articles tax - a kind of import tax levied by Chinese Customs on inbound parcels. It includes import VAT and consumption tax.

Pingtai (平台) – e-commerce platform or marketplace.

Qin (亲) – term used by Customer Service to address customers.

Ruanwen (软文) – to invite KOLs or other influential celebrities to promote products on social media or WeChat.

SF Express (顺丰快递) – the largest domestic logistics company in China.

Shangou (闪购) – a time or volume-limited flash sale. Websites like VIP.com make use of this model.

Taobao (淘宝) – Chinese C2C online marketplace, often regarded as China's first CBEC platform.

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; the software behind WeChat Pay.

Tmall (天猫) – China's largest online mall (B2C) operated by Alibaba Group.

Tmall Supermarket (天猫超市) – Supermarket based on Tmall.com. Fresh food section is solely operated by Yiguo.com.

Tmall Global（天猫国际） – Tmall's cross-border e-commerce platform.

Tuan Gou (团购) – group purchasing.

Weibo (微博) – Chinese social media platform, equivalent to Twitter.

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

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

WeChat Pay (微信支付) – proprietary online payment method on WeChat and in offline stores.

Weixin (微信) – see WeChat.

Xiao'er (小二) – customer service representatives, especially those on Taobao and Tmall.

Xiaohongshu (小红书) – also known as RED, is a platform that combines social media with e-commerce.

Yushou (预售) – presales.

Zhuizong (追踪) – parcel tracking.

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This CBEC guidebook is written on behalf of the Netherlands Economic Network in China. It has been written by Consulate General of the Kingdom of the Netherlands in Shanghai, author is Simone Boes, trainee at the Economic and Commercial Affairs Department. This guidebook is an update of the CBEC guidebook first edition that was published in January 2017 and written by: Thymen Ballering, former trainee Economic and Commercial Affairs Department of the Consulate General of the Kingdom of the Netherlands in Shanghai.

This Guidebook has been co-written thanks to the inputs of experienced entrepreneurs in China's cross-border e-commerce sector. The Dutch Consulate General in Shanghai would like to formally thank all the companies that have shared their expertise and contributed to the content of the guidebook: AsiaAssist, Bonnard Lawson, Arctic Solutions, Chaoly, MAiNS international, TMO Group, and Webpower. An overview of the contributors can be found on page 62.

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The Netherlands Economic Network in China consists of the Embassy of the Netherlands in Beijing, the Consulate General in Shanghai, Guangzhou, Chongqing and Hong Kong. Apart from the Embassy and four Consulate Generals, there are six Netherlands Business Support Offices (NBSO's) in Chengdu, Dalian, Jinan, Nanjing, Qingdao and Wuhan. The economic network in China is there to help you when you are thinking about entering the Chinese market.

Our goal is to stimulate Dutch activities and investments in China. The economic network offers services like market scans, organizing trade missions and matchmaking between Chinese and Dutch parties. You can also profit from their extensive network in and expertise on their regions.

For more information, you can check the website: www.nederlandwereldwijd.nl/china or https://www.netherlandsandyou.nl/your-country-and-the-netherlands/china

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