

Preview Version

# The Cross-border E-commerce (Haitao) Opportunity in China

Understanding the Chinese consumer and strategies for international retailers to succeed in China's booming online shopping market.

A RESEARCH REPORT BY

FROST & SULLIVAN

azoya consulting



# ABOUT THIS RESEARCH REPORT

China is now the world's largest online shopping market. Driven by rising levels of personal wealth and high Internet connectivity, Chinese consumers are on track to spend over US\$1 trillion online in 2018.

A notable trend is the strong preference of many Chinese online shoppers to buy from overseas brands and retailers through cross-border online shopping - known as *haitao* or CBEC (cross-border E-commerce). Simply, it involves a Chinese consumer placing an order online with an overseas-based online retailer, who ships the product from outside the Chinese.

Typically, overseas brands and retailers have sold cross-border into China through online marketplaces offered by China's E-commerce giants, such as Alibaba and JD.com. While this is the best-known model, there is no "one size fits all" approach for brands and retailers.

Increasingly, Chinese cross-border shoppers are looking beyond marketplaces, and are shopping on retailer or brand owner standalone direct-to-consumer (D2C) online stores, which offer them a greater level of personal engagement and a more authentic online shopping experience.

The complexities and challenges involved in selling into China mean the **"one size fits all" approach is no longer appropriate to meet market demands.** As a result, individual retailers and brand owners need to carefully determine which model is likely to work best for them.

In this white paper, we review how online shopping in China is evolving, and the attitudes of brands and retailers selling online into China. We analyse the alternative cross-border sales models available to brands and retailers, and indicate how the use of a marketplace may not always be the best solution for international companies in engaging with Chinese online buyers.

We undertook research with a sample of 1,000 individuals in China who regularly shop online cross-border (the Consumer Survey), as well as interviewing 100 international brand owners and retailers with **revenue over 50 million USD per year**, in Australia, New Zealand, the US, Canada, and the European Union (the Retailer Survey) to understand their strategies, expectations and experiences of online sales into China.

Respondents were drawn from a range of categories, including mum and baby, beauty, cosmetics and personal care, health and wellness, food and grocery, and fashion. The Appendix provides further details of the study samples.

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- Full Frost & Sullivan 20 page research report, detailed market insight, full strategy interpretation
- Complete access to over 50 charts to analyze 1,000 cross-border shoppers about how they make purchase decision, top influencers, requirement for international retailers
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- Support from Azoya Consulting on data analysis, policy & regulation, & strategy

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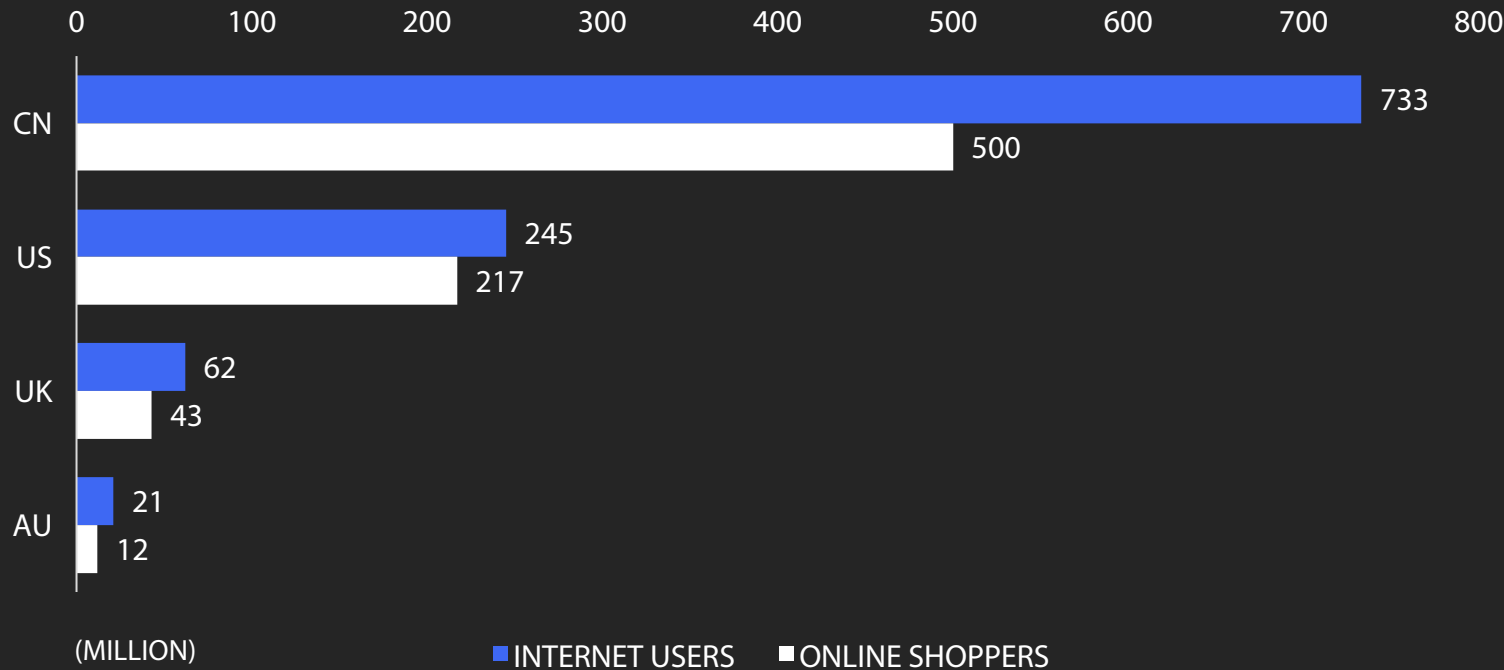
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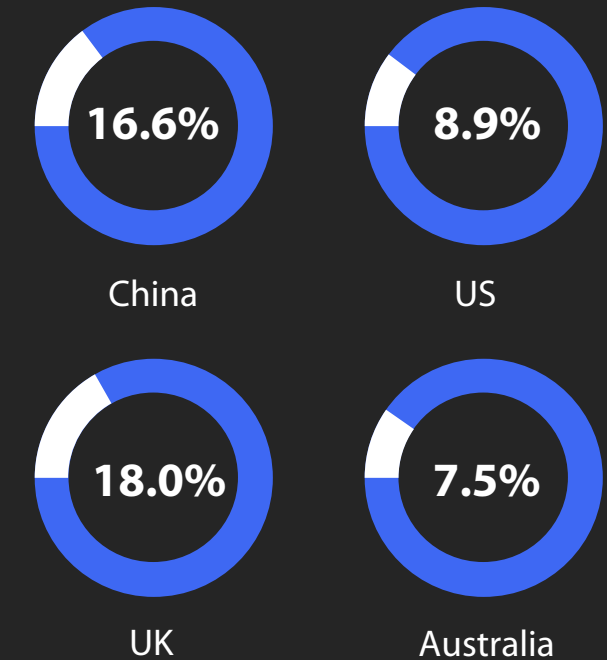
# CHINA HAS THE WORLD'S LARGEST E-COMMERCE ECOSYSTEM

China has more online shoppers than the US, United Kingdom, and Australia combined, and with online sales now at over 16% of total retail sales, China is second only to the UK in online shopping penetration.

### China's Internet Users and Online Shoppers Compared to selected Countries



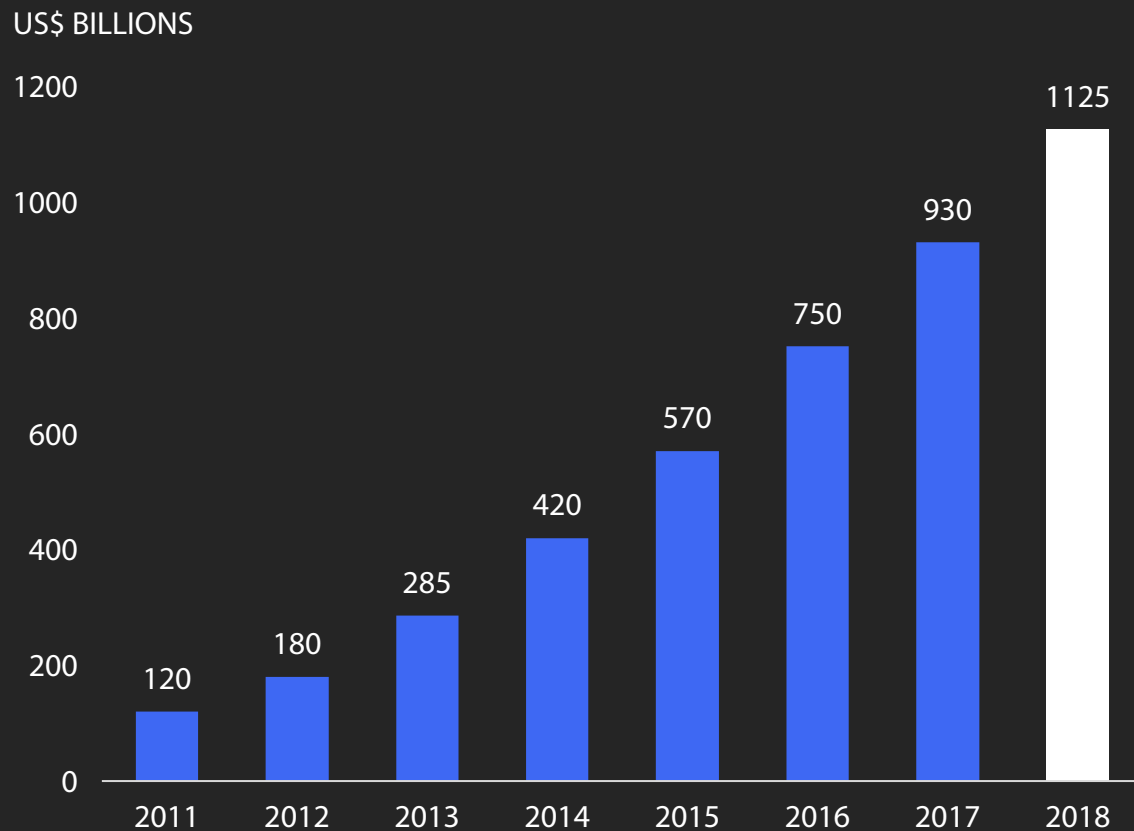
### Online sales as percentage in China, US, UK & Australia



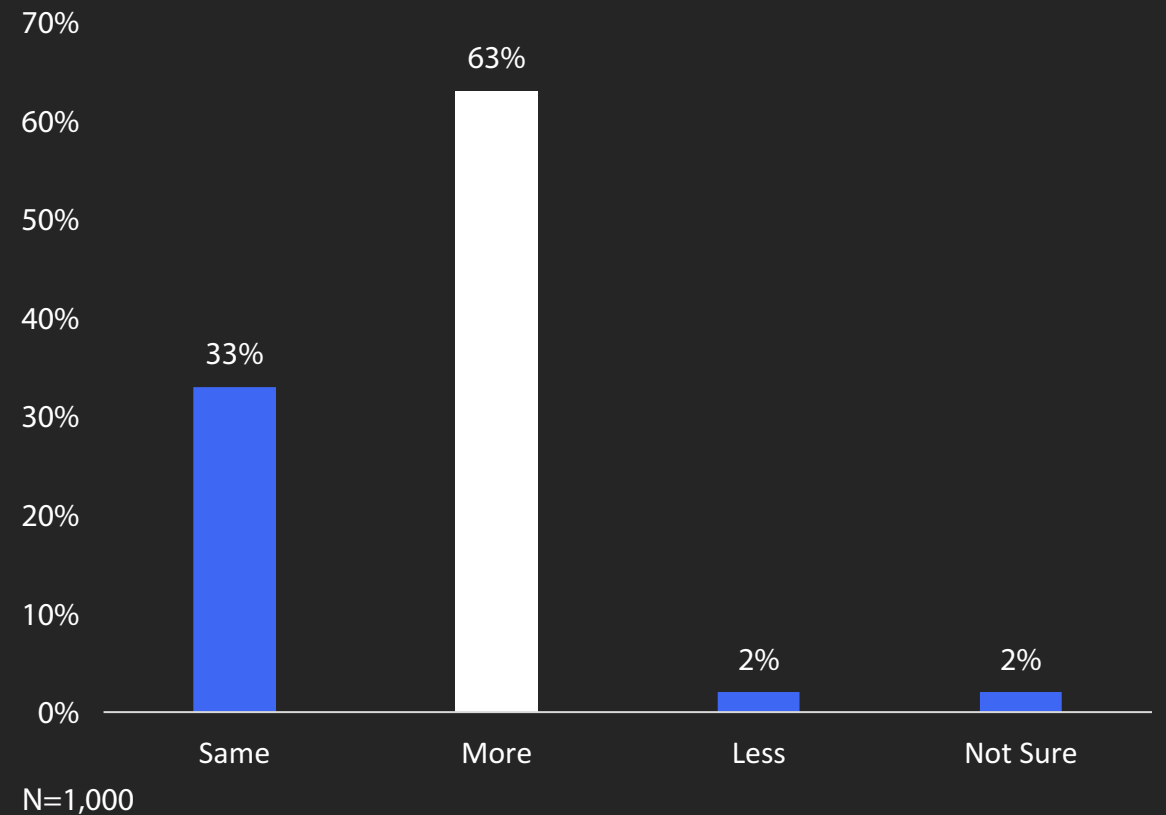
# EXPENDITURE ON ONLINE SHOPPING IN CHINA CONTINUES ROBUST GROWTH

China is not just the world's largest online shopping market, it is also one of the fastest growing, and accounts for almost half of total global online shopping sales.

## Online Shopping Expenditure in China, 2011-2018

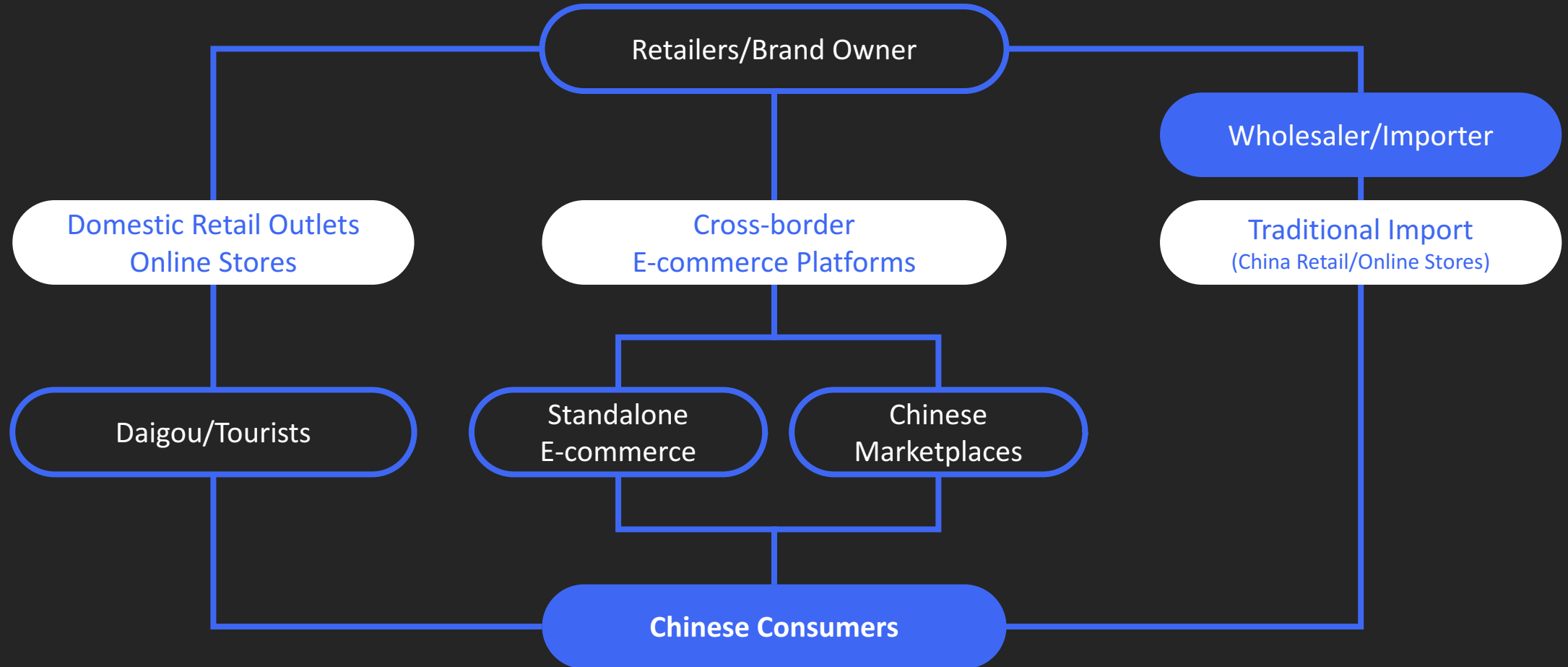


## Consumer Expectations on Online Shopping Expenditure Over the Next 12 Months



# CROSS-BORDER – A NEW GROWTH DRIVER FOR ONLINE SHOPPING

The maturing of international payment and logistics encourages many Chinese consumers to shop directly from international retailers. For retailers, they now have a new business model to expand to the Chinese market.



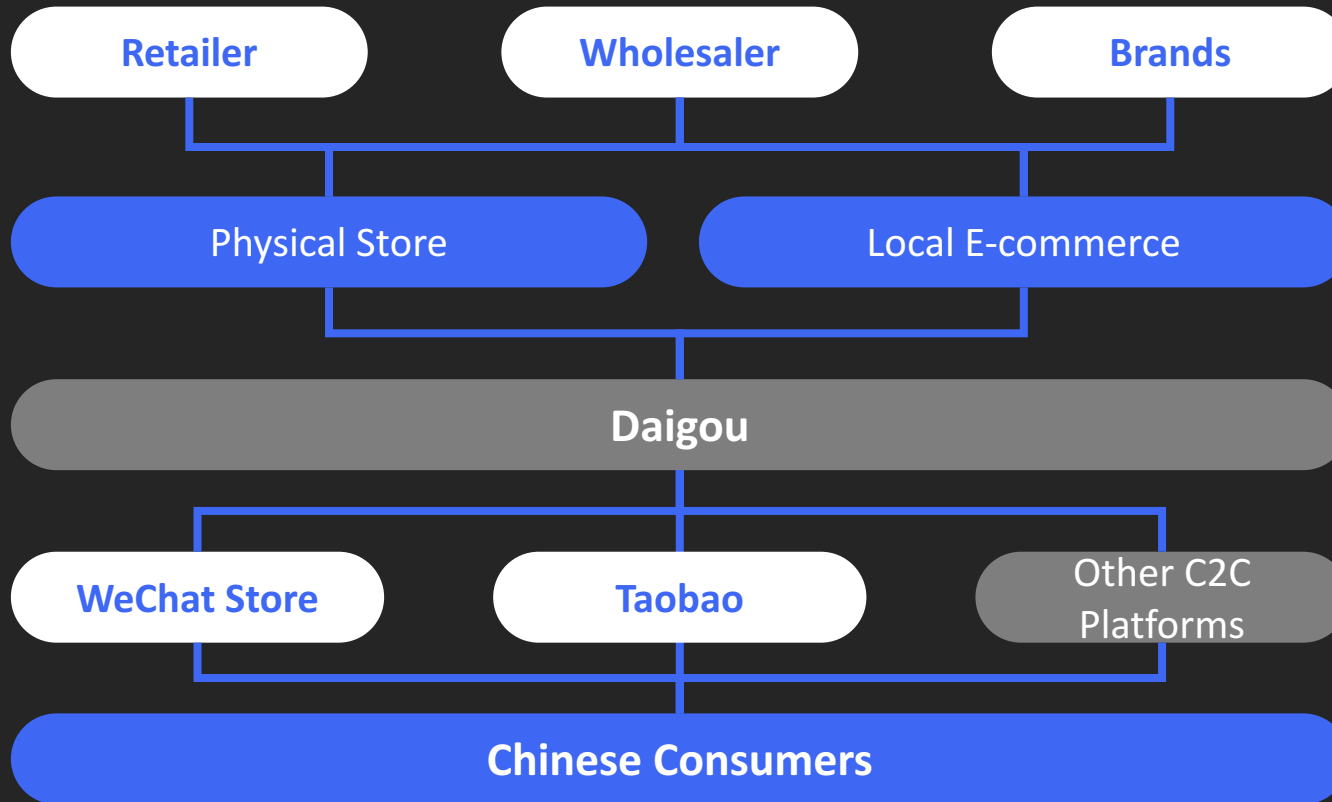
# CROSS-BORDER E-COMMERCE EASES ENTRY TO THE CHINA MARKET

Compared to the other two models, cross-border e-commerce allow retailers to service Chinese consumers much faster and easier. Retailers can fulfill from outside Mainland China or via free-trade zones.

Model	Regulation	Taxation
<b>Domestic retail outlets</b> <b>Online stores</b>	Treated as a personal shopper transaction when sent to China by daigou. No product registration required; ID authentication required; no more than 6 SKUs; value limit RMB1,000/order.	15% postal tax born by end customer, no China VAT.
<b>Cross-border E-commerce</b>	Goods bulk imported through bonded warehouses in FTZs or dispatched from outside China on receipt of orders. Bonded import will be impacted by Positive List. Product registration not required until 2019.	Via direct postal clearance – 15% - 60% of postal tax born by customer
		Via bonded clearance – 11.2% Consolidated Tax (25.5% for cosmetics)*
<b>Traditional import</b> <b>Physical stores in China</b>	Classified as General Trade. Only registered products can be imported and sold.	Import tariff (standard 15%, the rate varies according to HS Code and trade treaties) and VAT levied: 16% standard rate.

# STRONG DEMANDS FOR IMPORTED PRODUCTS DRIVES DAIGOU BUSINESS

Daigou, or shopping proxy, are individuals (either tourists or residents overseas) who buy products in physical stores to order and then send them to consumers in China. There are estimated 100,000 to 200,000 daigous in Australia alone.



Retail outlets outside China can be a surprisingly viable option for reaching Chinese consumers. This is not just a result of the enormous and rapidly growing number of Chinese outbound tourists (127 million in 2017) for whom shopping is a crucial facet of an overseas trip.

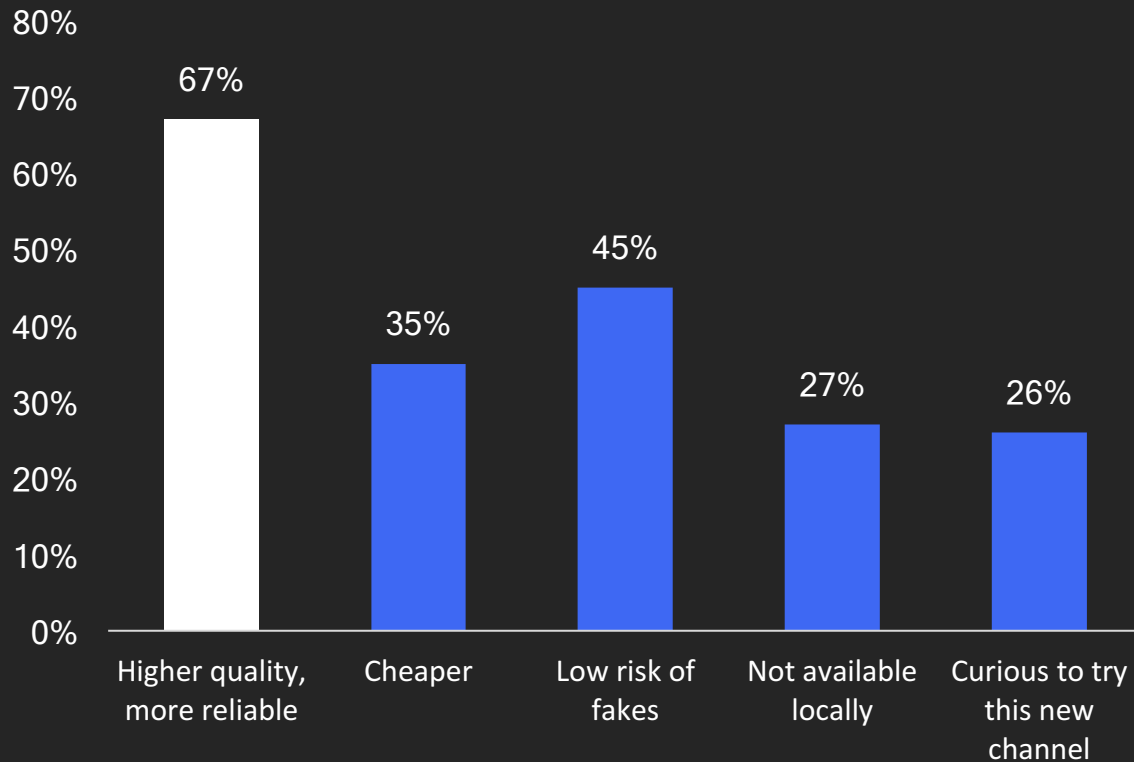
The unique daigou model in China should not be underestimated. They satisfy Chinese consumers' demand for products that are not accessible, or cheaper than those sold in China.



# CONSUMERS FAVOR ONLINE SHOPPING DIRECTLY FROM GLOBAL RETAILERS

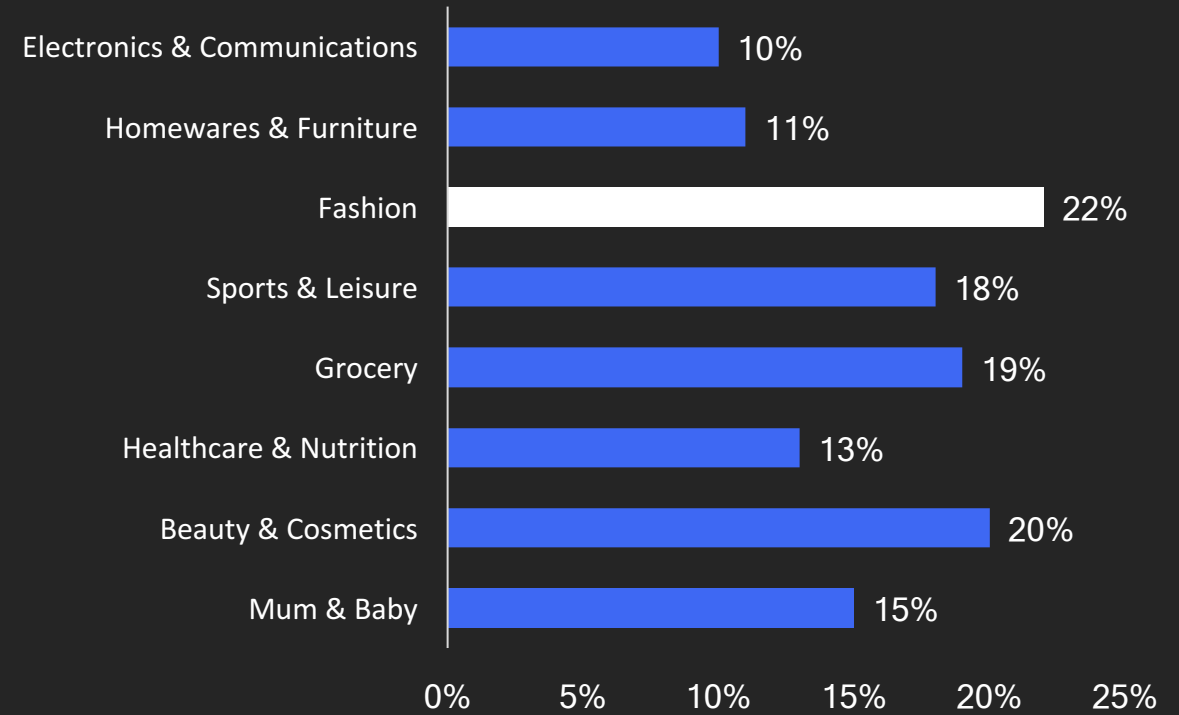
Driven by the perception of higher quality and authenticity, Chinese consumers favor 'Haitao' to purchase directly from global retailers. We estimate 125 million Chinese consumers purchased through this channel in 2017.

### Main Reasons for Buying Through Haitao



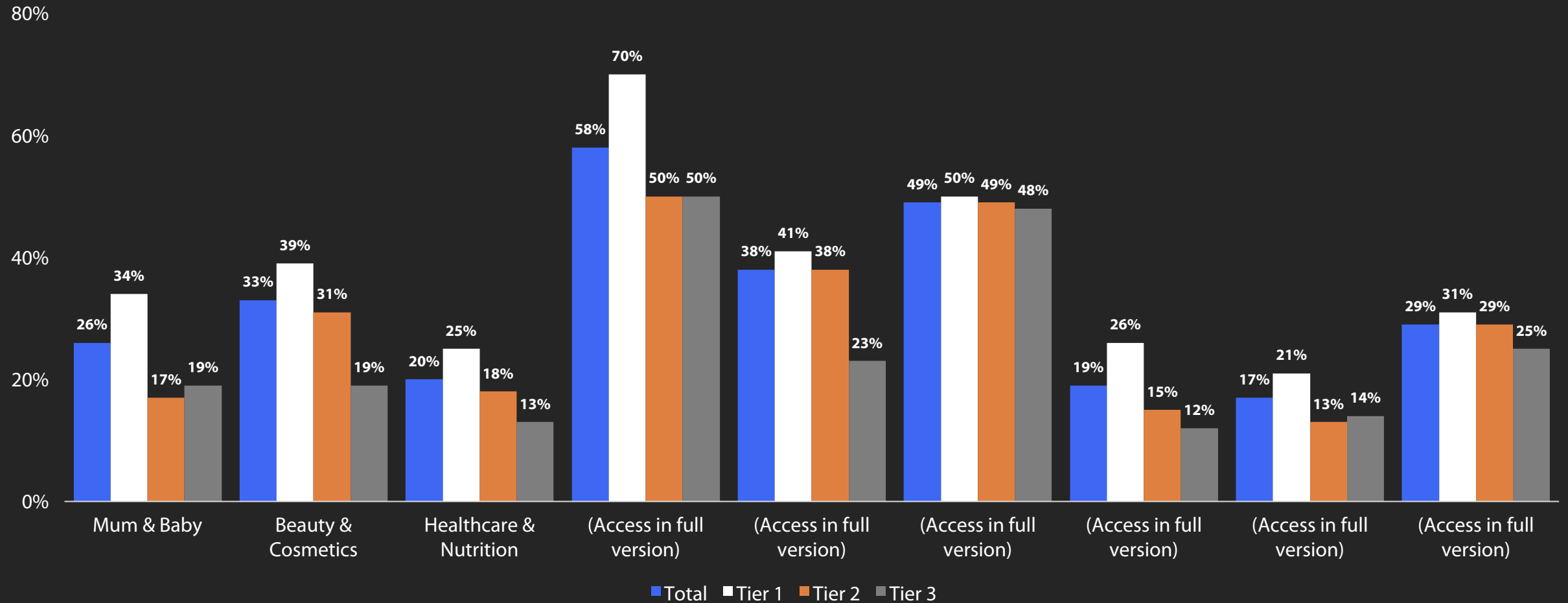
N=1,000

### Percentage of Online Shoppers Buying Products through Haitao at Least Once per Month, by Category



# GEOGRAPHIC LOCATIONS OF THE CONSUMER AFFECT SHOPPING BEHAVIOR

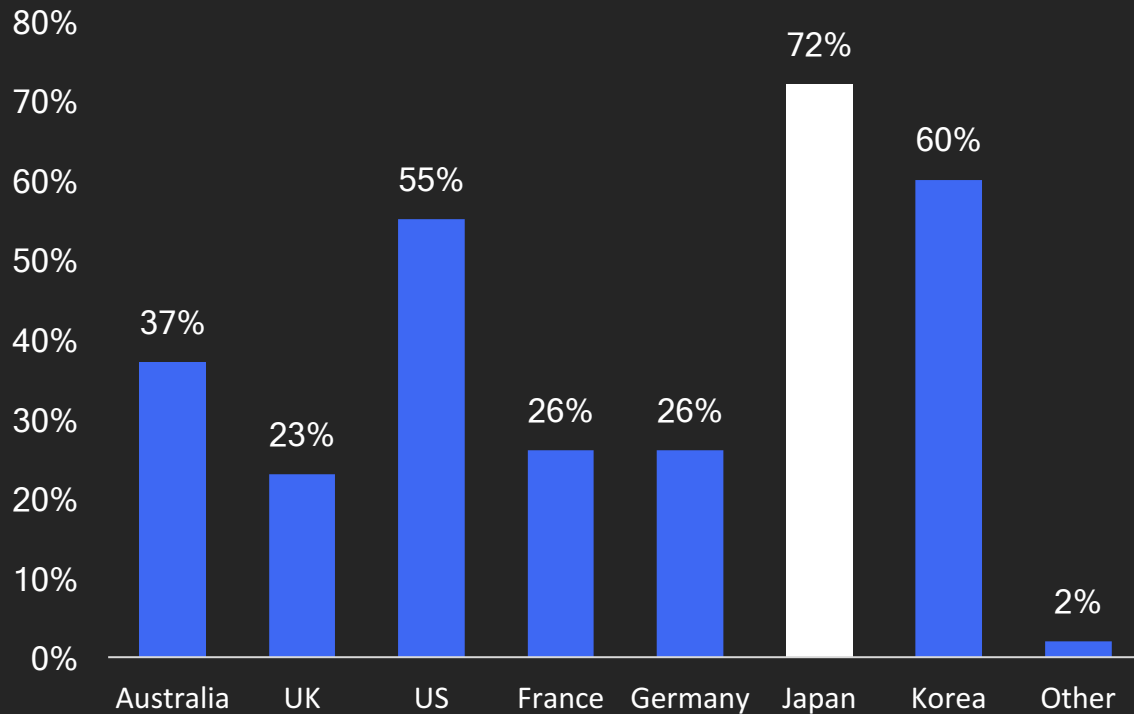
## Categories Bought at least Monthly by City Tier



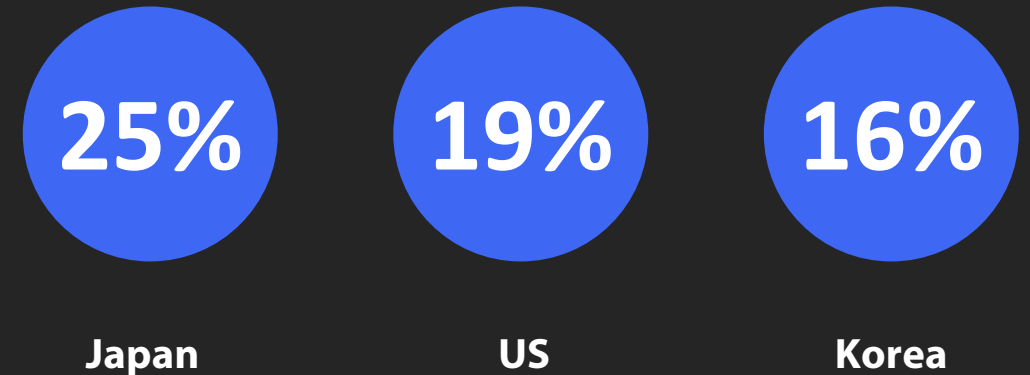
# HAITAO BUYERS ARE MORE CONFIDENT ABOUT JAPANESE AND US RETAILERS

Male buyers tend to have significantly more confidence in the US, while female buyers have a stronger preference for Korea. Despite stronger online sales capability, UK is ranked lower by Chinese online shoppers.

### Preferred Vendor Origin Countries for Haitao Buyers



### Vendor Origin Countries that Haitao Buyers Have Most confidence in (Number 1 and 2 Choice)

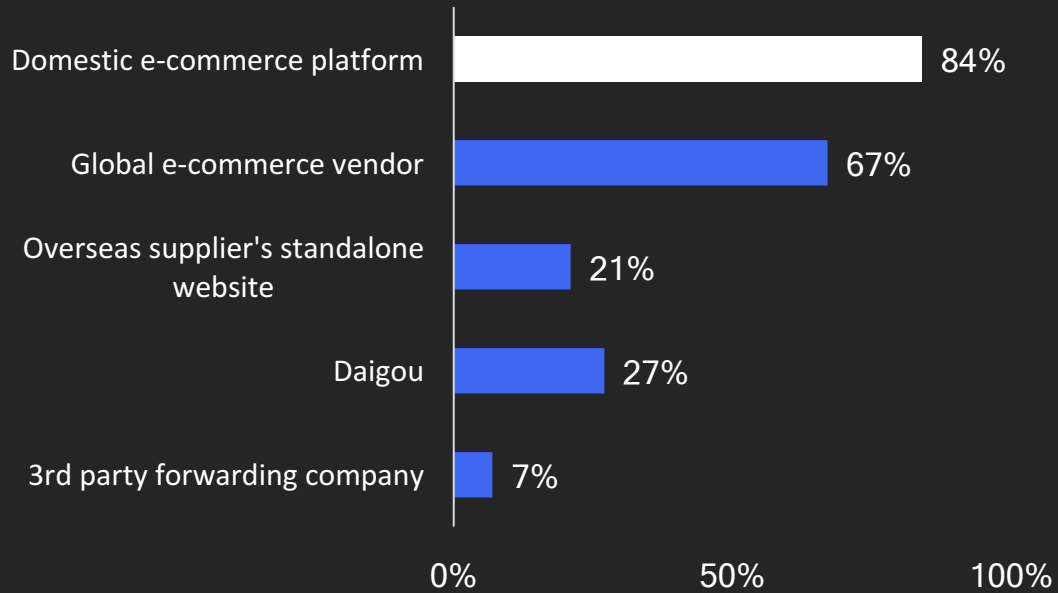


N=1,000, multiple selections allowed

# SELECTION OF E-COMMERCE PLATFORMS FOR CROSS-BORDER PURCHASE

Most commonly used e-commerce platforms by Chinese consumers are marketplaces such as Kaola, Tmall Global and JD.com, while global e-commerce such as Amazon and Rakuten are also common. Females (24%) are more likely to use D2C websites than males (18%).

### Use of E-commerce Platforms for Cross-border Purchase, Past 12 Months



N=1,000, multiple selections allowed

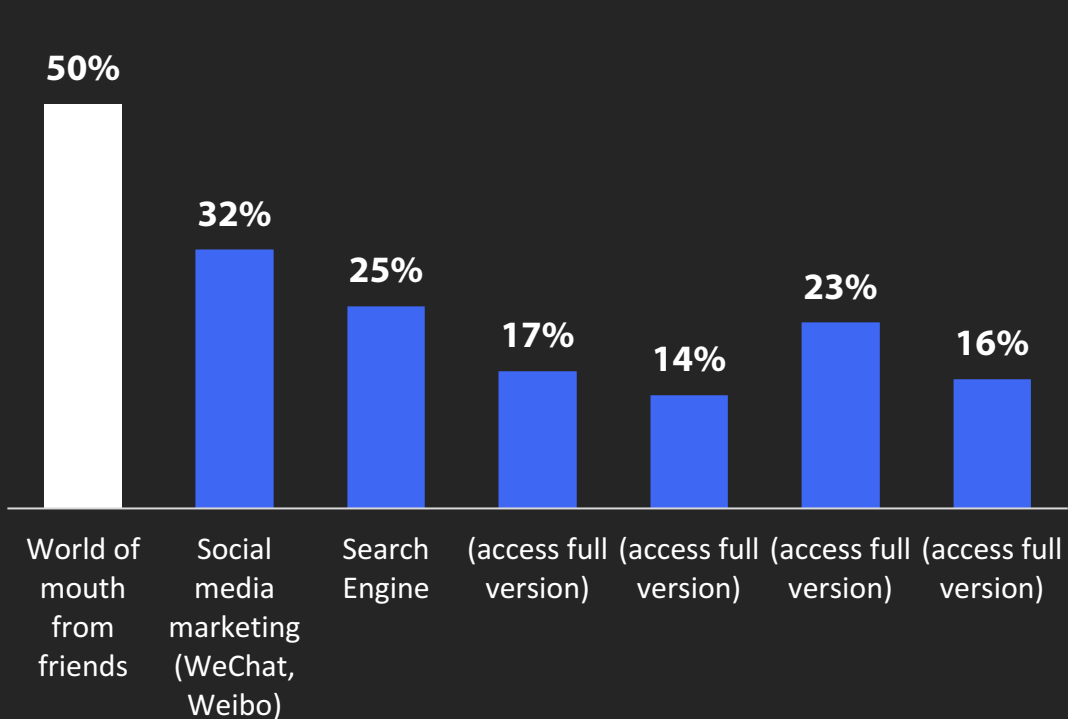
### Most Important Criteria in the Choice of Platform for Cross-border Transactions

Men	Women
Range of payment options	Range of payment options
Fast delivery to Mainland China	Good website performance
Good website performance	Chinese language customer support

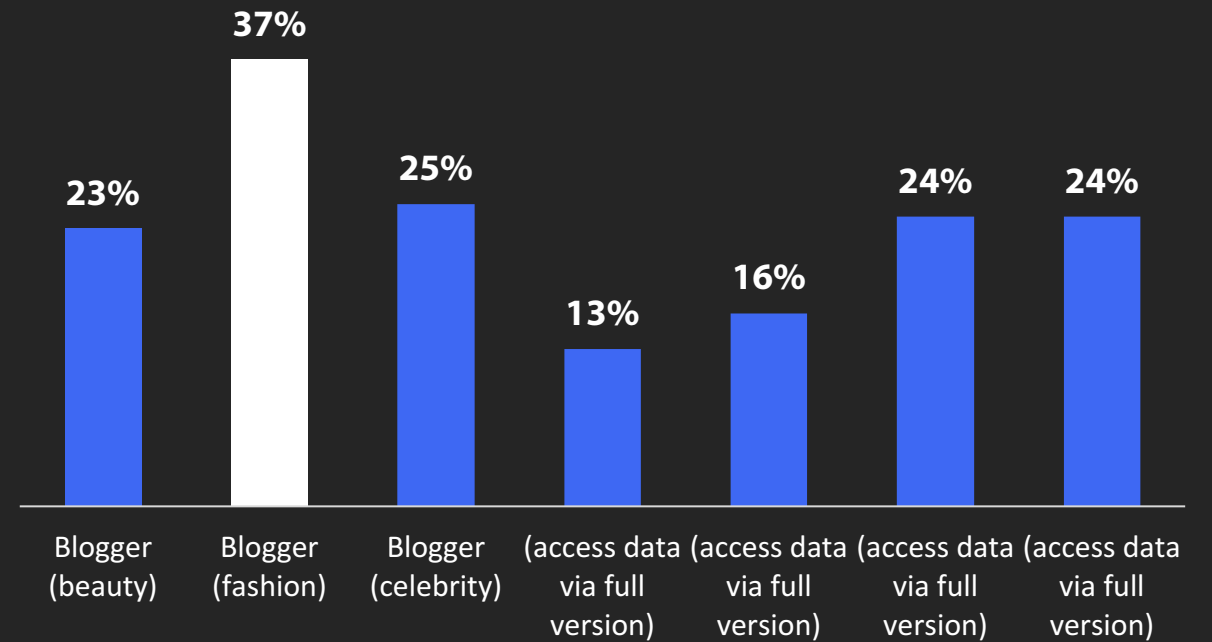
# WORD OF MOUTH IS AN IMPORTANT INFLUENCING FACTOR

The Chinese consumers are mostly likely to be influenced by word of mouth from friends, followed by social media marketing. Online bloggers are also important influencers of purchase decisions, while different types of opinion leaders have different impact levels.

### Influencers when Buying through Haitao



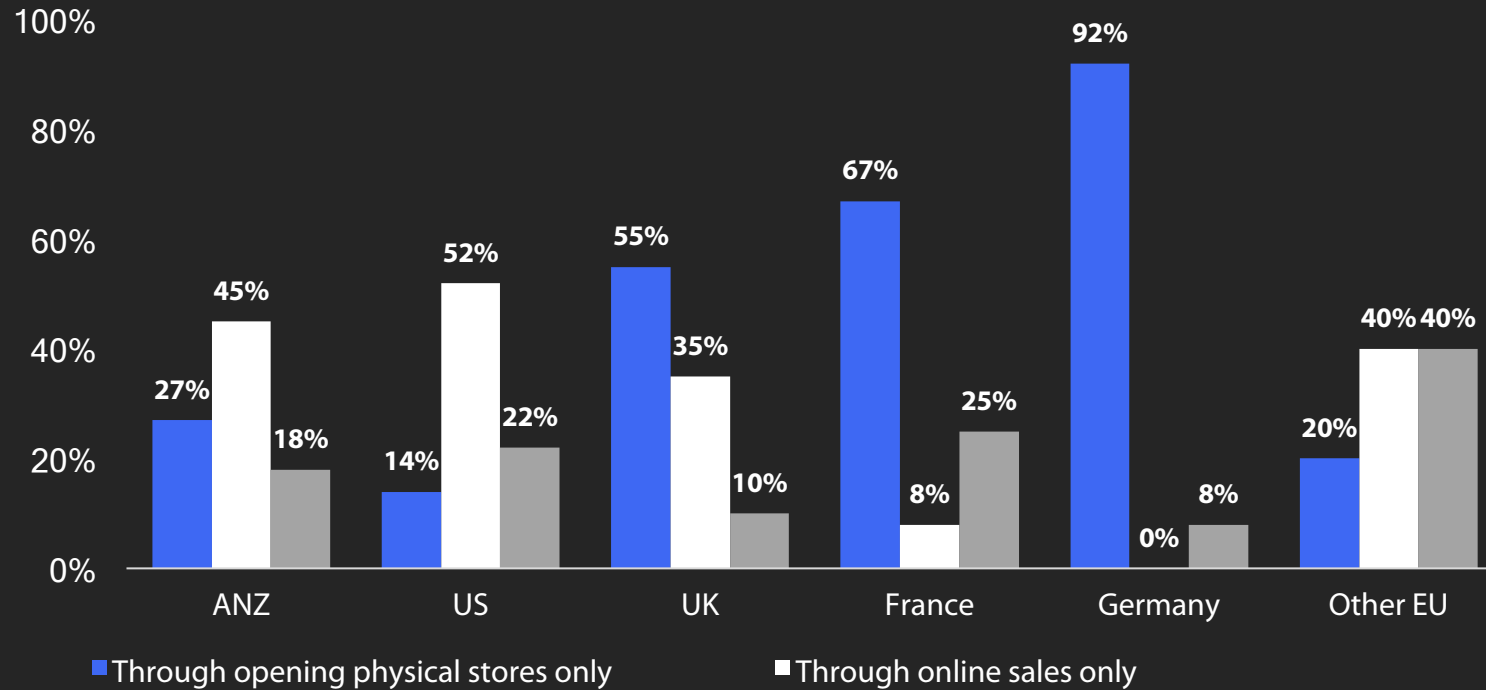
### Importance of Types of Opinion Leaders



# E-COMMERCE IN CHINA – A PERSPECTIVE FROM INTERNATIONAL RETAILERS

Online sales are the primary approach retailers used to expand sales in China, with 41% retailers interviewed planning to increase sales through online channels only, and 18% planning on expanding physical stores.

### Primary Approach by Retailers to Increase Sales in China, by County



■ Through opening physical stores only      ■ Through online sales only

■ Through opening physical stores and online sales

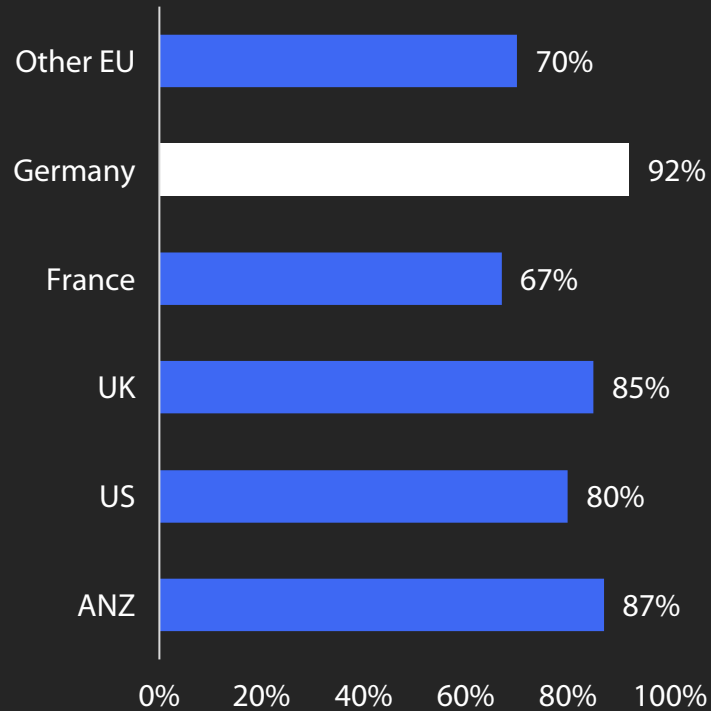
N=100

Retailers that were interviewed can be divided into two broad groups – those with existing physical retail and those without (about 50% of sample).  $\frac{3}{4}$  of retailers are currently selling online into China, including through Chinese marketplaces, Global E-commerce vendors, and standalone online stores.

# RETAILERS ARE ATTRACTED BY THE CHINA MARKET, BUT SATISFACTION DIFFERS

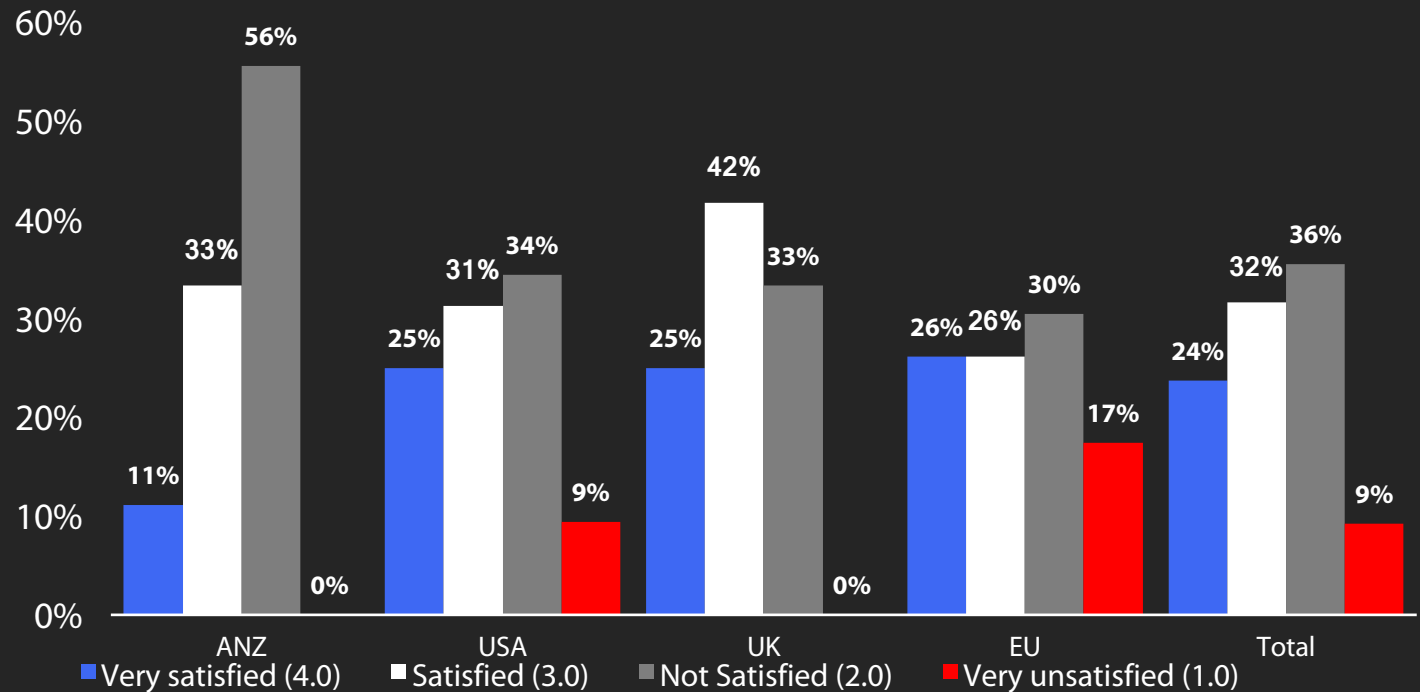
81% of retailers viewed China as an attractive market opportunity, and almost 90% are planning to enhance online sales capability into China. However, the satisfaction with Chinese online operations is often low.

### Percentage of Retailers that See China as an Attractive Opportunity by Country



N=100

### Level of Satisfaction with Current Level of Online Sales to China, by Country



N=81

# TOP CHALLENGES FACED BY RETAILERS AND BRAND OWNERS IN CHINA

30%

**CONFUSING  
REGULATION**

30%

**INTENSE  
COMPETITION**

21%

**INVESTMENT REQUIRED  
TOO HIGH**

18%

**SALES  
NOT PROFITABLE**

Retailers and brand owners point to a range of challenges they face in China, however, two main factors stand out. The regulations governing online sales in China are seen as confusing and prone to unexpected changes; and the China market is viewed as highly competitive, with a myriad of domestic and overseas retail brands competing for consumer attention.

In this context, retailers and brand owners highlight issues with keeping up-to-date with regulations governing online sales in China and creating brand awareness in such as crowded market.

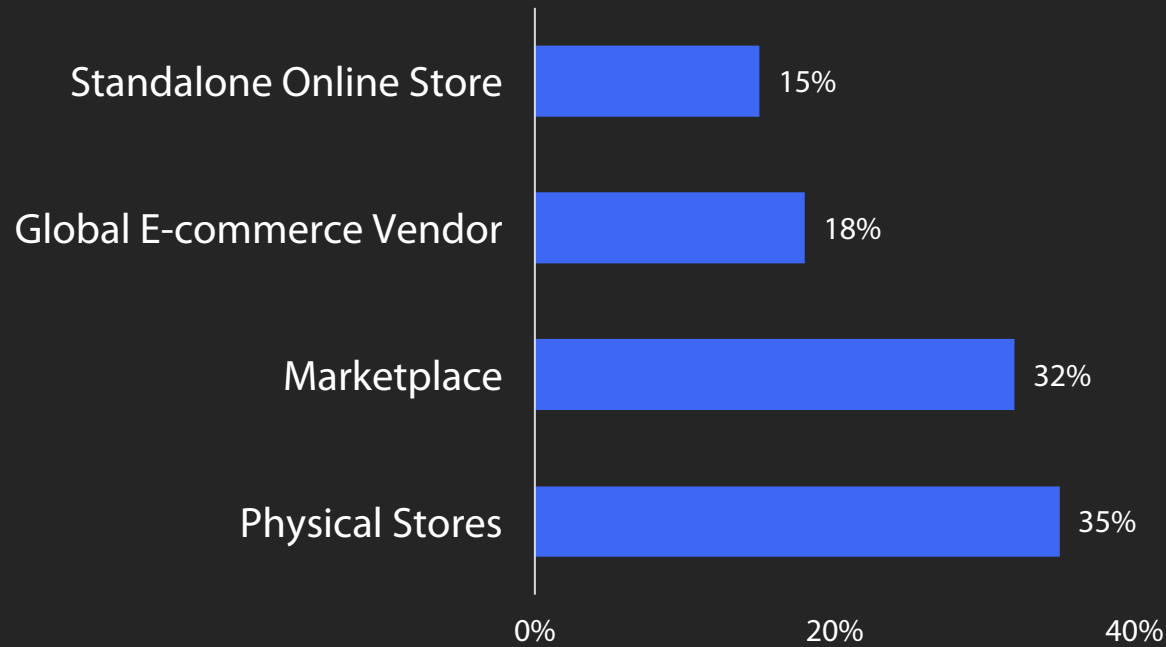
Other retailers highlighted issues that high-investment for entry resulted not profitable online sales.



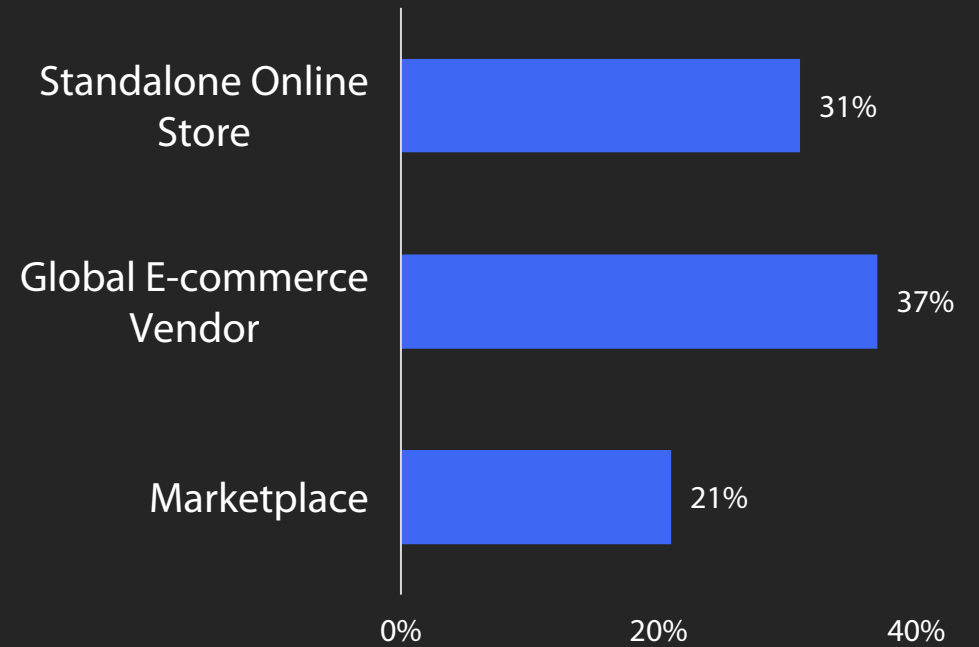
# CHINESE ONLINE MARKETPLACES ARE NOT THE ONLY VENUE

While Tmall Global and JD might be the most obvious choices for international retailers to launch their e-commerce business in China, the satisfaction with marketplace ranks below Standalone Online Stores and Global E-com vendor. This indicates that retailers should rethink their online strategy in China and consider other possibilities.

### Main Sales Channels of Retailers in China



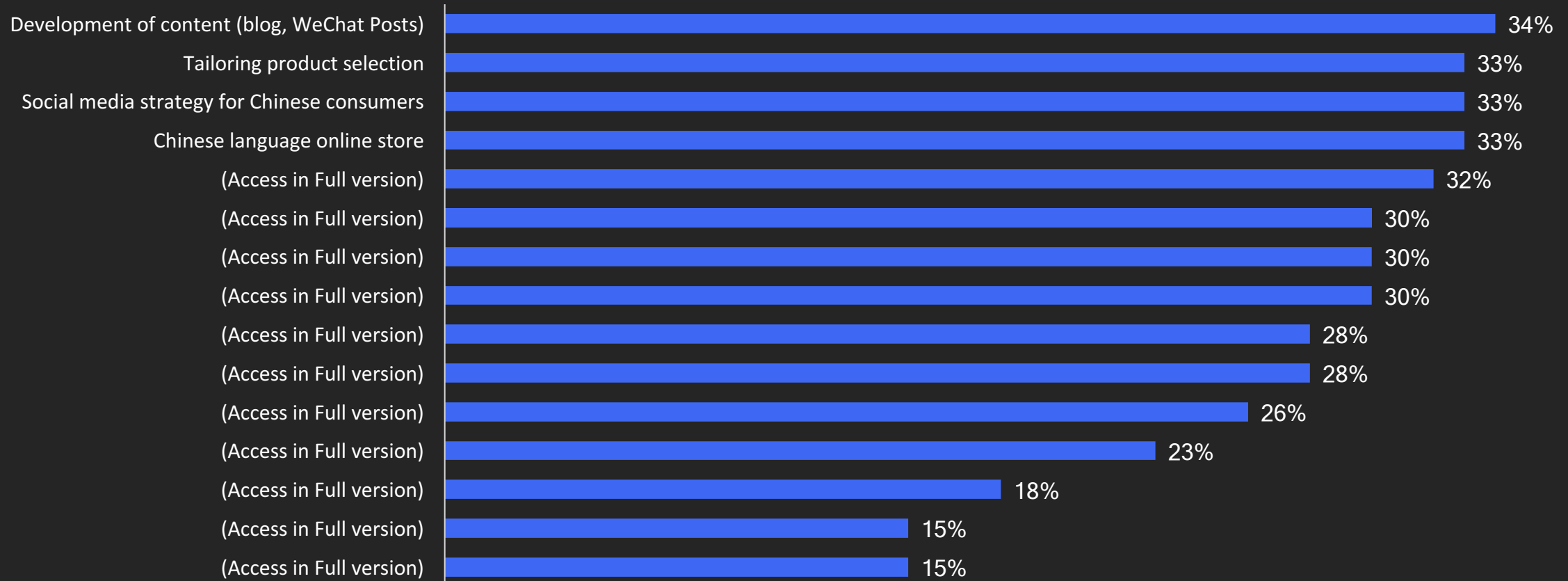
### Percentage of Retailers Satisfied with Online Sales in China, by Main Platform



# MAIN FOCUS AREAS TO DEVELOP ONLINE CAPABILITY IN CHINA

Our research shows that many online retailers are looking to use standalone websites and fulfillment operations, to become less reliant on marketplaces. However, in many cases retailers recognize the need to enhance capability.

## Areas that retailers are focusing on improving



# THE LAST WORD

The study confirms that for most international brands and retailers, China's online shopping market offers tremendous opportunity. For those using an online-only model to enter China, local Chinese marketplace sites such as Tmall Global and JD.com tend to be the first option. However many brands and retailers report not being satisfied with the business generated through these platforms, with only 30% of online-only retailers satisfied with Chinese marketplace platforms. Issues such as high sales commissions, the drive to discounting, and lack of direct customer engagement are significant issues.

While China offers enormous potential for online sales, a careful and considered approach is required for international retailers and brand owners, covering all aspects from providing the relevant products, pricing, using the appropriate online platform, fulfilment, and perhaps most importantly, telling the right story to China's 500 million online shoppers.

## Consumer Survey Sample

Sex	Age	Typical Monthly Online Spending	Location
Male 49%	19 – 29 (36%)	<RMB 1,000 (40%)	Tier 1 cities (43%)
Female 51%	30 – 40 (64%)	RMB 1,000 – RMB 2,000 (54%)	Tier 2 & 3 cities (57%)
		>RMB 2,000 (6%)	

## Retailer Sample

Location	Type	Category	Total sales
ANZ 10%	Online only 48%	Mum & baby 14%	US\$50 million – US\$100 million 16%
US 47%	Online & physical store 52%	Beauty, cosmetics & personal care 14%	US\$100 million – US\$500 million 26%
UK 19%		Healthcare & nutrition 9%	US\$500 million – US\$1000 million 21%
Other EU 22%		Sports & outdoor 14%	Over US\$1 billion 36%
		Grocery & food 14%	
		Fashion 14%	
		Multiple categories 21%	

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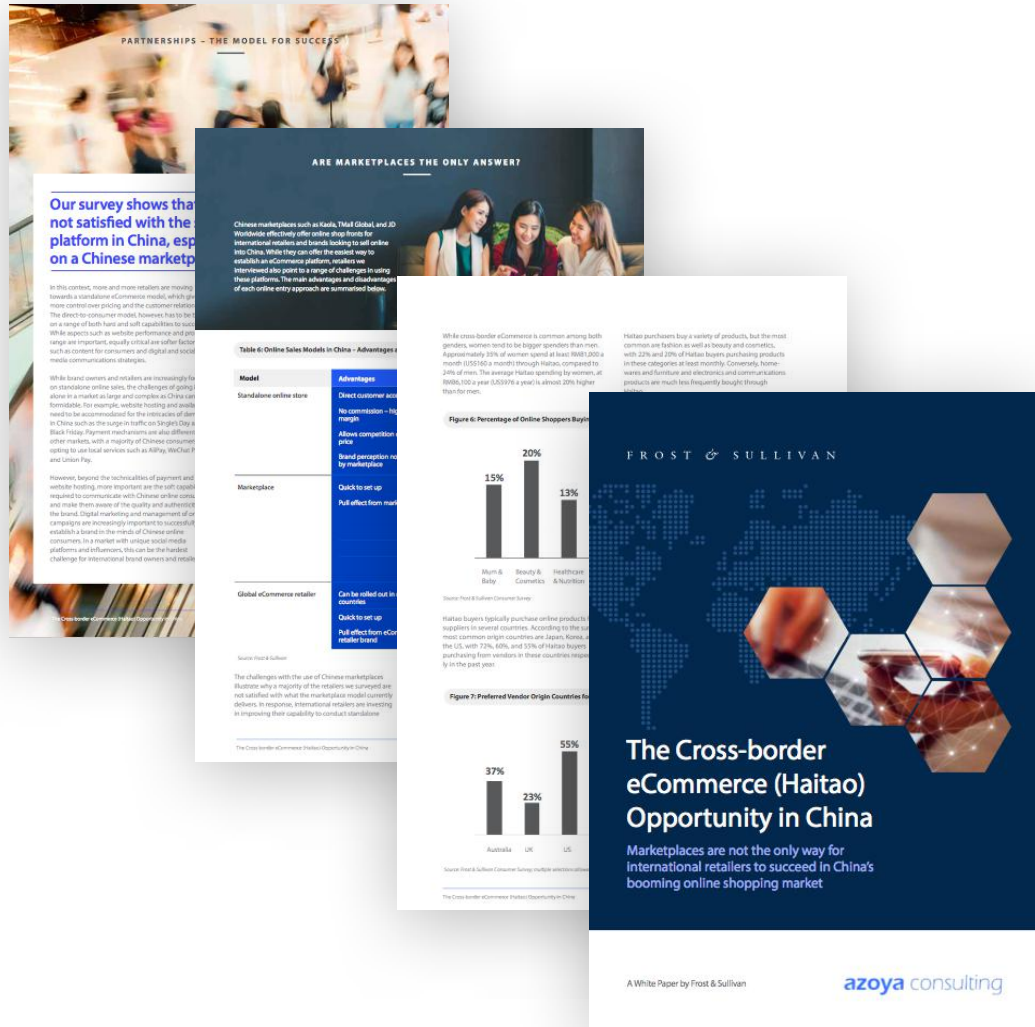
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## About Azoya Consulting

Azoya Consulting empowers international retailers with clear and actionable China e-commerce strategy powered by data, research, expertise and business intelligence. With over 5 years' experience in e-commerce to China, Azoya consultants help dozens of international retailers build successful business cases with China entry strategy, e-commerce operation guidelines, digital marketing strategy, O2O strategy, logistics and supply chain. Azoya Consulting is a subsidiary of Azoya International, a borderless e-tailing group that assists international retailers as they expand to China via e-commerce.

Learn more at [www.azoyagroup.com](http://www.azoyagroup.com)

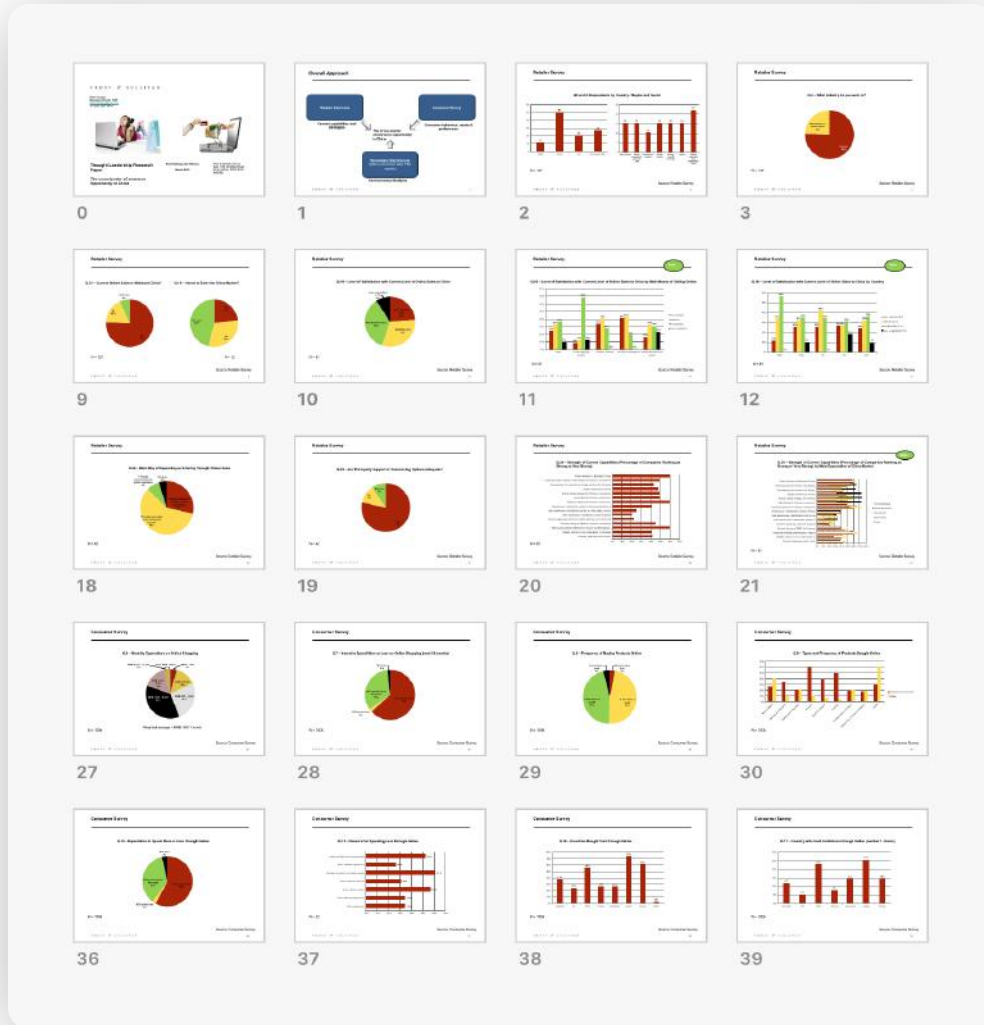
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## TABLE OF CONTENT

- About this research report
- Online shopping in China
- Cross-border: A Growth Driver for Online Shopping
- What are Chinese consumers Looking For?
- Cross-border: A viable model?
- Challenges in Online Sales
- What do Retailers Expect from China?
- Are Marketplaces the Only Answers?
- The Capability Gap for Retailers
- Partnerships – The Model for Success
- The Last Word
- Appendix: About Our Research

# ACCESS TO ALL THE ANALYTICAL DATA



## SELECTED CHARTS

- Level of Satisfaction with Current Level of Online Sales to China by Main Means of Selling Online
- Level of Satisfaction with Current Level of Online Sales to China by Country
- Level of Satisfaction with Current Level of Online Sales to China by Main Means of Expansion
- Strength of Current Capabilities (Percentage of Companies Ranking as Strong or Very Strong)
- Strength of Current Capabilities (Percentage of Companies Ranking as Strong or Very Strong) by Main Expectation of China Market
- Types and Frequency of Products Bought Online
- Importance of Types of Opinion Leaders
- High spending and low spending shopping influencers, by marketing channel
- High spending and low spending shopping influencers, by influencing factors

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