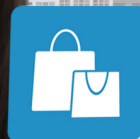


China's most important cross-border e-commerce platforms and payment systems at a glance

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Key aspects for your strategy in tapping the Chinese market

The notion of doing business with customers in the world's most powerful retailing market is certainly tempting. Besides the purely logistical and cultural challenges sellers face, doing e-commerce in China also raises a number of questions that focus on the completely different shopping behaviour of Chinese consumers. This includes the choice of the right sales platform for products and brands, and the payment services used most of all by customers and providers. We want to take a closer look at these questions.

Choosing the right sales platform for your brands and products

In principle, there are three options to present your goods to Chinese consumers:

- your own webshop
- cooperation with an online department store
- presenting your products on a digital marketplace

The webshop solution

For many international companies, the idea of offering products and brands in China through a company's own webshop is the most obvious one. As most sellers will already have their own shop solution, with this option you will just be extending it and offering it in Chinese (Mandarin). But this does not take account of the fact that Chinese

consumers are usually looking for much more detailed information on a manufacturer's or brand's website than is normally the case on domestic markets.

Another, not unimportant, aspect is that these brands might not be known in China. If the brand has already been launched and launched well, the chances are good that Chinese consumers will run an online search for the products. But this is not the case for brands that are not well known, or are not known at all, in China.

Of course there are search machines for Chinese consumers too – the most well-known is Baidu – but Chinese people actually prefer browsing on easy-to-use, secure e-commerce platforms. There are a variety of reasons for this. On the one hand, platforms in China are obliged to make sure that payment and delivery are reliable. On the other hand, they offer consumers a number of options to discuss planned purchases with others, to seek inspiration, to discuss the strengths and drawbacks of individual brands and products to be trendy. These are options that manufacturer's shops rarely provide. This makes it extremely difficult for international webshops to make a success of cross-border e-commerce in China.

Nevertheless, we have seen rising demand in webshops in recent times. This has partly to do with the increasing self-determination of Chinese consumers who are growing in confidence to shop on web platforms outside of their own country. It also has something to do with the fact that some domestic platforms – especially virtual marketplaces – are suspected of offering low-value goods and counterfeit products. Consequently, some customers now prefer to buy directly from the manufacturer.



Online department stores

International e-commerce strategists have only recently begun to take a closer look at Chinese online department stores. This is unfortunate given that most of these department stores are backed by highly-experienced and some of the best trading companies in China. They are usually supported by an excellent logistical infrastructure that not only boasts extensive storage capacity, they also head sales statistics in cross-border e-commerce.

The two most popular online department stores that import international goods are:

Kaola

The department store has been on the market since 2015 and is part of the NetEase Group, a veteran in Chinese internet business and, with 840 million customer accounts, the largest e-mail provider in the country. What is more, NetEase is not only a major developer of computer games (with around 500,000 users), it also has its own search engine (Youdao, with around 500 million users) and its own payment system (Kaola Pay, with 60 million users).

As a result, the Kaola cross-border platform offers many interesting leverage points. Given that the parent NetEase provides detailed user profiles (similar to Facebook), brands and products can be efficiently marketed through the Group's own news and entertainment formats, with the subsequent interest generated then served through Kaola. The enterprise also has logistics challenges under control – NetEase has the largest bonded warehouse in the whole of China.



Quick Facts

- on the market since 2015
- 21.6 % market share
- product range: generalist

It is important to note, however, that the operators of Kaola decide themselves what brands are offered on their platform. Brand reputation is a crucial factor here. Moreover, Kaola buys goods directly from the manufacturer in order then to resell them. This does mean that providers lose some control over their own brands. Brands that require stronger management on the Chinese market would be better placed on digital marketplaces such as Tmall Global or JD Worldwide.

VipShop / VIP International

VIP International is also an online department store. Founded in 2008, the operating company has been trading as an offshore holding from the Cayman Islands and on top of an excellent logistics infrastructure it also operates the cross-border platform VIP International.

VIP has specialised in pitching regular flash sales, with quality products offered at bargain prices for just a few short hours or days.

They buy goods directly from the manufacturer, offering them at virtually the same prices in China as manufacturers in their main sales markets. Selling through VipShop is an interesting proposition for both manufacturers and customers alike. This strategy has paid off. Within a short period, VIP International has advanced to become the third-biggest cross-border platform in China with a market share of 16.3 %.

Just like Kaola, VIP International is not a marketplace. The company controls the product range itself, enhancing this with largely established brands.

唯品会
vip.com

Quick Facts

- on the market since 2008
- 16.3 % market share
- product range: specialized in flash sales



Digital marketplaces

Virtual marketplaces are much more well-known outside of China – especially those of the Alibaba Group, the largest e-commerce enterprise in China, controlling around 80 % of Chinese online retail (B2C, C2C), nationally and internationally.



Tmall Global

Although it was only launched in 2013, Tmall Global is already the oldest cross-border marketplace. It is comfortably keeping pace with the plethora of rapid changes taking place on the Chinese consumer market: 50 % per all purchases on Tmall Global are made using mobile devices. It is part of the Alibaba Group and provides international brand manufacturers the opportunity to sell directly to Chinese consumers, without them requiring a sales licence for the Chinese market.

The platform's slogan: „100 % foreign original authentic, 100 % foreign merchants, 100 % domestic return“. This outlines what Tmall Global offers – but also what customers expect.

Unlike Kaolo or VIP International, Tmall Global is a digital marketplace, suitable for providers who are looking to actively manage their shop and their brands. Once accepted on the platform, Tmall Global offers them a variety of management and marketing options.

In order for international providers to be able to use the platform successfully, Tmall Global works together with an international network of partners who support the setting up of shops with marketing and logistics. Hermes is one of these partners.

天猫国际
TMALL GLOBAL

Quick Facts

- on the market since 2013
- 18.5 % market share
- product range: generalist

JD Worldwide

JD Worldwide, another on-line marketplace, is part of China's largest chain of retailers – Jing Dong (JD). It boasts seven fulfilment centres and more than 260 warehouses spread across the country, linked through an outstanding logistics network. The multifaceted media and technology enterprise Tencent also holds an investment in JD Worldwide. Tencent also operates WeChat and WeChat Pay, highly popular instant messaging and payment services (see page 5).

In 2015, the enterprise launched its JD Worldwide cross-border platform, which – much like Tmall Global – does not require additional sales licences or banking facilities in the Chinese market from international providers and retailers.

JD Worldwide offer international business partners a choice of two business models:

- JD Worldwide as reseller – with JD itself appearing as the authorised retailer
- JD Worldwide as a platform for a hosted online shop

The close collaboration between JD Worldwide and Tencent not only provides international companies with attractive marketing options, it also facilitates access to their widespread payment service WeChat Pay (see page 5).

京东全球购
JD Worldwide

Quick Facts

- on the market since 2015
- 15.2 % market share
- product range: generalist

The right payment service for your customers

As everywhere in the world, Chinese consumer also rate the convenience, reliability and security of payment very highly. The choice of the right payment service is just as important as the choice of platform. However, services have their own unique strengths and cannot be freely combined with all sales platforms.

When it comes to cross-border e-commerce, Chinese customers mainly use the following variations:

- E-wallets – online monetary accounts similar to PayPal
- Electronic payment services via smartphone
- National credit cards

Three companies dominate their market:

- AliPay (e-wallet)
- Tenpay (e-wallet and platform for the mobile payment service WeChat Pay)
- UnionPay (credit cards)

Given the companies involved, it is obvious that international credit cards are only of secondary importance. It is not unusual for brand providers looking to have a broad spread to choose all leading payment services: AliPay, TenPay and UnionPay. But this is not absolutely necessary. Depending on the e-commerce platform chosen, some payment functions are more recommendable than others.

AliPay

The sheer numbers alone are impressive: nearly half of all Chinese e-commerce transactions made by smartphone are processed today through AliPay, the payment service of China's internet giant, Alibaba. And this is the case with cross-border shipments.

Here, customers can set-up an e-wallet, that is to be topped up regularly, or can enter their credit card credentials. AliPay works together with 65 financial service providers worldwide and supports 12 international currencies, including euro, British pound sterling, Danish, Norwegian and Swedish crowns, and Swiss francs.

First and foremost, AliPay supports all the e-commerce platforms of the Alibaba Group: Taobao and Tmall for national, Tmall Global for cross-border retailing. The payment service can also be integrated on other platforms and websites.



Quick Facts

- on the market since 2004
- 54 % market share mobile ⁽¹⁾
- 31 % market share online ⁽²⁾

TenPay

TenPay is the payment service of Tencent, an enterprise with a broad spectrum of interests in the entertainment industry, in the internet business and in telecommunications. The company makes less fuss about itself than other players on the market. But it has been laying down impressive growth rates for a long time and in spring 2017 leapfrogged the former head of the class Alibaba as the largest internet company in China.


One of the drivers of this trend is WeChat, Tencent's instant messenger, which is often compared to WhatsApp, the instant messenger widespread in Western countries. But WeChat is far more versatile. Since its launch in 2011, Tencent has continued to expand the software, has integrated news and music services and allows users to discover other WeChat customers close by simply by shaking their smartphone. Since 2013, it has also be offering the mobile payment service WeChat Pay, used on the Tenpay platform.

One connected to the shopper's own bank account or credit card, WeChat facilitates purchases, transactions, monetary gifts and much more. The advantage: all payments are made virtually in real time. This is why the app is deployed in numerous everyday situations: for shopping, for a coffee, but also in taxis. In the meantime, WeChat has become the most used app on Chinese smartphones.

Even though WeChat does not offer its own shop solutions, the chat function can be directly connected to the company's shop on a digital marketplace – such as JD Worldwide. If the company then sets up a WeChat Pay account, customers can not only browse shop offerings using the Chat app, they can also pay for their purchases directly.

UnionPay

China UnionPay – also called UnionPay or CUP – is China's only credit card organisation. Founded in 2002 by China's card issuing banks, it is under the direct supervision of the Chinese central bank.



Quick Facts

- on the market since 2002
- 2 % market share mobile ⁽¹⁾
- 16 % market share online ⁽²⁾

⁽¹⁾ Payments, made via smartphone or tablet

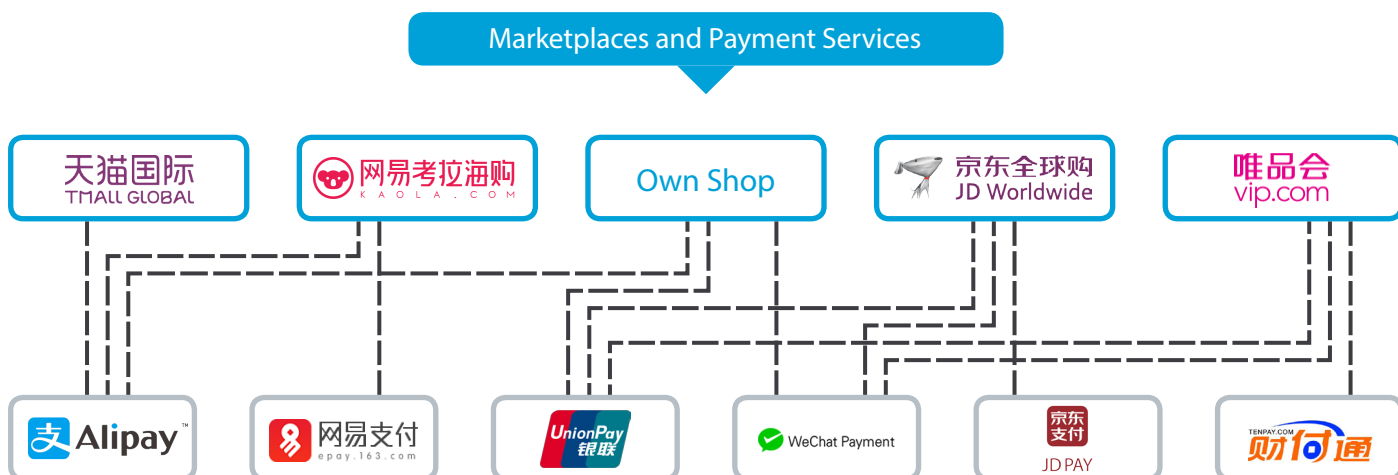
⁽²⁾ Payments, made via desktop PC or laptop

In 2016, UnionPay signed an important partnership deal with PayPal. This now enables European companies to accept direct payments from UnionPay credit and debit cards via PayPal's Braintree platform for corporate customers.

UnionPay is therefore a key service provider for all companies who are also looking to offer their brand products on their own webshops, independent of established department stores and marketplaces.

An offer in demand: in 2015, the global volume of transactions made with UnionPay cards (\$1.9 trillion) first surpassed that of all Visa cards (\$1.75 trillion).

The situation on the Chinese market is in a state of flux, not because of new state regulations, but because of the competition between the various platforms, marketplaces and payment services providers. New functionalities are constantly being introduced and new alliances forged.



Further Information

If you are interested in more information on the Chinese market, click [here](#) to download our free market overview of the land of the rising sun.

About Hermes

Hermes can bring your products onto Chinese online marketplaces. If you wish, we can organise the whole cross-border e-commerce solution – from web-enabling and fulfilment through to doorstep deliveries at the homes of your Chinese customers.

Through our e-commerce team in Shanghai, we connect trusted European account management with local expertise.

This is a set up that has also convinced our Chinese partner Alibaba: as their e-commerce service provider, we carry out the whole logistics processing of cross-border shipments from Europe to the Chinese market.

Make use of the opportunity and grow your business on the Chinese market with Hermes. Get in touch with our support team and learn about our 360-degree solution for your e-commerce business.

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