CBBC GUIDE TO E-Commerce in China

China-Britain Business Council
英中贸易协会

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CBBC Guide to E-commerce in China

Foreword: Stephen Phillips

As Chief Executive of the China-Britain Business Council, it is my great pleasure to introduce our "Guide to E-Commerce in China".

British companies have long been market leaders and pioneers all around the world. Our reputation for excellence, innovation, design and ambition is well-recognised in China. In turn, China is embracing the rise of e-commerce at an astonishing rate, and offers a most promising route to market for UK companies.

Britain is excellently equipped to meet the demands of China's online shoppers. The sheer number of Chinese tourists visiting the UK to shop and to experience our culture surely signals that the time is right not just to wait for the buyers to come to us, but to take more of our wares to them. Nothing provides a better opportunity to do this than e-commerce.

Online trading can lower the barriers that may have given some British companies pause for thought in the past. There is a great pool of Chinese online shoppers, numbering in the hundreds of millions, who want high-quality goods from overseas, and well-informed UK companies now have the means to access them and capitalise on the demand.

This guide is designed to help show UK companies where to tap into these channels and find the distributors to get their goods to the market, as well as to highlight the benefits to Chinese online traders and distributors of selling British products.

CBBC, which has 60 years of first-hand experience in the Chinese market, is the leading organisation which helps British companies to develop their business with China. We have 10 offices in the UK and 13 across key locations in China, and we work in close partnership with the UK Government's UK Trade & Investment. The wealth of practical support and guidance we offer British companies is only an email or telephone call away, be it to the UK or to any of our offices across China.

As business relations between our two countries reach unprecedented heights, there has never been a better time for Chinese and British companies to make use of the support offered by CBBC.

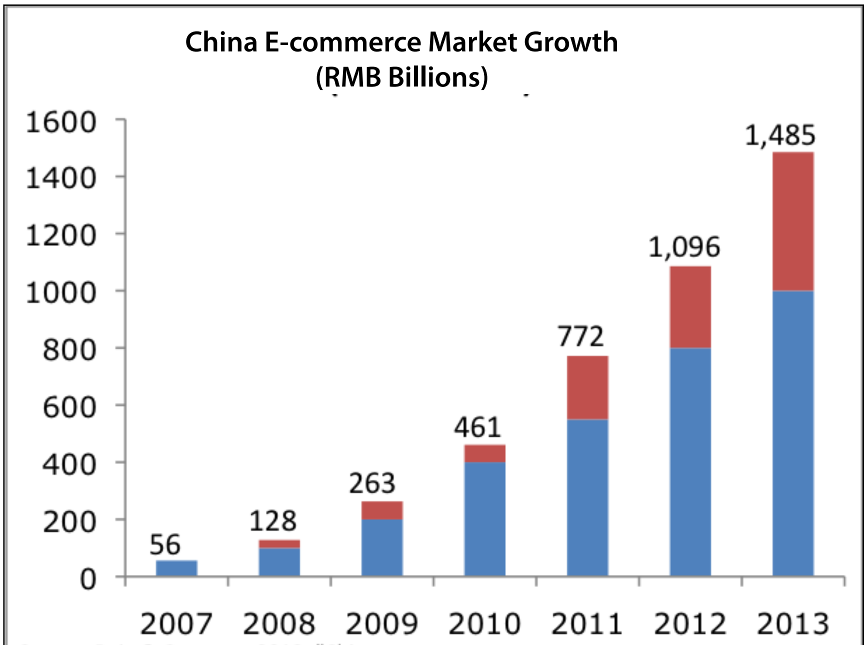
I hope this guide helps you to deliver the success your business aspires to in China.

Stephen Phillips

Stephen Philips
Chief Executive, CBBC

1. China's E-commerce Market

In 2008 China surpassed the US to have the largest internet user base in the world, and it will soon also lay claim to the largest population of online shoppers. In 2012 the total value of China's e-commerce market reached RMB 8.1 trillion (GBP 810 billion), having grown by 27.9% year-on-year (YOY). There are now over 240 million Chinese e-shoppers and, together, they are spending an average of USD 40,000 (GBP 25,000) every second.



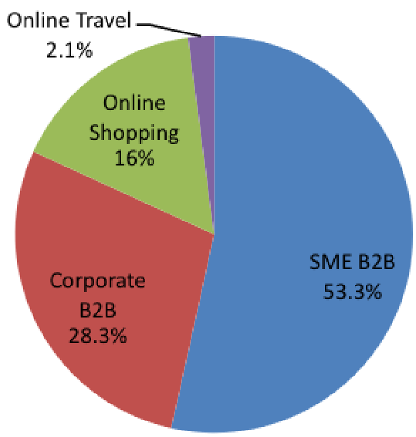
Source: Bain & Company 2012: "China e-commerce: Heading toward RMB 1.5 trillion"

Having an effective online strategy is increasingly vital for companies looking to access China's B2C and B2B markets. The sheer size and diversity of the Chinese market make online channels an extremely important means by which foreign companies can connect with customers across the country at relatively low cost. However, China has its own unique e-commerce landscape, and companies need to fully understand the barriers and opportunities before committing themselves to the market.

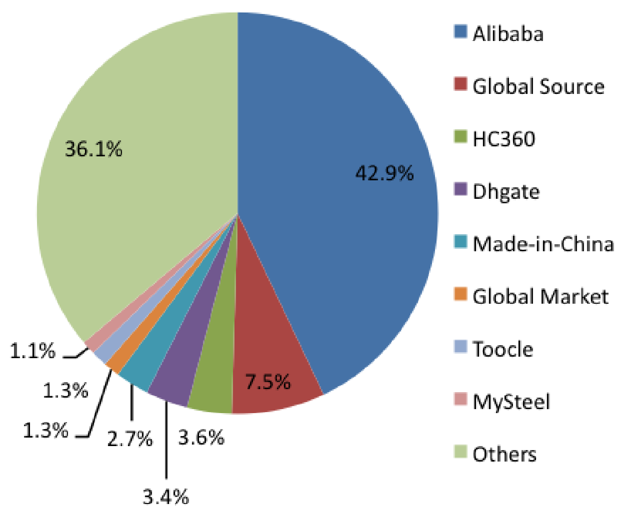
1.1 Business-to-Business (B2B) E-commerce

The B2B sector pioneered the development of e-commerce in China, and still holds the dominant position. In 2012, B2B accounted for 81.6% of China's total e-commerce market. China's small and medium sized enterprises (SME) accounted for 53.3% of the total e-commerce market (RMB 4.3 trillion), while larger B2B e-commerce accounted for a 28.3% market share (RMB 2.3 trillion).

China E-commerce Market Share (2012)



Chinese SME E-commerce Market Share (Q2 2013)



Source: iresearch

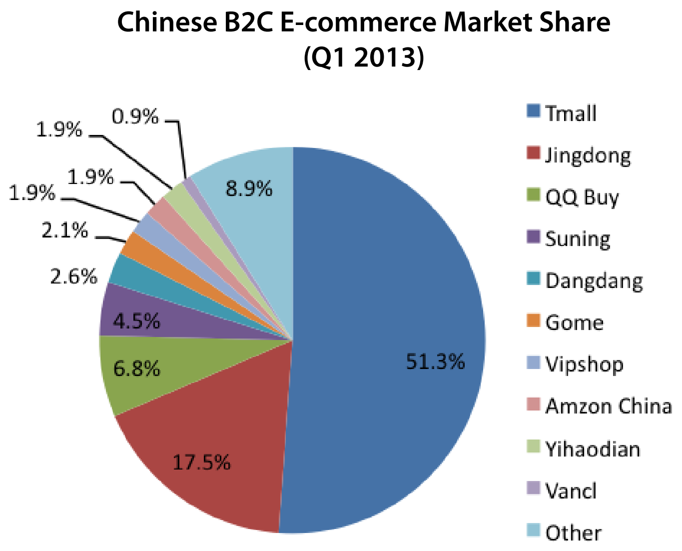
The B2B e-commerce market is extremely fragmented, with over 10,000 independent platforms in existence. Alibaba is by far the largest single market player, with a 42.9% market share. It was first established to provide a trading channel between buyers in the US and EU and suppliers in China, but now serves millions of buyers and suppliers from more than 240 countries.

The domestic B2B e-commerce market is still underdeveloped compared with many European and North American markets. Despite the proliferation of general and industry-specific B2B websites, a lack of payment security on many of these sites has prevented a widespread switch to online B2B procurement. Direct procurement from suppliers and appointed distributors or wholesalers remains the dominant sales channel in many sectors, leaving scope for the future development of China's B2B market in the next few years.

1.2 Business-to-Consumer (B2C) E-commerce

The expansion of internet usage and online shopping penetration have provided a solid foundation for the development of the Chinese online retail industry. According to the China E-commerce Research Centre, in the first half of 2013 Chinese online retail market transactions topped RMB 754 billion (approx. GBP 77 billion), accounting for 6.8% of total retail sales of consumer goods - an increase of 47.3% year-on-year.

China's e-commerce landscape is dominated by local platforms, which operate using three main models. British companies therefore need to think carefully about which is the optimum platform for their brand.



MAIN TYPES OF E-COMMERCE PLATFORM IN CHINA

- **Pure platforms (such as Tmall)**
Vendors own their own store and own the products. Although these sites have no-in-house logistics and warehousing, delivery is integrated into the site to make it easier for shoppers.

- **Open platforms (such as Jingdong)**
E-stores are operated on behalf of vendors for a service charge. Open platforms have in-house logistics capabilities, although vendors may choose to use a third party and pay a service fee.

- **Pure players (such as 51buy)**
E-stores which fully own the products available and use in-house logistics.

1.3 Consumer-to-Consumer (C2C) E-commerce

Until recently, the C2C channel dominated China's online shopping market. Alibaba's Taobao is the main C2C player, accounting for 95% of the market.

Chinese consumers are gradually shifting away from purchasing through non-professional traders and towards buying new products sold by registered stores on B2C sites such as Tmall. Online shoppers are increasingly concerned about quality and service and have higher expectations of the online shopping experience.

2. Consumer Behaviour

2.1 Demographics

According to iresearch, in 2011 the numbers of male and female online shoppers were similar, while over 60% of online shoppers were between the ages of 18and 30. The number of middle-aged online shoppers is also growing quickly, with older shoppers spending more per head than those under the age of 30. In 2011, over half of China's online shoppers had an average monthly income of between RMB 1,000 and RMB3,000 (approx. £100-£300).

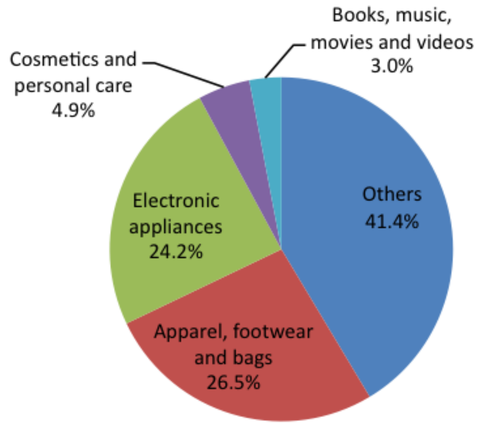
SINGLES DAY

China's Singles' Day, which takes place on 11/11 each year, has now established itself as the most important date in the B2C e-commerce calendar. All e-commerce platforms now take part in the event, which was initiated by Alibaba and entails discounts of up to 50%. The 2013 Singles' Day generated RMB 35.02 billion (£3.5 billion) in sales in the course of 24 hours, making it the biggest single day for e-commerce in China.

2.2 Consumer Preferences

Regardless of whether shoppers make the final purchase online or in a physical store, the majority of Chinese shoppers browse online to make price comparisons before they buy. Price comparison sites (such as Etao) attract 2.3 million unique viewers each day (significantly higher than retailers such as Suning). Chinese shoppers search for bargains, looking at several websites before making a purchase. The most popular categories of B2C e-commerce are apparel, consumer electronics and cosmetics.

B2C E-commerce Market Breakdown By Category (2012)



Source: iresearch

2.3 Is My Product Right For China?

Before investing in establishing an online presence it is recommended that companies spend time researching their target segment and trying to establish whether sufficient demand currently exists in the market for their products. For example, it may be worth spending some time browsing the main e-commerce platforms in China for similar products or brands. It is also recommended that companies visit China as early as possible and spend some time visiting bricks-and-mortar stores to carry out some initial research on products currently available in the market.

Some foreign companies make the mistake of assuming that their brands, being popular in the UK, will therefore appeal to Chinese consumers. While Chinese consumers are gradually becoming more sophisticated in their tastes and preferences, consumer education generally lags behind that in Western markets, with a section of the demographic lacking a full appreciation of the values and lifestyle associations of many premium or niche brands. While well-known global brands can easily attract the attention of most Chinese consumers, building brand awareness and acceptance is more challenging for smaller, niche brands. SMEs therefore need to think carefully about whether they have the resources to invest in consumer education through promotional activities and digital marketing.

Another mistake sometimes made by foreign companies is to assume that China represents a homogeneous market. China's vast geographical size and diversity mean that consumer preferences often differ significantly across different regions. Regional variances may require different products to be promoted and sold in different regions, and may also have an impact on inventory management, logistics, and distribution channels, requiring separate partners for different regions in China. Conducting some initial market research, such as research that explores consumer preferences and brand awareness among different target segments or regions, can therefore be vitally important in helping the company to formulate a suitable China e-commerce strategy.

3. Establishing an Online Presence

There are essentially four different models for companies looking to sell online in China: selling directly to consumers from a site/channel hosted outside China, selling via a local third party B2C platform from outside China, selling directly to consumers from one's own locally hosted site, and selling via one's own site and third party platform within China.

The following table provides an overview of the pros and cons associated with each model:

MODEL	PROS AND CONS
Direct From Overseas Website/Channel	**Pros:** • Long-term brand value easier to maintain • No ICP licence required **Cons:** • Language (requires Chinese language version) • Lack of effective aftersales support, including refund and exchange • Higher end cost to consumer (shipping costs/import duties) • Payment limitations (can site accept UnionPay, Alipay?) • Poor performance of website (low traffic volume and conversion rate)
From Overseas Via Chinese 3rd Party Platform	**Pros:** • No local company registration or ICP licence required • No local staff or site maintenance required • Quicker to set up and start **Cons:** • Higher end cost to consumer (shipping costs/import duties) • Local agent required to manage e-store • Merchandising and promotional activities limited to capabilities of the local partner & platform
Direct Via Own Chinese Website	**Pros:** • Brand value is easier to maintain • Easier to analyse market and consumer trends • Faster delivery (local warehousing) • Local customer support/aftersales **Cons:** • China-based team required for technical support, website development • Continuous high investment in digital marketing and SEO required to drive traffic to site • Local company registration & ICP licence required • More time required to set up
Via Third Party B2C Platform (with own local website)	**Pros:** • Potential customers can be reached directly, making marketing more efficient • Efficient delivery (local warehousing) • Local customer support/aftersales • Easier payment • Maximises customer reach • Greater control (no agents required) **Cons:** • Investment in website development/maintenance required • China-based team or partner required to provide technical support • Can be difficult to differentiate brand from competitors'

3.1 Setting Up a Website in China

Any company looking to host a website in China will need to apply for an Internet Content Provider (ICP) licence, issued by the Chinese Ministry of Industry and Information Technology (MIIT). This can only be done by companies that have an established Chinese legal entity in China. Only Wholly Foreign Owned Enterprises (WFOEs) or other Foreign Invested Commercial Enterprises (FICEs), such as Joint Ventures, can sell directly via their own website. Representative Offices are not permitted to carry out e-commerce in China.

It is possible for companies with no legal entity in China to use local agencies to apply for an ICP licence on their behalf. However, this is against government rules and the website could theoretically be closed down at any time. In some instances, a local agentor importer may be willing to host and operate a website on a foreign exporter's behalf, although this should only be considered with trusted local partners.

Companies also need to register a .com.cn domain name for websites hosted in China. A business licence from a locally registered company is required to do this, although it is also possible via a third party agency. Domain squatting is a common phenomenon in China, so companies considering selling to China in the future should look to register their Chinese domain names as early as possible to prevent this from happening.

Another option is to host a Chinese language website outside China. Although websites hosted outside China may be slow and perform poorly when viewed in China, there are ways of overcoming this problem. Hosting in nearby jurisdictions such as Hong Kong, or using a Content Delivery Network (CDN), optimises website content and speeds for users in China. A CND is often a good option for new-to-market firms with no physical entity in China, as it averts some of the restrictions associated with ICP licences and provides an opportunity to test the market before committing to establishing a full scale local web presence.

Whether the site is hosted in China or overseas, it is important to localise website content and format it to the preferences of a Chinese audience. As well as accurately translating website content into Chinese, it is recommended that companies also tailor the website's format, design and set-up to appeal to Chinese readers. A localised site will have the added advantage of enabling companies' products to be found more easily through searches on local search engines.

3.2 Setting Up a Store on a Third Party Platform

Third party B2C platforms in China, such as Tmall, also require foreign companies to provide a local Chinese business licence and tax registration documents before they are allowed to set up a store. Many platforms also require companies to hold Chinese trademarks before setting up a new store. There are some additional, detailed requirements for certain specific business sectors which companies which should investigate before setting up an e-store via these platforms.

Companies with no legal entity in China can appoint a local agent to set up and manage an e-store on their behalf. It is important to identify and work with trustworthy agents, which may require some due diligence at the outset (especially where trademark usage rights are being transferred).

Setting Up a Tmall Store

Opening a store on Tmall takes approximately six to eight weeks, provided your preparations and application documentation are all in order. More set-up time may be required for brands selling though multiple channels or where integration with an existing Chinese website is required.

T-MALL STORE SET-UP – REQUIRED DOCUMENTS	ADDITIONAL INFO
Copy of Business Licence for Mainland China	Showing completion of valid annual inspection and authorisation to sell goods in scope of Tmall business
Copy of Corporate Tax Registration Certificate for Mainland China	Either national or property tax documents
Copy of Organisation Code Certificate	The company/organisation's official China business ID
Copy of Bank Account Permits	For primary corporate bank account in China
Copy of Legal Representative ID Card	Or passport if store owner is a foreign national
Copy of Tmall Flagship Store Owner's ID Card	Or passport if store owner is a foreign national
Trademark Registration from State Trademark Association	Or Registration Acceptance Notice if still under review
Alipay Corporate Account Authorisation	Must first apply for Alipay Corporate Account
Completed Product List	Product details for each product sub-category

Once the application is approved, the company will sign an agreement with Tmall, take an entrance exam, and pay the annual service fee. Once all of the steps have been completed, the company will be allowed to publicise its products on Tmall.

Companies with no legal entity in China may also consider setting up a store on Tmall Global, hosted in Hong Kong. Tmall Global is entirely in simplified Chinese and shoppers in mainland China can easily link to it from the main Chinese Tmall site. Again, local partners will be required for store set-up and design, logistics or fulfilment and digital marketing support.

T-MALL FEES

Tmall merchants are required to pay the following fees before launch:

Deposit – this is for reimbursing consumers in case a Tmall shop breaches the service agreement and sells counterfeit products. The deposit ranges from RMB 50,000to RMB 150,000 depending on the chosen store format and the category trademark status.

Technical Service Fee – this is an annual fee that varies according to product category and ranges from RMB 30,000 to RMB 60,000. The merchant has the chance to redeem either half or all of the service fee if they reach Tmall's defined sales targets.

Sales Commission – for every transaction made, Tmall keeps 5% of the sales value as commission.

Tmall has a recommended list of third party service providers which can help you set up and run your Tmall site (Chinese webpage): fw.tmall.com/tmall/ser/index.htm

For more information on setting up a Tmall site, contact CBBC or visit Tmall's English website: http://about.tmall.com/

CASE STUDY – JOHNNIE WALKER ON TMALL

Following the rise of B2C platforms in China, in February 2013 Diageo opened an online store for Johnnie Walker on Tmall.com. Johnnie Walker's Tmall store has the same style and colour scheme as its official website, which enables it to keep its unique corporate image while enjoying the benefits of Tmall's ecommerce platform.

Nathalie Fan from Diageo in China told CBBC: "The main reason to use Tmall as a platform is that it has over 50% market share in the B2C market in China, so leveraging its traffic to build our brand and generate sales is key. Tmall does not have its own customer inquiry handling system. We have a third party agency to do this."

Diageo worked with different third party service providers to set up and run the Tmall store's operations, particularly creative and web designers and providers of logistics services. Diageo has maintained a role in the overall brand control, including product selection, planning promotion strategies and other marketing activities. The use of outsourced service providers has minimised costs, while keeping brand management in-house.

The online showcase of Johnnie Walker not only attracts customers online but also serves an O2O (online to offline) function, promoting their brand in and driving sales in brick-and-mortar retail outlets at the same time.

http://johnniewalker.tmall.com

4. Identifying Local Partners

One option which some foreign companies have used is to arrange their exporting and e-commerce strategy around a Chinese distributor, thus averting the need for a local presence in China.

Whether looking to engage in B2B or B2C e-commerce in China, finding the right local partner is often the most important factor in success. For most foreign companies, finding such partners, initiating contact, establishing a relationship and concluding a business arrangement seems like a daunting task. However, with a certain amount of preparation and awareness of cultural differences the right partner can be found and healthy relationships established.

When selecting which partner to work with, companies need to consider a variety of factors, such as size and scale, geographical reach, existing customer and supplier bases, logistics capabilities and marketing expertise. Whether a partner has the relevant personnel and expertise to run a successful e-commerce website or online store is critical to determining which partner to work with. Ideally, brands looking to sell through multiple channels should identify partners with the capability and infrastructure to manage both online and offline channels.

There are many local trade partners that can own and operate B2C e-commerce stores for foreign brands, and many of these companies offer additional services, such as web design and consultancy, e-marketing, search engine optimisation (SEO), and data analysis services. However, B2C brands looking to sell through multiple channels and B2B businesses operating in more specialist or niche markets are advised to carry out more detailed research to identify and screen suitable partners.

OVERSEAS MARKET INTRODUCTION SERVICE

A good starting point for identifying potential distributors is the Overseas Market Introduction Service (OMIS), which CBBC delivers in partnership with UK Trade & Investment in China (UKTI).

OMIS can be used to tailor a list of potential customers, agents, distributors or other business partners and arrange a meeting programme for when you visit China. These projects are subsidised, and as part of UKTI's export promotion scheme there are discounts available to first-time users of the service.

Work with Companies in the Market Place

TMALL

Tmall recently opened a new business unit called "Tmall International" which allows international brands to sell to the Chinese market directly. The whole application process is about 40 working days. The stated requirements for users are:

- Must be an overseas enterprise
- Qualified for overseas retailing/trading
- Must be the brand owner or authorised by the brand, or have the official invoices showing purchase from legal channels
- A point for returned products in mainland China
- All products should be delivered within 72 hours
- Fluent Mandarin speaker is needed

For more information, please check the website at http://www.tmall.hk/ or contact CBBC

YIHAODIAN

Yihaodian has recently started a new service called 60 Days' Free Trial in China as part of its existing online business.

The most popular categories in Yihaodian are Food, Healthcare, Cosmetics and Beauty Care. Yihaodian takes products from producers' factories or from the ports to the newly established Shanghai Free Trade Zone, and then puts the products on its e-commerce platform. After 60 days, if products are selling well, Yihaodian will apply import customs clearance for sold-out products, pay import tax and start to charge warehousing and other costs (these are the costs you will bear if you choose to sell your products on Yihaodian). If products are not selling well, the supplier may take back the products (although logistics expenses may have to be paid by the producer). Import taxes are waived for products which are not sold.

This reduces the risk for brands from overseas and is particularly useful for suppliers of high-margin products with long shelf lives (such as wine and high-end gifts).

Note: Some product ranges are still subject to restrictive registration in China; please double check with your local business partners.

Note: For this option, please double check the tax rate - up to 50% for some beauty care products and wines.

For more information, please check with CBBC or Yihaodian.

5. Logistics & Warehousing

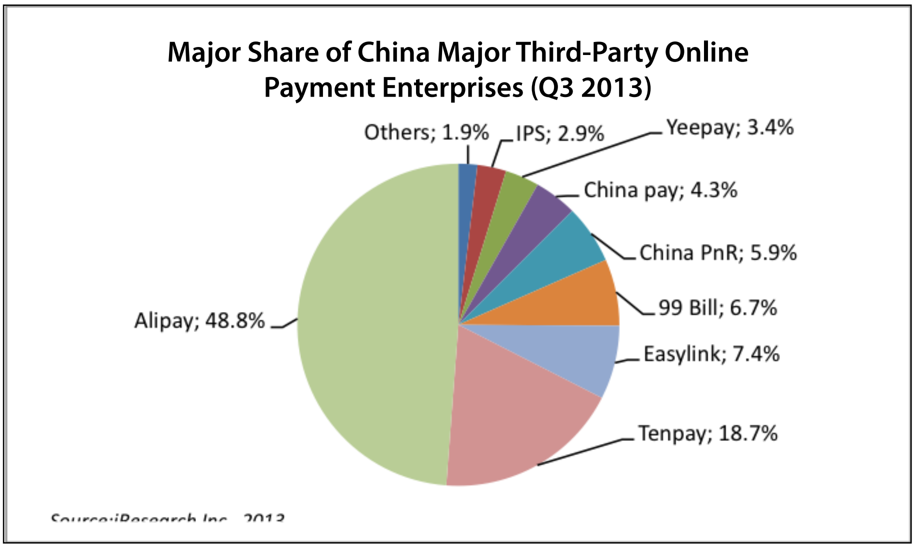
Many B2C platforms have their own in-house logistics and warehousing capabilities, while others outsource to third party logistics (3PL) suppliers. 360Buy, Dangdang and Amazon are establishing a nationwide warehousing network, while Tmall is also making significant investments to improve its logistics infrastructure. The 3PL market in China is highly fragmented, with a large number of Chinese express parcel delivery firms (such as EMS, the largest domestic express delivery firm, delivering to 20,000 locations nationwide).

Despite China's size, its existing logistics infrastructure enables parcels to be delivered within two working days regardless of location, while same day delivery is available within most major cities. However, bottlenecks may occur during busy periods, such as in the run-up to national holidays, which lengthens delivery times and may lead to customer complaints. Parcels shipped to consumers from outside China suffer from extended delivery times and possible delays at customs. Some categories of product are prohibited or restricted, so it is important to check this with your logistics provider.

Image: Secom Bahia

6. Payment

Cash-on-delivery and third party payment solutions are the most popular payment methods in China. Most websites accept the main Chinese debit/credit card UnionPay for direct e-banking transfers, and there are third party online payment tools such as Alipay. International credit cards such as MasterCard and Visa are little used in China. Research has shown that third party payment systems are increasingly popular, with just under two thirds of online shoppers using them.



Alipay is the preferred online third-party payment tool of most online retailers in China. In addition to Taobao and Alibaba.com, Alipay provides payment options in China for more than 500,000 external merchants for online retail, virtual gaming, digital communications, commercial services, air ticketing and utility fees payment transactions. Alipay has recently opened a new service called Cross-Border Website Payment to allow overseas merchants to collect payment from Chinese buyers. This enables Chinese buyers to purchase products or services from merchants' websites, making their payments in Chinese RMB. Alipay collects RMB from shoppers, and registers it as a purchase of foreign currency, which is then remitted to the receiving bank account of merchants in settlement. Twelve foreign currencies are currently supported, including sterling.

Set up fees are US$1,000, and there is a 3% transaction fee on each purchase. For more information contact CBBC or visit the Global Alipay website: http://global.alipay.com

7. Regulations, Taxes & Import Duties

In China, many sectors are heavily regulated, and it important to fully understand any restrictions prior to investing in establishing an online presence. For example, any company looking to sell food and beverage, cosmetics, electronic equipment or pharmaceutical products will be required to gain approval for, and/or register their products with, local regulators before they start selling in China. Companies that require further advice on any restrictions that may apply to their products may contact CBBC for further information.

Goods shipped to China from overseas are generally subject to the local VAT rate of 17%. This is calculated against the CIF value (customs value + cost of insurance and freight). A lower rate of 13% applies to goods such as books, newspapers, magazines, cereals, edible vegetable oils, tap water, heaters, coal products for residential use and other goods as prescribed by the State Council.

Businesses operating from within China are subject to a number of local taxes, including Corporation Tax, VAT and Business Tax, while taxes on profit dividends made to the UK are withheld.

Import duties also apply to some product categories, so companies should think about how these additional costs will affect the final price to the consumer. More information on the appropriate duty rates for specific product categories can be obtained from the European Commission Trade Market Access Database at:
http://madb.europa.eu/madb/datasetPreviewFormATpubli.htm?datacat_id=AT&from=publi

8. Intellectual Property Rights (IPR)

Image: Phillip Ingham

Any companies looking to establish on online presence in China should take steps to protect their IPR as soon as possible. China has a "first-to-file" system, which makes it important to act early in filing your IP with the correct authorities.

Intellectual Property Rights are territorial, so even if your brand or patent is registered and recognised in the UK, if a Chinese company has registered it in China, they will own the rights to it in this market. Trademark squatting, or registering another's name or mark with bad faith or intent to sell it back to the rightful owner for profit, are particular problems in China due to this aspect of the Chinese system.

It is relatively cheap to register trademarks and patents early on but it may become expensive if another company has registered your invention or brand first. To do this, a Chinese agent is required to file the relevant paperwork. Patents and design rights protection is administered by the Chinese State Intellectual Property Office (SIPO). SIPO defines three types of patent right in China: (a) invention patent, (b) utility model and (c) design patent. Chinese invention patents are broadly analogous to patents in the UK and require a full examination by SIPO before being granted, a process which takes around two years.

Trademarks are managed by the China Trademark Office and can take up to 18 months to be filed. There is no requirement to register copyright in China. However, it is advisable to register your copyright so that you can prove ownership in any dispute or court case. Registration is made with the National Copyright Administration.

Where IP infringement has taken place, there are a number of potential avenues to enforce a company's rights, including civil jurisdiction, administrative enforcement, criminal enforcement, customs enforcement and non-official or informal channels. Companies are advised to seek legal advice from China IPR specialists as soon as possible to address these issues. Online e-commerce platforms in China can also remove any offending e-shops or suppliers once evidence of infringement has been provided.

CASE STUDY: TANGLE TEEZER

Having first appeared on Dragon's Den in 2007, Tangle Teezer entered the China market in 2010. Having initially tested the East Asian market with an appearance on a Taiwanese shopping channel, the company made its China breakthrough when a famous Chinese model enthused about the product on her microblog, causing a flood of 200 orders a day from customers in China.

Having been approached by a number of Chinese distributors, Tangle Teezer finally selected a local Hong Kong-based partner focused exclusively on the beauty sector. This partner manages all aspects of the e-commerce process in China, handling imports, local warehousing, logistics, e-store management, digital and social media marketing.

Unlike the UK, where 85% of sales are offline (such as in hair salons), Tangle Teezer's sales in China are almost entirely through Taobao/Tmall, which enables the company to maximise its margins. Gemma Clarke, Tangle Teezer's Chief Global Officer, emphasises the importance of adapting products to the tastes of local Chinese consumers: "Unlike the UK market, the Union Jack and encrusted jewel designs are two of our most popular designs. It is also crucially important for our Chinese customers that our products are seen as Made in the UK."

As a by-product of Tangle Teezer's remarkable success, a major challenge the company now faces is that of counterfeit products being produced in China. It is advised that other British brands considering the China market take steps to protect patents and trademarks locally in China.

9. Digital Marketing and Social Media

As in Western markets, having a well-planned and well-executed digital marketing strategy is critical to selling successfully online in China (both for B2C and B2B markets). Whether operating a Chinese language site outside China, setting up a site inside China or asking partners to run a site on your behalf, it is crucial that websites be properly optimised for local Chinese search engines. Local search engines (such as Baidu, Qihoo, Soso and Sohu) dominate the search engine market in China, so search engine optimisation (SEO) should concentrate on these sites rather than Google, which has no mainland China domain and is rarely used by Chinese internet users.

Direct e-marketing, pay-per-click (PPC) ads and social media marketing are also important tools to help drive traffic to a website or e-store. Popular Chinese social networking sites and platforms are extremely important channels for building brand awareness, gathering consumer insights, and driving both online and offline sales. In China the internet is seen as a reliable source of information, sometimes even more reliable than mass media. Therefore, Chinese consumers build their knowledge about brands and make purchasing decisions through social media.

Facebook and Twitter are not easily available in China and are rarely used by Chinese internet users. Foreign companies should familiarise themselves with the various local platforms most commonly used by Chinese consumers.

China's most prominent social media platforms include:

Weibo:
A Twitter-style service with 500 million users. www.weibo.com

Weixin/"WeChat":
Voice/sms-style mobile application (similar to Facebook's mobile app); rapidly growing in popularity with 250 million+ users. Weixin's e-commerce platform (http://www.wechat.com/en/) is expected to have a significant influence in the next few years.

QQ & QZone:
QQ (MSN-style chat) and QZone (Facebook-style) are the largest. QQ has 700 million+ users & QZone has 200 million+. www.qq.com and http://qzone.qq.com/

RenRen:
A network for reconnecting friends, with 100 million+ users. RenRen looks and feels like Facebook. www.renren.com

Douban:
MySpace-style site, popular with special interest groups, for specific topics; has over 100 million users. www.douban.com

LinkedIn:
Enjoys some usage in China (2 million mainland Chinese users) www.linkedin.com

10. Key Steps for Success in China's E-commerce Market

1 **Know the market:** Take time to research the market and establish whether a market exists for your products. Investigate any regulatory restrictions or import duties that could affect competitiveness in respect of the end-customer.

2 **Define and understand your target market:** Market research should help to establish the correct demographic group or market segment to target. Determine which range, items and product types are most likely to resonate with this target group. Consider localising your product offering for your target market.

3 **Protect your intellectual property:** Make sure that any existing trademarks are registered locally in China in the relevant categories. Companies with patents should also register these. Seek help from IP specialists where trademarks have already been compromised.

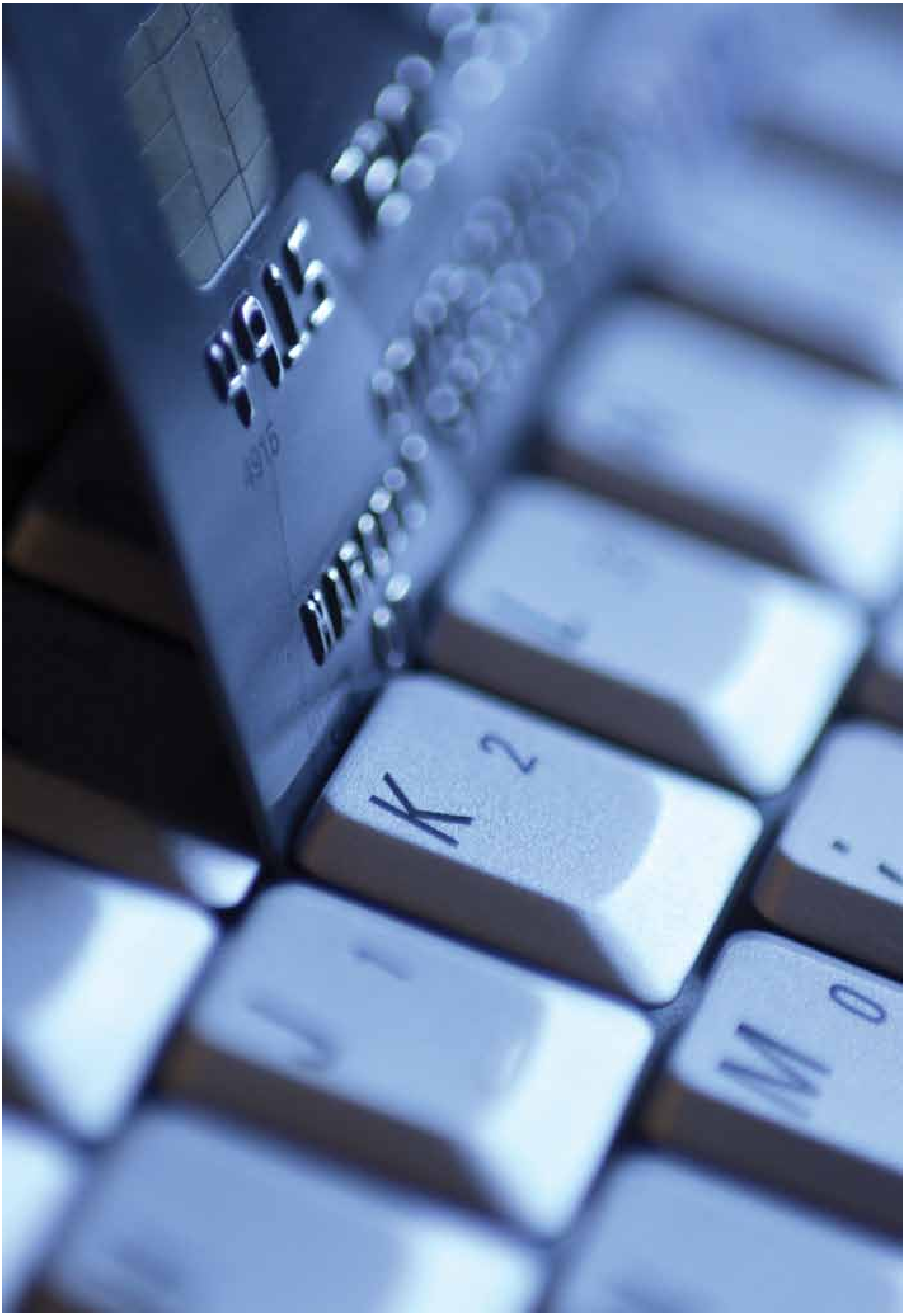
4 **Define your business model:** Decide on which business model suits your business best. Consider whether you will establish your own local office, sell via partners or sell into the market remotely from outside China. Establish whether you will adopt a multi-channel strategy, sell purely via your own website, through third party platforms or a combination of these.

5 **Choose the right online platform:** Decide which platform will provide the greatest chance of building the brand during the early phase of market entry. Using a popular platform such as Tmall is likely to lead to greater initial traffic and to require less effort in terms of payment promotion and delivery. High-end premium brands and niche luxury brands may wish to consider more exclusive platforms targeting upper income segments.

6 **Select your partners carefully:** Most companies will require trusted local partners (agents, distributors or retailers) to facilitate market entry. Spend time identifying partners with the right "fit" for your business. Consider issues such as reliability, trustworthiness, experience, e-commerce expertise, spare resources, company scale and product focus.

7 **Use digital marketing to build brand awareness:** Carry out data analytics and social media monitoring to understand purchasing trends and select the product range. Consider search engine optimisation (SEO) strategies, pay-per-click advertising and social media to build brand awareness and drive traffic.

8 **Consider a multi-channel strategy:** Consider whether other offline channels such as bricks-and-mortar stores might help to drive online sales (and vice versa).



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