

Country factsheet - May 2016

China



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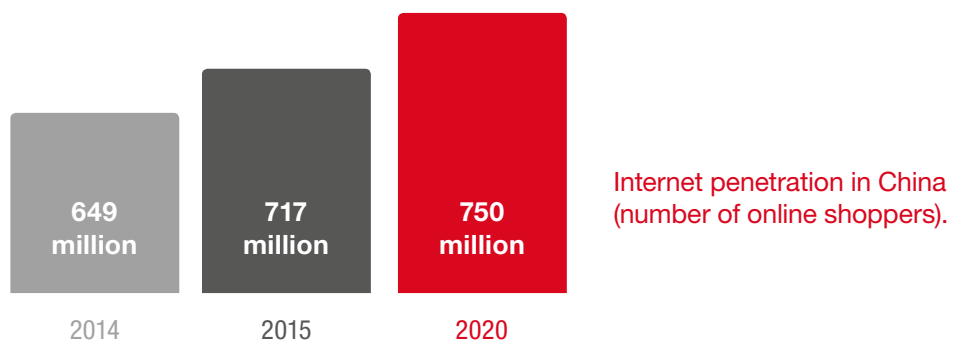
Introduction

In 2015, e-commerce revenues in China grew by 42% to reach \$672 billion, making it by far the largest e-commerce market in the world. In fact, **China accounts for 40% of the world's total e-commerce revenues.**¹

And this e-commerce giant will keep growing at a phenomenal pace, with revenues likely to **exceed the mind-boggling \$1 trillion mark by 2018**. In other words, within the next two years, the Chinese e-commerce market will be larger than those of the United States, United Kingdom, Germany, France and Japan combined.

The **rapid penetration of the Internet in China**, stimulated by the **widespread adoption of smartphones**, is one of the main growth factors for the e-commerce market.² Approximately 360 million Chinese Internet users shopped online in 2014 — that's more than the entire population of the United States. It's estimated that, **by 2020, the number of online shoppers in China will increase to 750 million**⁴ based on a projected total population of 1.4 billion people.⁵ It's clear to see that the growth potential in this market remains enormous.

China accounts for
40 %
of the world's total
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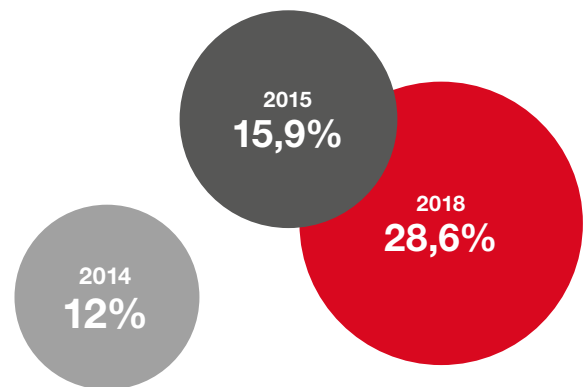


E-commerce is a driving force for Chinese retail

China's GDP per capita is expected to grow by 6% each year until 2020. This means the average **Chinese person will see their wealth increase**,⁶ despite the fact that economic growth in China is at its lowest since 1990.⁷

In 2014, the Chinese retail market as a whole grew by 12%, giving it a value of 4.1 trillion dollars. However, fewer bricks-and-mortar stores are being opened in China and **e-commerce has become the biggest driving factor for retail growth**. In 2015, **e-commerce sales accounted for 16% of all retail revenues in China**, and this share is expected to rise to **29% by 2018**.⁸

Share of e-commerce
in total e-tail sales.



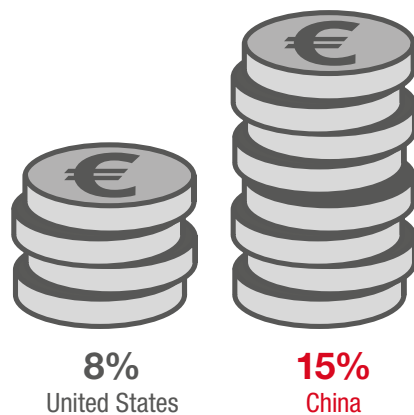
Consumers in China's farming areas will unlock enormous sales potential in the coming years. Internet penetration in smaller, rural towns is currently around 19% — very low compared to 75% in the country's largest cities. But online shoppers from rural areas are more active on e-commerce sites than urban shoppers due to the lack of a large retail presence in these regions. This fast growth in the number of Internet users in rural areas will undoubtedly serve to boost online retail.⁹

In the smallest rural cities, the number of online shoppers is growing at a rate of **150.6 %**.

Logistical challenge

The five biggest cities for online shopping are Shenzhen, Hangzhou, Guangzhou, Zhuhai and Beijing. **Online shopping is extremely popular in the large Chinese coastal cities, but the number of new online shoppers is growing much faster in smaller, more rural areas.** In the smallest rural cities, the number of online shoppers is growing at a rate of 150.6 %.¹⁰

Delivering orders to customers in China poses a challenge to online retailers due to the vast size of the country. However, under the impetus of the strong growth of e-commerce sales, **the logistics network in China is also growing at a rapid pace.** The logistics costs in China are equal to around 15% of the GDP, while this figure is as low as 8% in more mature markets such as the United States.¹¹ However logistics costs in China have started to drop significantly.



Logistical costs as a percentage of GDP are higher than in the US.

While large players in Chinese e-commerce initially tried to develop their own networks, they are now adopting the strategy of entering into **partnerships with existing logistics service providers.** Online retail giant Alibaba expects to be able to deliver anywhere in China within 24 hours by 2018.¹²

Selling to China from a foreign country is challenging

New Customs rules were introduced by the Government of China in April 2016, which are designed to **encourage Chinese consumers to buy domestic products, and at the same time provide encouragement to Chinese manufacturers to sell their products both at home and abroad**. These rules include imposing annual maximums on overseas purchases, and new tax treatments and rates that previously did not exist. It is an entirely new system for e-commerce imports, not just new rates of tax.

For foreign organizations, there are many ways to approach your entry into the market in China, including **launching e-commerce activities via existing Chinese e-commerce platforms** in order to reach the most customers.

For example, **Alibaba** offers international suppliers the opportunity to sell directly to Chinese consumers via the e-commerce platform **Tmall Global** without having physical operations in China. In April 2015, JD.com one of China's largest direct sales organizations, launched **JD Worldwide**. This platform is also intended to provide foreign organizations access to Chinese consumers.¹³

In addition to these options there are others which include establishing a base of operations in Hong Kong in close proximity to mainland China. Landmark Trade Services can assist you with evaluating the best options for your circumstances.

New customs rules encourage Chinese consumers to buy at home and abroad.



The importance of cross-border e-commerce

Approximately 18 million Chinese shoppers made cross-border purchases in 2013, amounting to \$33.8 billion in cross-border e-commerce and 11% of total e-commerce sales in China. This ratio is estimated to have remained the same in 2014 and 2015. **This means cross-border e-commerce is growing at the same rate as the rest of the online market in China.**¹⁴

By 2018, the number of online, cross-border consumers in China is expected to double to 36 million. It is estimated that they will be spending approximately \$157 billion dollars a year online.

The Chinese make most of their cross-border purchases from the **United States (84%), but Hong Kong (58%) and Japan (52%)** are also favored due to their geographical proximity and cultural crossover.

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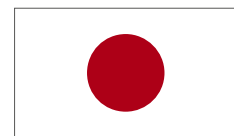
36 millions.



United States
84%



Hong Kong
58%



Japan
52%

Chinese cross-border shoppers are mainly interested in buying clothes, shoes and accessories, beauty products, computer hardware, jewelry, precious stones, watches and personal electronics.¹⁵

Cross-border e-commerce is important for the economic growth of China.

China is also creating **cross-border Free Trade Zones (FTZ)** in several cities that offer bonded warehousing to get your merchandise closer to your buyers and reduce delivery times. Bonded warehousing makes it possible to store goods for an unspecified period without having to pay import duty and sales tax on them. This means double payments are not required in the case of goods bound for countries other than the country in which they are temporarily being stored.

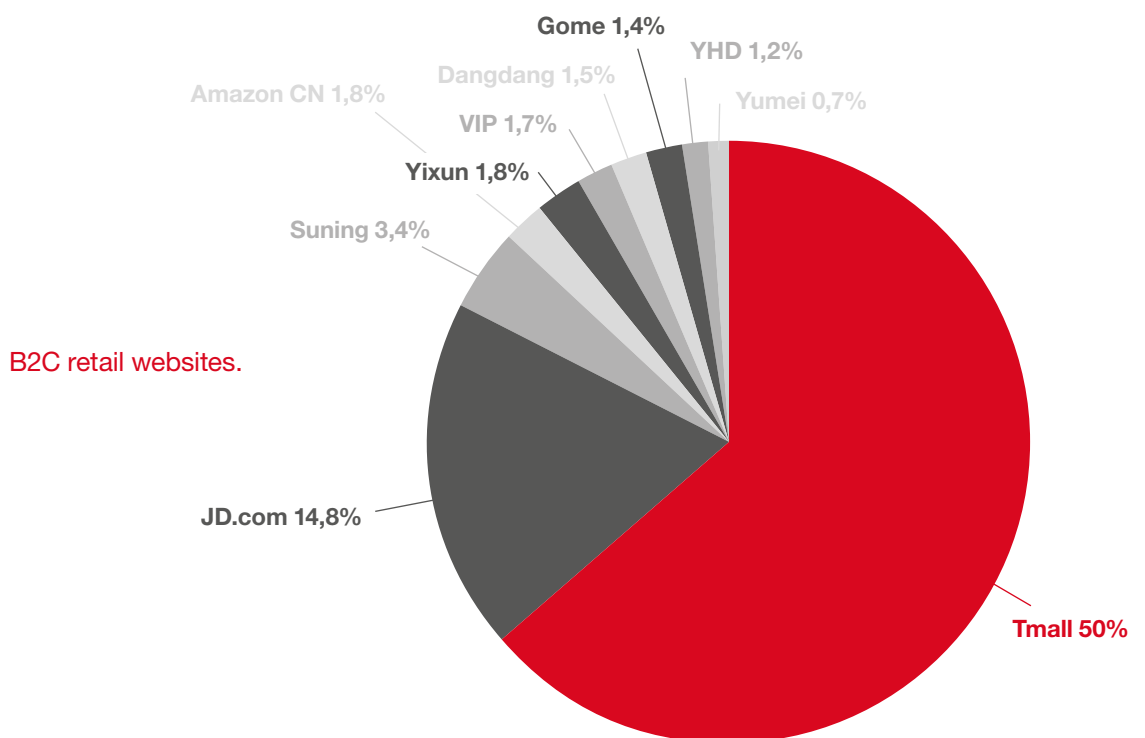
Dual e-commerce market

Online retail in China is characterized by fierce competition. There are **two main players in the e-commerce market: Alibaba and Tencent**. Both have developed their own systems consisting of C2C platforms, B2C platforms, payment platforms, social media platforms and more.

With
95%
of the market,
Taobao is
unequivocal
market leader.

Around half of all e-commerce in China still takes place via C2C marketplaces. Taobao, part of Alibaba, dominates the market with 95% of the market share. Paipai, part of the Tencent group, has since stepped up to challenge Taobao. Currently, a person must be of Chinese nationality to open a virtual store on either of these two C2C platforms.

Tmall, a company owned by the Alibaba group, is dominating the B2C market with 50% of the market share. It can sometimes be more profitable to work with alternative B2C channels due to the expensive marketing and fierce competition on Tmall. The second-largest platform is JD.com (15% market share) from challenger Tencent. Other B2C platforms include Suning, Amazon CN, Yixun, VIP Dangdang, Gome, YHD and Yumei, all of which have approximately 1–2% market share each.¹⁸

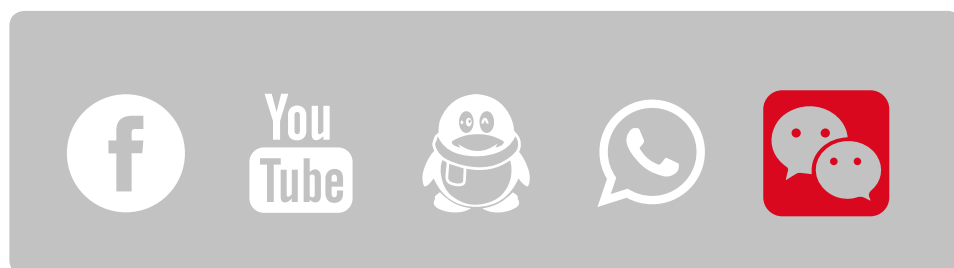


The mobile instant
messaging app
WeChat
is the biggest social
platform in China.

China is ahead of the pack in social media

Online retailers in China cannot afford to neglect social media platforms. Chinese consumers attach enormous importance to the content generated by these platforms and their purchasing decisions are often dependent upon them. 60% of Chinese retailers believe that a strong presence on social media leads to higher sales.¹⁹

In Western economies, consumers tend to use Amazon for online shopping, Facebook for brand awareness, PayPal for online money transactions and WhatsApp for sending messages. In China, a single app combines all of these functions:²⁰ **Tencent's mobile instant messaging app, WeChat** (also known as Weixin). This is the **main social media platform in China**, with around 440 million active Chinese users in the first quarter of 2015. It is also the **fifth largest online community in the world after Facebook, YouTube, QQ and WhatsApp**. Similarly, Alipay is the largest facilitator of online payments in China.



Approaches to advertising and customer service are becoming more innovative with the aid of business WeChat accounts. **Recently, direct selling has been made possible on WeChat** via the WeStore.²¹ On WeChat, e-tailers can select their target group according to their browser histories and locations.²²

WeChat is certainly not the only social platform in China. Tencent is also the owner of **QQ, which, on paper, is the biggest social network in China**. There is also **Weibo, owned by Alibaba, with 600 million users**. Weibo is like a combination of Twitter and Facebook, an ideal platform for generating brand awareness. **LinkedIn and Renren** also play a role in the market. LinkedIn is a newcomer on the Chinese market and is working hard to increase its brand awareness. Renren is used mainly by students.²³

Chinese consumers love their smart devices

In 2014, the value of mobile sales rose by a whopping **293 %**.

Chinese consumers are shopping more and more using their mobile devices. In 2014, the value of mobile sales rose by a whopping 293% \$130 billion, accounting for a third of the total e-commerce market in China. This share is expected to rise to **53% of the e-commerce revenues in 2016**.²⁴ By comparison: in the United States and the United Kingdom, mobile purchases account for 22% and 33% of the total e-commerce market share, respectively. And in countries such as France, Canada and the Netherlands, the m-commerce share is less than a fifth of the total. According to estimates by eMarketer, the total revenues generated by m-commerce in China are more than four times the value of the m-commerce revenues of the United States.

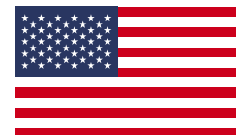
e-commerce sales to come from m-commerce in 2016.



China 53%



United Kingdom 23%



United States 22%

In China, mobile Internet penetration has all but reached saturation point. Around **99% of Internet users also have access to mobile internet**.²⁵ By 2016, it is expected that there will be 624.7 million smartphone users in China. That's around three times more than the number of smartphone users in the second-largest smartphone market, the United States.²⁶ As such, in China it is a must to have an online site that is optimized for mobile use.

E-commerce in China is feminine

The typical online consumer in China is young, urban and female. **Almost 70% of Chinese women prefer shopping online to shopping at a bricks-and-mortar retail outlet** for clothes and accessories, mother and baby products, groceries, domestic products, electronics, plane tickets and package holidays.²⁷

This preference to shop online is also reflected in the figures for online shopping. Chinese **women are behind 60% of online purchases and tend to spend more in total**. In the West, there are also more female online shoppers than male, but men tend to spend a little more.

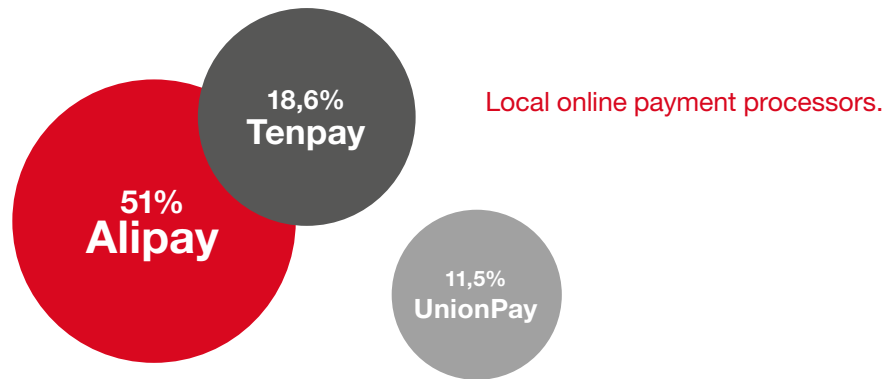
Chinese women account for over 60% of online purchases.



Which are the preferred payment options?

Online consumers prefer to pay through a local third-party payment processor or with a credit or debit card.

China has traditionally been a cash-based economy, due to a distrust of the banking system. However, with the sharp rise in online shopping and the high level of mobile Internet penetration, the Chinese consumer's preferred method of payment is changing. Today, online consumers prefer to pay via a **local third-party payment company or by credit or debit card**.²⁹ The big online payment companies also offer eWallets, mobile apps for smartphones that allow payments from smartphone to smartphone.



Out of all the local online payment groups, Alipay has the largest market share (51%), followed by Tenpay (19%) and UnionPay (12%).³⁰ Alipay is a part of the Alibaba group and Tenpay is the payment platform for Tencent companies. As with China's social media, payment platforms are usually part of an end-to-end service. Platforms offering payment options only, without any other type of service, are a rarity. Offering a payment process is simply a commodity for organizations operating in the greater e-commerce chain.³¹

E-commerce reaches its peak on Singles Day

In China, the peak time for e-commerce deliveries falls on November 11, known as Singles Day — a day celebrated in China as a counteraction to Valentine's Day since the 1990s.

Alibaba has seized upon Singles Day as a commercial event to generate additional revenues, and America's notorious Black Friday has paled in insignificance.³² **In 2015, online shoppers in the United States spent \$8 billion over the course of Thanksgiving weekend, including Black Friday and Cyber Monday.³³ Alibaba's sales on Singles Day 2015 dwarfed this figure, reaching \$11 billion.³⁴**

On November 11, 2015, 678 million parcels were processed by logistics service providers, an increase of 66% in comparison with the previous year.³³ This makes Singles Day the **world's largest online sales event.**

On 11 November 2015 no fewer than 678 million parcels were processed. It makes **Singles Day** the world's biggest online sales event.



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