POLITECNICO DI TORINO

Corso di Laurea Magistrale in Ingegneria Gestionale
Tesi di Laurea Magistrale

Innovazione digitale e Cross-border e-commerce in Cina

Digital innovation and Cross-border e-commerce in China

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Settembre 2018

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1.1) Introduction

China is the world's second largest and fastest growing economy and continues to demonstrate exceptional year on year growth. Thanks to major technological developments including growing internet penetration rates, social media advances and fast developing marketplaces, in 2013 China surpassed the US and became the largest e-commerce market in the world. Its role on the global stage has completely changed in the last decade, as growing prosperity and an increasing middle class are turning this economy from one driven by manufacturing to one where consumer expenditure is having a bigger impact. As China's economy expands, household incomes rise, and cross-border trade and investment flows continue to grow: the country's influence on the global economy has gradually become more pronounced, with an increasingly larger impact across countries. For this reason, the emergence of China's new economic cycle will inject dynamism into a flagging world economy and having a positive effect on the pace of its recovery. Over the past years, China has contributed around 30% to global growth, more than the US, the eurozone and Japan combined during the financial crisis in 2009, to confirm its's leading worldwide role (fig.1).

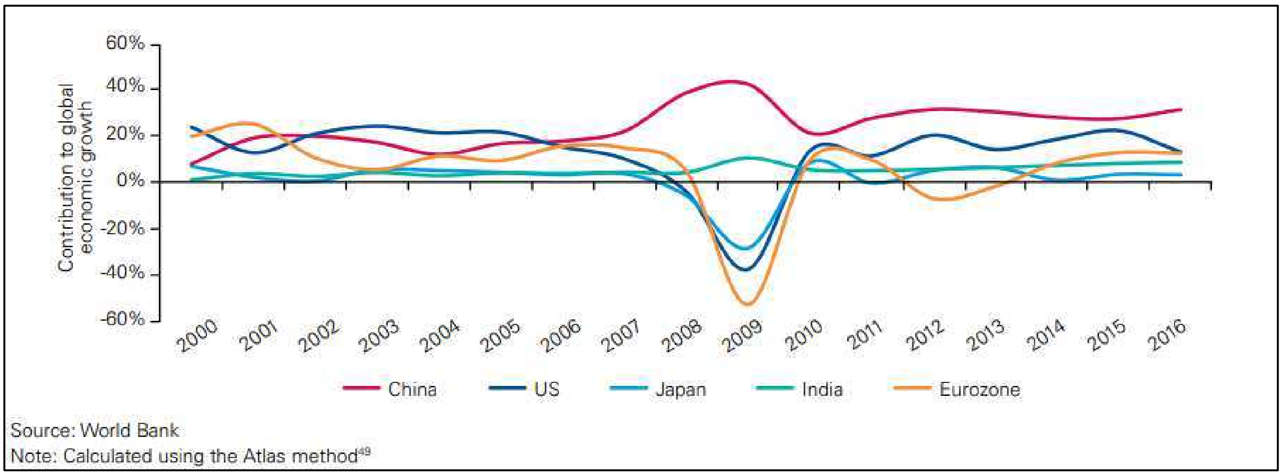


Figure 1 : Contribution of major economies to global economic growth

Chinese companies can take advantage of the positive economic conditions to make themselves stronger and more competitive. In this way, they will be able to continue `going out', acquiring high-quality international assets to support the transformation of the domestic economy. Its trade and policies are having an increasingly significant spillover effect on the global economic landscape since China has become a key driver player. The country has been the world's largest exporter and the second largest importer since 2009. China's increased importance in the world economy from trade to finance also magnify the impact of the country's fiscal, monetary and other macroeconomic policies. This means that China is now evolving from a passive 'receiver' that is influenced by global economic cycles, to an 'initiator' that influences how those cycles develop. By understanding China's new economic era and seizing the opportunities that arise, companies will be able to benefit from changes in the global economy and realize sustained development over the long term.

1.2) The economic boom

The pace and scale of China's economic transformation have no historical precedent. In 1978, China was one of the poorest countries in the world and its real per capita GDP was only one-fortieth of the U.S. level. But when the Cultural Revolution ended after the death of the Communist Party chairman Mao Zedong in 1976, the Chinese government under the leadership of Deng Xiaoping sought to increase its legitimacy by improving aggregate economic performance and raising living standards. In December 1978, the government decided on a general policy "reform and opening up." Since that moment, China's rise from a poor developing country to a major economic power in about four decades has been spectacular. From 1979 (when economic reforms began) to 2013, China's real gross domestic product (GDP) grew at an average annual rate of nearly 10%. According to the World Bank, China has experienced the fastest sustained expansion by a major economy in history and has lifted more than 800 million people out of poverty.

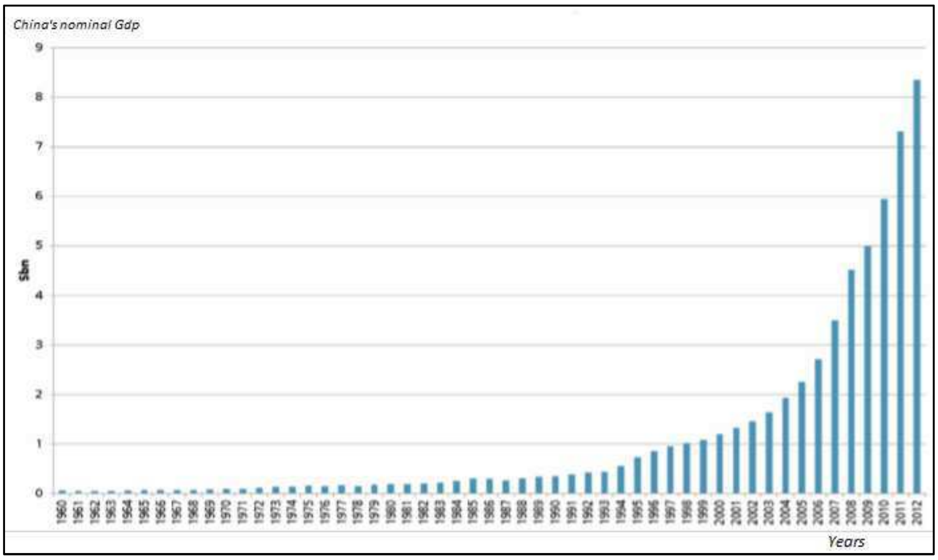


Figure 2 : China's nominal GDP growth

During these 35 years, real per capita income increased from $714 in 1980 to around $13,000 in 2015, based on the IMF's World Economic Outlook data. China's growth performance has been clearly spectacular and exceptional, but its economy has reached a crossroad: the annual growth rate has slowed to about 6–7 percent since 2013 and will likely moderate further. The rise of the previous three and a half decades was based on several key factors: a sequence of market-oriented institutional reforms, including openness to international trade and direct investment, combined with low wages and a favorable demographic structure. Although this slowdown could be cyclical as result of a relatively weak world economy, major part of the reason is structural and fundamental. China's economy, once attractive for its cheap labour force, has been experiencing transformation towards higher value-added services and products. Since due to the more expensive workforce, production of cheap items has been moving towards other low-cost countries such as Vietnam or Bangladesh,

At the 19th National Congress of the Communist Party of China held in October 2017, the leadership announced that China has entered a new era of development, and reconfirmed that the government will continue to play an important role through policy and regulation. The country will take a more visible role and continue to be a strong promoter of cross-border trade as the Chinese economy deepens its integration into the global economy. In the context of the Fourth Industrial Revolution, China will transform from a follower to a leader, defining new growth trajectories as part of the government's "innovation, technology and entrepreneurship" vision. Within this regulatory and policy environment, four major drivers will shape consumption in China over the next decade:

1) economic growth: China's economy will continue to migrate from an investment-driven model to a consumption and services driven model;

2) demographic shifts: China will move from a relatively younger to a relatively older and ageing population;

3) technology and innovation: China will advance from being a major manufacturing power to an active leader in digital innovation – a path it has already begun;

4) consumer attitudes: with significant growth and transformations in China, consumers will evolve from their relatively price-sensitive mindset to a more premium-seeking attitude, but distinctions between Chinese and Western lifestyles will remain.

The regulatory and policy environment and these four major drivers offer a view of the most likely consumption scenario in the next decades. The growing middle class will lead to increased demand for innovative products and rising disposable income suggest consumers will be more confident in spending their money on various categories. Furthermore, a strong supply of talent and highly trained people into the science and technology helped the country's tech sector to growth. As consequence, a large and sophisticated labor force has emerged to fulfill demand for future technology and China's push for innovation will surely benefit from it. Indeed, digital technologies will be the power to be the new driver of China's future growth. By building a digital roadmap, Chinese enterprises can better position themselves to capture huge potential opportunities. China is already undergoing a digital transformation as result of Chinese consumers' enthusiasm for these technologies as well as the nation's fast-growing digital infrastructures. Technologies enables Chinese consumers to make various activities that have become a daily necessity such as search, entertainment, networking and online shopping. People pay for products using their mobile devices, attend online courses, make doctors' appointments online and hail taxis using apps on their smartphones. The 13th Five-Year Program, released in March 2016, outlines a series of plans—from building a new generation of information infrastructure and upgrading traditional industries through to using advanced digital technologies to promote mass entrepreneurship and innovation.

I. Made in China 2025 (中国制造 2025)

The strategic plan “Made in China 2025”, announced in May 2015, aims to enhance manufacturing efficiency and value through use of digital technologies and platforms. With the simultaneous development of new types of industrialization, informatization, urbanization, and agricultural modernization, an increasing domestic demand will stimulate Chinese manufacturing. Many sectors, from industrial equipment, to private consumption, public services, and national defense, will requires rapid improvement of technologies and innovation, improved commodity quality and safety, and upgraded public infrastructure.

Pollution and inefficient energy use have become pervasive problems in China and manufacturing sector has lost its low-cost advantage: companies must move up the value chain through digital technologies such as the IoT, cloud computing, big data to enhance their operational efficiency and optimize assets allocation adopting "green" manufacturing practices. These new technologies will help businesses to flexibly respond to ever-changing demands, mastering on-demand production and mass customization, which will enable them to provide personalized and differentiated offerings to consumers. China had entered a new phase of economic development, in which the focus was shifting from quantity to quality and efficiency, to gain a stronger position in high-tech industries on a global scale. The road map for China aim to encourage indigenous innovation and increase China’s competency: the plan seeks to raise the domestic content of core components and materials to 40 percent by 2020 and 70 percent by 2025. The initiative targets 10 industries:

1. New advanced information technology, including artificial intelligence and quantum computing
2. Automated machine tools and robotics
3. Aerospace and aeronautical equipment
4. Maritime equipment and high-tech shipping
5. Modern rail transport equipment
6. Self-driving and new-energy vehicles
7. Power equipment
8. Agricultural equipment
9. New materials
10. Biopharma and advanced medical products

Chinese economy has entered a *New Normal* and Chinese manufacturing is facing enormous challenges. With resource and environmental constraints growing, costs of labor and production inputs rising, and investment and export growth slowing, a resource and investment intensive development model that is driven by expansion cannot be sustained. China have to adjust the development structure and its quality. Manufacturing is the engine that will drive the new Chinese economy.

II. Internet Plus

The growth of the internet is having a massive effect on transforming and modernizing Chinese industries and businesses. The government has created the "Internet Plus" initiative to transform, modernize and equip traditional industries to join the modern economy. While "Made in China 2025" focuses on digitalization of China's manufacturing sector, Internet Plus seeks to transform a broad spectrum of industries through use of digital technologies. The initiative was built out of a motivation to connect China's growing economy to the power of interconnected services, with strong focus on integrating mobile Internet, cloud computing, big data and the IoT into traditional businesses (such as agriculture) to enhance operational efficiency. It also calls for companies to use digital technologies to develop new sources of revenue, to change the way they produce and to identify and the most promising opportunities in the future. For businesses hoping to enter the Chinese market, understanding this initiative is a critical component to achieving success. The Internet Plus roadmap is a five-year plan and is made up of several different initiatives:

- More funds for research and development, reaching 2.5 percent of GDP through 2020
- Decreased dependency on non-domestic technology innovation
- Access to 100 MB/s internet connections for people in large cities
- Broadband connectivity to reach 98 percent of population

- More funds for promoting business development and innovation

This plan is already showing benefits for businesses hoping to enter the Chinese market due to a "new generation" of applications that connect people to social media, big data and analytics.
As the IoT becomes more and more integrated into daily lives, it becomes necessary to explore the laws and regulations required to maintain its development while utilizing all of its benefits. The country's large population may be seen as a disadvantage but is actually a key factor for the exponential future growth of the IoT. A large population secures a future internal consumer base and allows policymakers leverage in dictating standards and best practices at home and abroad. A great number of China's population resides in some of the most populous cities on the planet. Places such as Beijing, Shanghai and Shenzhen are ideal for the implementation of IoT technology because of their urban densely populated environments.
China is well positioned to overcome these challenges through targeted investment in established and emerging technologies. Policymakers are looking for new methods to maintain growth and ensure market stability and the Internet Plus is a multi-faceted approach to achieving this goal. Understanding and implementing China's key resources and capabilities and determining the best practices required to advance the IoT is the most feasible way to ensure the success of this strategy. China is at a cross-road in its transition from a manufacturing and export hub to a knowledge-based economy: the Internet Plus strategy and all its pillars – including the IoT and AI – are essential to China's overall development and its position as a future leader on the global economic stage.

One of main player in the implementation of the plan is the Chinese giant ZTE, a telecommunications equipment manufacturer founded in 1985. The company is in partnerships with 150 wireless firms in more than 60 countries and today is listed on both the Hong Kong and Shenzhen stock exchanges. The number of its employees around the world reached 75,000 and half of those are working in R&D centers based in China, the U.S., Europe, Japan and Canada. ZTE has been committed to early commercialization of 5G technologies, as in early 2017 the company released a full range of pre-5G solutions for both high and low frequency bands. It also plans to deploy commercially viable solutions by the end of 2018 followed by 5G products in commercial networks in the first half of 2019.
But recently the company had tough time recently: last year ZTE was accused by the United States for violating sanctions of shipping equipment to Iran and North Korea. And as the company didn't punish the employees who were involved and it also paid them full bonuses, the U.S. Department of Commerce then announced in first quarter of 2018 (Q1) a seven-year export ban preventing American companies from selling components to ZTE. As US companies such as *Qualcomm*, *Corning* and *Intel* provide items accounting for 43 percent of the materials used in ZTE's Chinese-made handsets and networking equipment, the Chinese giant was completely locked and temporally out of the business.

The ban, imposed in April to punish ZTE, was removed after the company met the conditions of a settlement on the 7th June 2018. Under the deal, the company was required to pay a $1 billion penalty, put $400 million in escrow with an American bank, overhaul its leadership and allow a team of compliance monitors to be installed inside the company for 10 years. ZTE isn't completely out of the woods as the ban can be quickly activated by the U.S. if it finds new violations.

1.3) The new technological global leader

Since a decade ago China was viewed as the mere imitator in the technology world that use to copy western products rather than develop their own innovative ideas. Today a global power shift in the technology sector is underway: China has been gradually switching its focus from 'Made in China' to 'Innovate in China'. After following years of government support, strong GDP growth and significant investment in education in the country, the outlook has changed. Looking forward to June 2016, China's society was already more digitized than many observers appreciate.

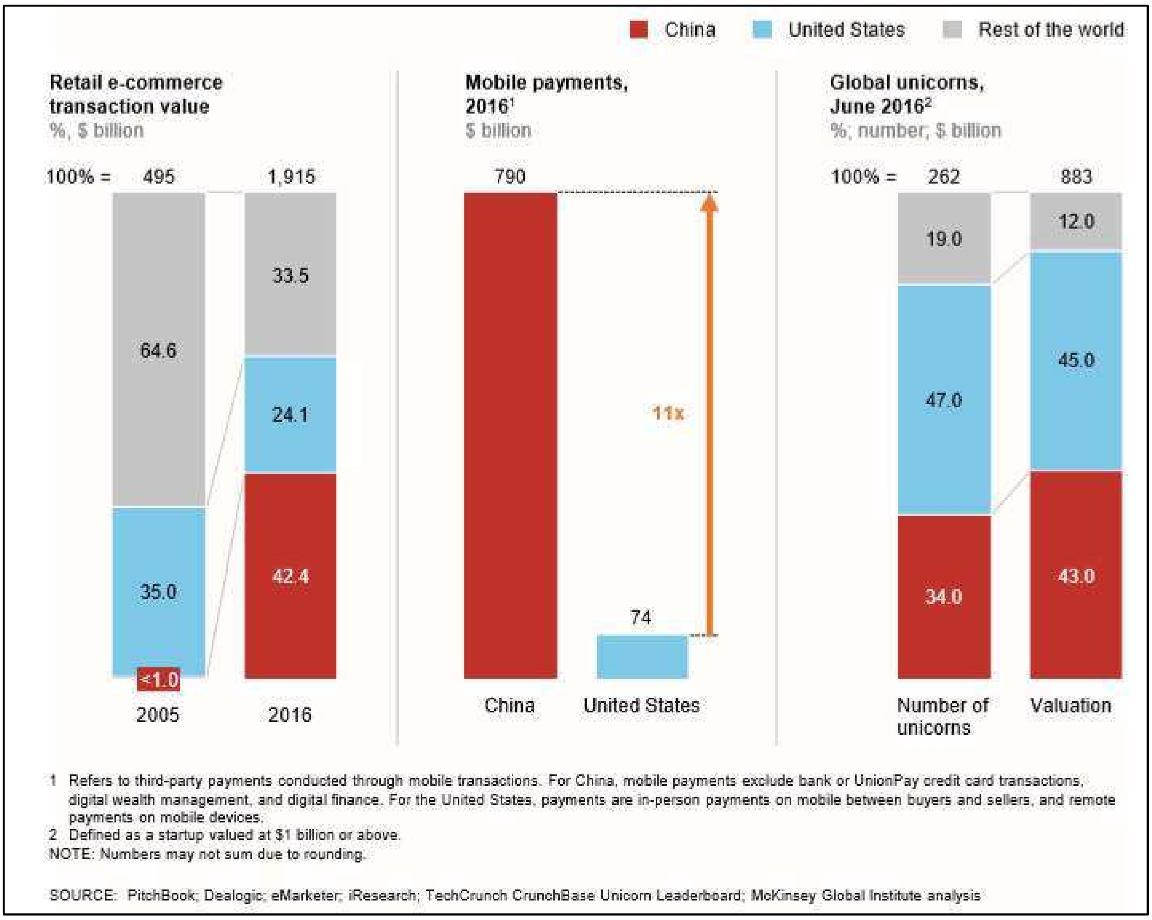


Figure 3 : China's digital landscape in June 2016

In 2006, China accounted for less than 1 percent value of worldwide e-commerce; ten years later for its global share was more than 40 percent and the value of China’s mobile payments related to consumption by individuals was $790 billion (in 2016), 11 times that of the United States (fig.3). One in three of the world’s 262 unicorns was already Chinese, commanding 43 percent of the global value of these companies. In the fintech category, nine of the 23 privately held unicorns in the world were based in China, accounting for more than 70 percent of the total valuation of fintech worldwide.

Since 2016, this hyperconnected society has continued to grow and today China has more than 800 million internet users, more than the European Union and the United States combined. The country also has 788 million mobile users (98 percent of total internet users), compared with 237 million in the United States (Fig.4).

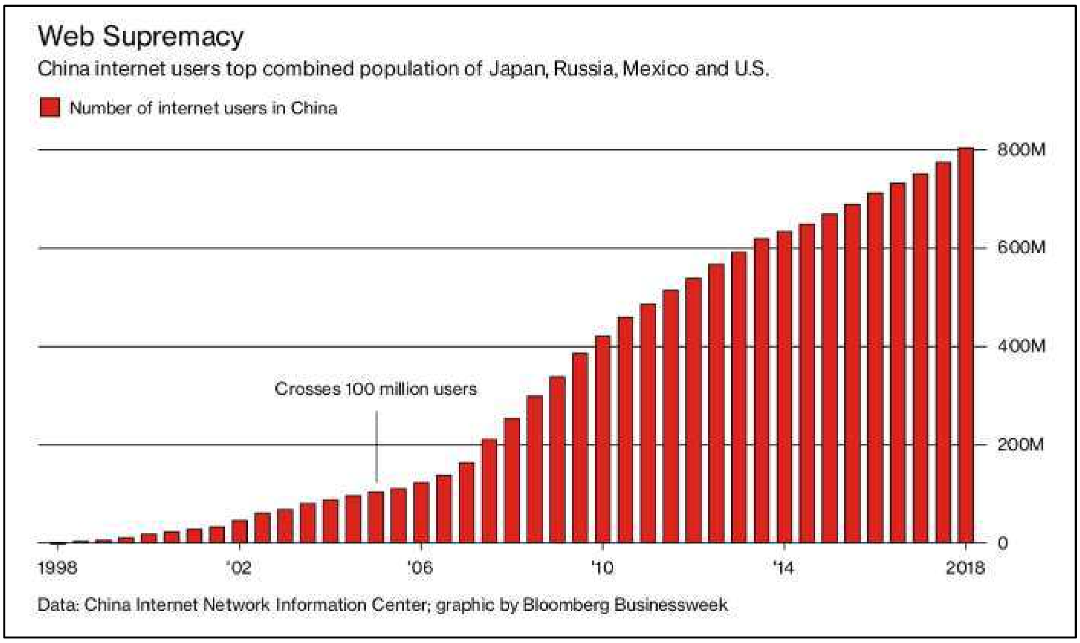


Figure 4 : China's Internet users growth in the last 20 years

The huge amount of China’s internet user base encourages continuous experimentation and enables digital players to achieve economies of scale quickly. However, the strength of China’s digital consumers also reflects the fact that the country’s consumers are embracing digital technologies with a passion. Their enthusiasm supports growth in the market now and will do so into the future, facilitates rapid adoption of innovation, and makes Chinese digital players and their business models competitive. These enterprises have an opportunity to use digital technologies to better serve their customers and create business value that was unimaginable in the past. The country has grown its economy by taking advantage of its demographic dividend and making significant capital investments, shifting its attention toward identifying new ways to improve its economy's industrial productivity.

In the long run, technological progress and innovation will be crucial for productivity-driven growth in China and will play a central role in the sustainable development of the nation's economy.

Consumer's enthusiasm for digital is only part of the picture. Growth in digital infrastructure matters equally, and thanks to the development of "smart" and "wireless" cities, along with increased prevalence of mobile Internet, China still have an enormous potential.
By 2030, the Chinese middle class will expand to 75% of total population: high and upper middle income households percentage will increase to 35% of total population, approximately 490 million people. With increasing income, their shopping behavior will also shift to include more middle-class characteristics, such as higher purchasing power, quality-driven.

Although is emerging as global leader, its digital globalization is only just getting started. China has three times as many smartphone users, and eleven times as many mobile payment users as the United States, its internet penetration rate is just 55%, according to the data of the "*China Internet report 2018*" (fig.5).

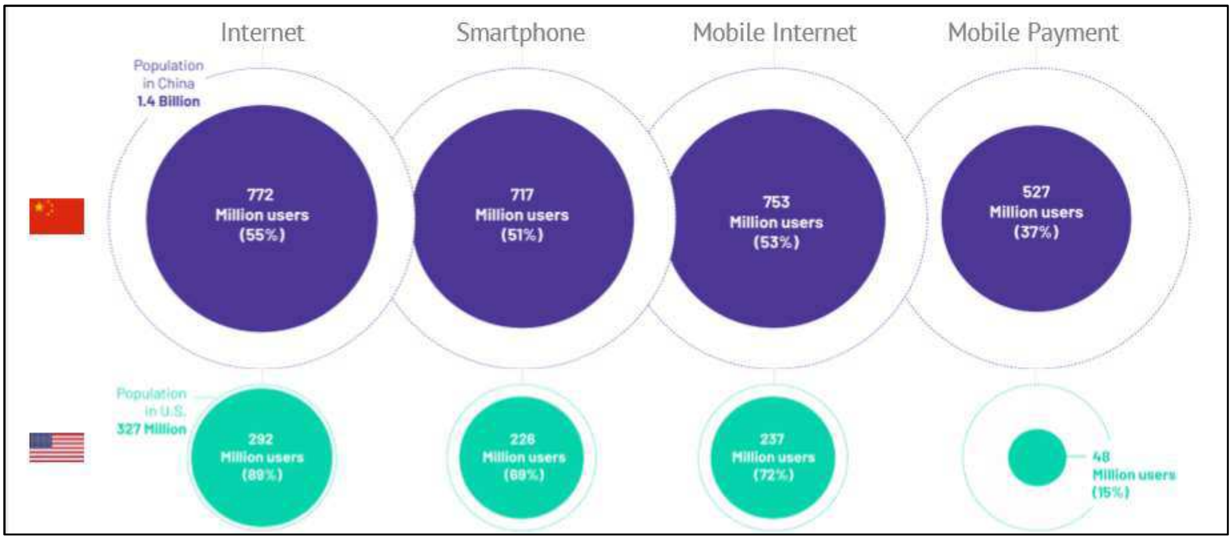


Figure 5 : China vs US internet users

Thus, this means around half the Chinese population could still be converted into Internet users, and that's what is going to happen. There are currently more 220 million people aged over 60 in China and, by 2020, that number is expected to hit 255 million— almost 20% of the country's population. Alibaba for instance, one of the leading player in e-commerce, has its focus set on China's growing population of senior citizens and has recently launched an "elderly-friendly" version of its app that the company hopes will capture the attention of aging Chinese.

Chapter (2): The rise of Chinese superplatforms

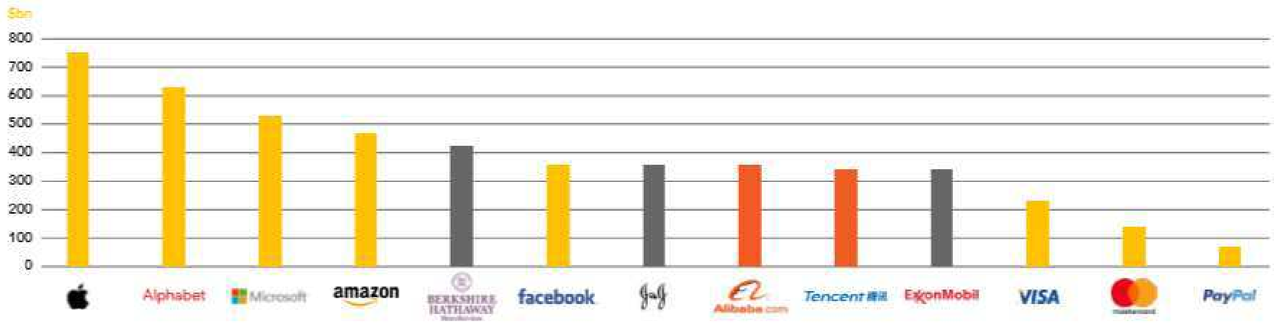
2.1) Introduction

Superplatform is a relatively new term to describe digital platforms dominant across more than one sector: given their size and online presence, they are building and maintaining the digital landscape around the world (BFA, *Inclusive digital ecosystems of the future*, 2017).
The word “ecosystem” has been widely and loosely used to describe complex systems in the world of finance: adding the adjective “digital” makes clear that a digital ecosystem is about the flow of digits – data – between parties.
There is often an orchestrator or scheme operator that has a key role in designing, building and sustaining the relationships between a diverse range of players that constitute the ecosystem. Today the digital world is based on the foundation of a number of digitally enabled platform-based business models, such as eBay and Amazon for instance in the US.

These two-sided e-commerce platforms attract buyers or users on the one side and sellers or providers on the other. Internet has accelerated the emergence and scale of these platforms by adding a simple, interoperable communications layer so that any user with a browser can connect to the platform. The business models of these internet platforms usually depend on a low to zero marginal cost of transaction, creating a bias for scale and an underlying philosophy that more is better for everyone. More customers mean more revenue for merchants, more merchants mean more choice for customers. Today, among the range world of two-sided platforms, a small number of global superplatforms have emerged that are characterized by their large size and reach, two-way exchange functionality, and use of technology and data. Those players derive value by creating ecosystems that enable two-way exchange, whether of physical assets (as in the case of Amazon and Alibaba*)* or digital ones (as in the case of Facebook and Tencent). One of the key point of strengths of these ecosystems is that exchanges are two way, meaning that buyers or consumers can be at the same time producers and sellers. This makes these platforms “generative”, thus users may both generate income and spend it, while also accessing the financial tools to do so.

What really distinguishes these companies from simple platforms is how they grow and their ability to deploy technology plus leverage data sets. As orchestrators, superplatforms enroll the actors and resources that add value to the ecosystem as a whole, irrespective of superficial boundaries like business line, sector or even geography. They can do this because their business models reward the accumulation of more information about all economic actors regardless of sector of activity, and consequently, they are able to cross-subsidize lines of business in the pursuit of data. As a result, these “platforms of platforms” disrupt and transcend each of these boundaries.

As these companies are born digital, superplatforms amass a significant amount of data on users which they exploit with remarkable effectiveness to fuel their own growth. In this way, they put pressure on incumbents across a number of industries – financial services included – to digitize and eat into the margins of those competitors that are slow to respond. The list of superplatforms today can be described in two acronyms: GAFA (US-based Google/Alphabet, Apple, Facebook and Amazon, sometimes with an “M” added for Microsoft, which now owns the platforms LinkedIn and Skype) and BAT, a group of Chinese companies (Baidu, Alibaba Group, Tencent Holdings). These seven superplatforms are among the top ten most valuable companies in the world:



Source: Market capitalization for ten largest companies in second quarter 2017 from https://en.wikipedia.org/wiki/List_of_public_corporations_by_market_capitalization#2017extracted on 10 August 2017; Visa, Mastercard and PayPal added from Google finance data at that date. Note: yellow shading refers to US-based tech companies; orange to Chinese tech companies.

Figure 6 : Market capitalization for ten largest companies in second quarter 2017

Looking back through the years, in 2005 only *Microsoft* was in the Fortune Global 500 list of the world’s largest companies by revenue. Two of the others were listed but struggling (Apple and Amazon), one had just been listed (Google, now Alphabet), two were young startups pre-listing (Alibaba and Tencent) and one barely existed (Facebook).

As just as three of today’s seven were startups or did not exist 12 years ago, this fact reflects their incredibly rapid rise and suggest that other unknown platforms may become superplatforms and join these ranks in the next 12 years. Beyond the definitional characteristics of size, multi-sectoral reach and two-way flow, superplatforms are also rated among the most innovative and client service-focused, or client-centric, companies in the world.

In terms of innovation, all seven superplatforms are at the forefront of the most important new innovations – from augmented reality to cloud computing to drones - explaining their inherent technological orientation as well as their extensive financial resources, which allows them to take and sustain longer-term bets on future technology.
Superplatforms not only drive technological innovation internally, but also enable innovation around them. Innovation at these seven companies is not restricted to technology, as software companies like Microsoft have followed Apple into the hardware world. Size is often associated with a lack of focus on the individual customer. Each of these superplatforms is distinguished by its ability to amass, track and use data about its users through artificial intelligence.

As mentioned above, three Chinese superplatforms have emerged across sectors such as e-commerce, social networks and financial services, making China the most hyperconnected society in the world. Baidu, Alibaba, and Tencent, three aggressive internet companies with global reach, created a multi-industry digital ecosystem that touches every aspect of consumers life. Collectively known as "*BAT ecosystem*", these giants have been building dominant positions in the digital world by taking out inefficient, fragmented, and low-quality offline markets, while driving technical performance to set new world-class standards.
The BAT group started off as replications of original internet business models developed mainly in the US: Baidu was modeled on Google, Alibaba on eBay, and Tencent's social networks WeChat and QQ are a cross between Facebook and WhatsApp. Although they started as replications, these companies have become significant innovators in their own industries. Isolated from American competition thanks to the Chinese government's ban, the BAT has chalked up remarkable double-digit growth rates for a decade and the rich digital ecosystem initially centered on the threesome is now spreading. The backdrop is the Chinese people's voracious uptake of apps, digital payment services, and social media — and a concerted nationalistic drive to win the tech race globally.

Over the past 15 years, China has pivoted its central long-term economic strategy from manufacturing and exports to tech innovation. Chinese internet companies spend less time copying Google, Facebook, Amazon etc, and instead seek to score the next, new thing in emerging sectors like artificial intelligence and fintech. And it's working: today the companies are valued at a combined *$1 trillion USD*.
The BAT companies are powering forward with multi-function super apps: although they are currently dominating their core industries (Baidu owns search, Alibaba leads e-commerce, and Tencent dominates gaming and social communications), today they are sprawling reaching into new industries, reinforcing and enlarging China's digital ecosystem.

Figure 7 : the BAT ecosystem

2.2) The BAT ecosystem

- *Baidu*

Baidu is the most popular search engine in China and one of the largest companies in the world, often dubbed the 'Chinese Google'. The features and layout of these two company are very similar: both are powerful search engines for websites, audio files and images as well as an email service, a language translator and a web mapping service. Baidu has been in operation inside of mainland China for around 17 years and has seen consistent growth annually since its creation. Of all the BAT giants, Baidu was the first to pioneer and apply deep learning. By 2015, Baidu's AI algorithms had already surpassed humans in Chinese speech recognition, a full year before Microsoft achieved the same feat in English. Fast forward to 2017, and China's dominant search engine now heads up national initiatives in AI R&D, driverless vehicles and international open source platforms. Expecting second-quarter revenues of around 26 billion RMB (approximately $4 billion USD), Baidu continues to beat forecasts, with total revenues increasing 31 percent year on year. And as it is continues expanding into adjacent markets, this growth will only accelerate. With multiple driverless vehicle patents to its name (15 published in the U.S. alone), Baidu announced its international open-source "Apollo" platform last year to turbocharge autonomous driving solutions. Hosting over 95 partners around the globe -- including Nvidia, Ford and Daimler -- Apollo's ecosystem makes source code available to everyone. This means companies can build on existing research versus starting from scratch, massively accelerating progress.

And as of June 2018, Baidu is putting driverless cars on the road. Launching tests on an unused expressway in China's industrial city of Tianjin, Baidu has already signed agreements with the local government of Xiong'an New Area to build an *AI City*, decked out with autonomous cars, smart traffic systems, facial recognition and sensor-loaded cement. Already heading China's National Engineering Lab for Deep Learning Technologies, Baidu is also working on brain-inspired neural chips and intelligent robotics. It is getting serious about speech recognition, aiming to win big in the voice assistant market. Built on Baidu's conversational AI platform DuerOS, Aladdin is only the first of many Baidu consumer products that will rival the likes of Amazon's Alexa and Google Assistant. And while Baidu takes charge of driverless vehicles and voice recognition, Alibaba's been anointed to spearhead smart cities.

- *Tencent (WeChat)*

Founded in November, 1998, Tencent is a leading provider of Internet value added services in China, went public on the main board of the Hong Kong Stock Exchange on June 16, 2004. Since its establishment, Tencent has maintained steady growth under its user-oriented operating strategies, to enhance the quality of human life through Internet services (fig.8).
Presently, Tencent provides social platforms and digital content services under the "Connection" Strategy": its leading Internet platforms in China, especially QQ and WeChat, have brought together China's largest Internet community, to meet the various needs of Internet users including communication, information, entertainment, financial services and others. The development of Tencent has profoundly influenced the ways hundreds of millions of Internet users communicate with one another as well as their lifestyles. It also brings possibilities of a wider range of applications to the China's Internet industry.

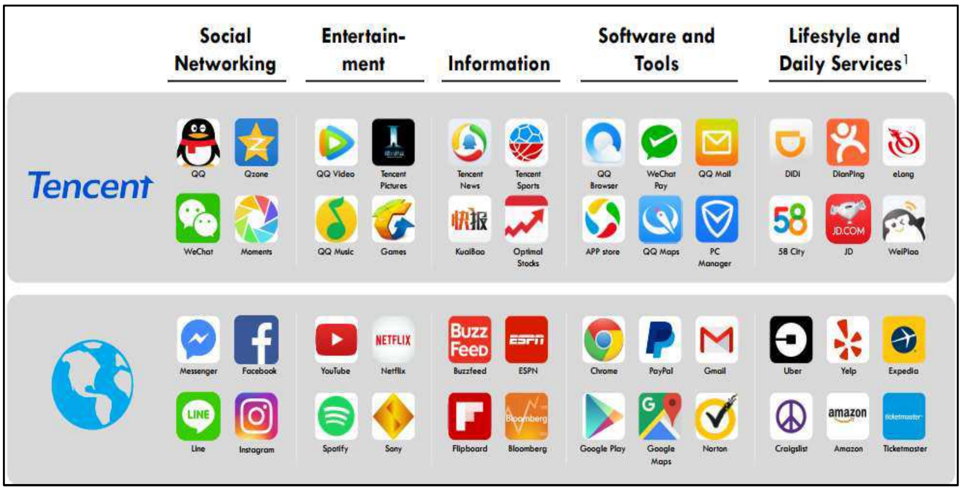


Figure 8 : Tencent's strategy: digitalize every sector of human's life.

Looking forward, Tencent remains committed to enhancing its development and innovation capabilities while strengthening its nationwide branding for its long term development: more than 50% of Tencent employees are R&D staff. Tencent has obtained patents relating to the technologies in various areas: instant messaging, e-commerce, online payment services, search engine, information security, gaming, and many more. In 2007, Tencent invested more than RMB100 million in setting up the Tencent Research Institute, China's first Internet research institute with its campuses in Beijing, Shanghai, and Shenzhen. The institute focuses on the self-development of core Internet technologies, in pursuing its development and innovation for the industry.

Tencent's long term vision is to become the most respected Internet enterprise. In order to fulfill corporate social responsibilities and to promote civil Internet communities, Tencent has been actively participating in public charity programs. In the past China's web giant made a series of high-profile investments spanning Snapchat, Spotify, Tesla and Hollywood film and TV. It is a sprawling corporate giant that in 2018 (Q1) overtook for a few months Facebook to become the world's fifth most valuable listed company. Although in the west many have never heard of Tencent, it is worth half a trillion dollars and rising. And just in case, people use to know the company thanks to its main product: WeChat.

Many people outside China either still haven't heard of WeChat or they think it's the country's equivalent of popular messaging service WhatsApp or social media giant Facebook. For many people in China, WeChat is much more. The super app in China has become a way of life and it an indispensable part of their everyday lives. WeChat, or Weixin as it's known in China, started in October 2010. Since then, it has grown into the most popular mobile app in the country with over 1 billion monthly active users who chat, play games, shop, read news, pay for meals and post their thoughts and pictures. Today, you can even book a doctor's appointment or arrange a time slot to file for a divorce at the civil affairs authority. For all these reasons, it is known as the "all-one-in app", that has the superpower to allow users to do everything they want (fig.9).

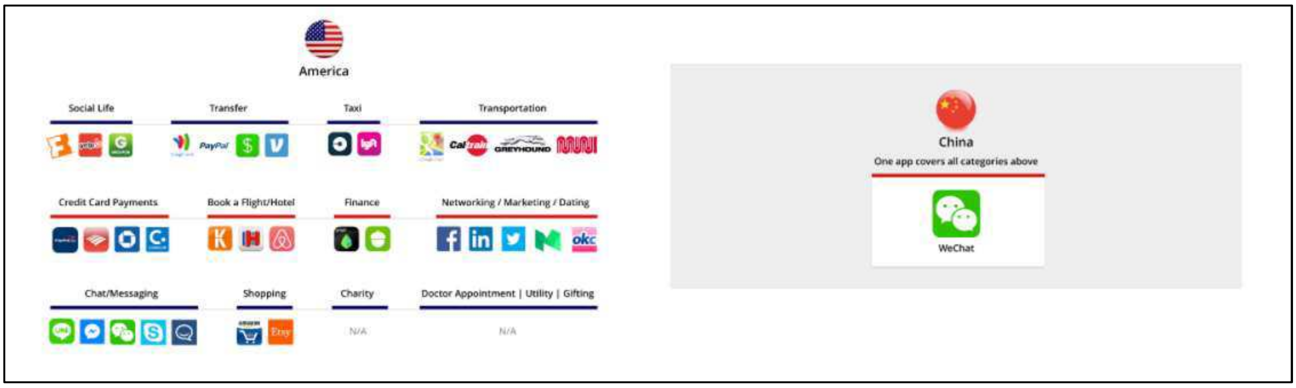


Figure 9 : WeChat: the all-one-in app

- *Alibaba*

The Alibaba Group was founded in 1999 by a group of 18 people led by Jack Ma. Already leading China's e-commerce landscape, the company has built far more than a digital marketplace and is making unbelievable progress in the financial sectors. Dominating the world in fintech disruption, Alibaba's *Ant Financial Services Group*, which controls the world's largest money-market fund, and completed over $8 trillion of transactions via its online payments platform last year alone. Alibaba is home to both Tmall (B2C) and Taobao (C2C), its main online marketplaces that count 552 million active customers. But as mentioned before it's real treasure trove of real-world data lies in Alipay, the mobile payments platform. The company also stitched together an alliance of shipping companies to form a China-wide delivery giant called "Cainiao", in which Alibaba has steadily increased its ownership stake. Its goal, as dictated by Jack Ma, is to be able to deliver merchandise anywhere in China within 24 hours, no small feat, and globally in 72 hours.

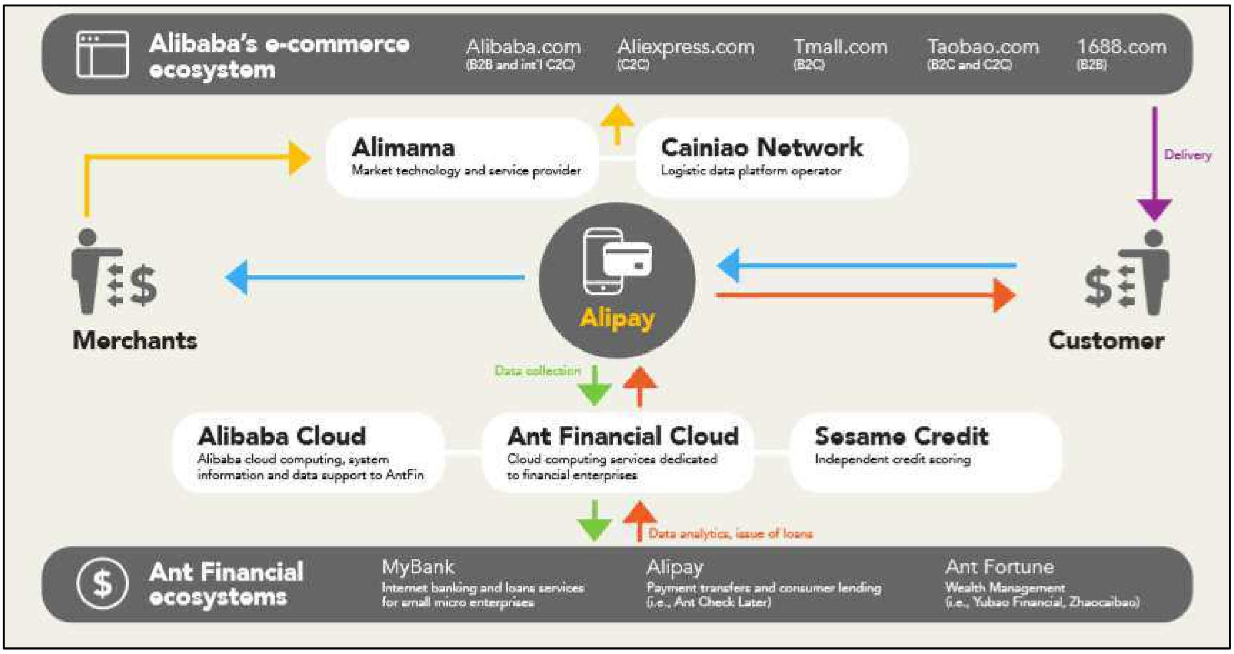


Figure 10 : Alibaba's ecosystem

Alibaba made significant investments in selling cloud-computing rental services, and now it's the leading provider in China, reaping $2.1 billion in revenue last year from that business. And two years ago, Alibaba started pursuing the *New Retail* strategy of providing technology and services to traditional retailers, including grocers, department stores, and even mom-and-pop bodegas. Digitalizing merchandising and shopping using artificial intelligence and data from sensors, Alibaba is at the forefront of smart cities. The giant's reach extends far beyond Asia, with its operations in over 200 countries. The company faces increased competition from Chinese e-commerce rival JD.com, which recently teamed up with Tencent.

What's next for Baidu, Alibaba and Tencent? They all want to get into huge economic sectors where technology is increasingly central, such as healthcare, enterprise systems, education, and robotics. There is no aspect of technology that is not of interest to the BAT.

China's internet giants were at the heart of digital retail and they have also been the ones to usher in the *New Retail* era. In order to move into offline retail the internet giants are not going alone but pursuing a number of highly publicized build, buy and partner strategies.

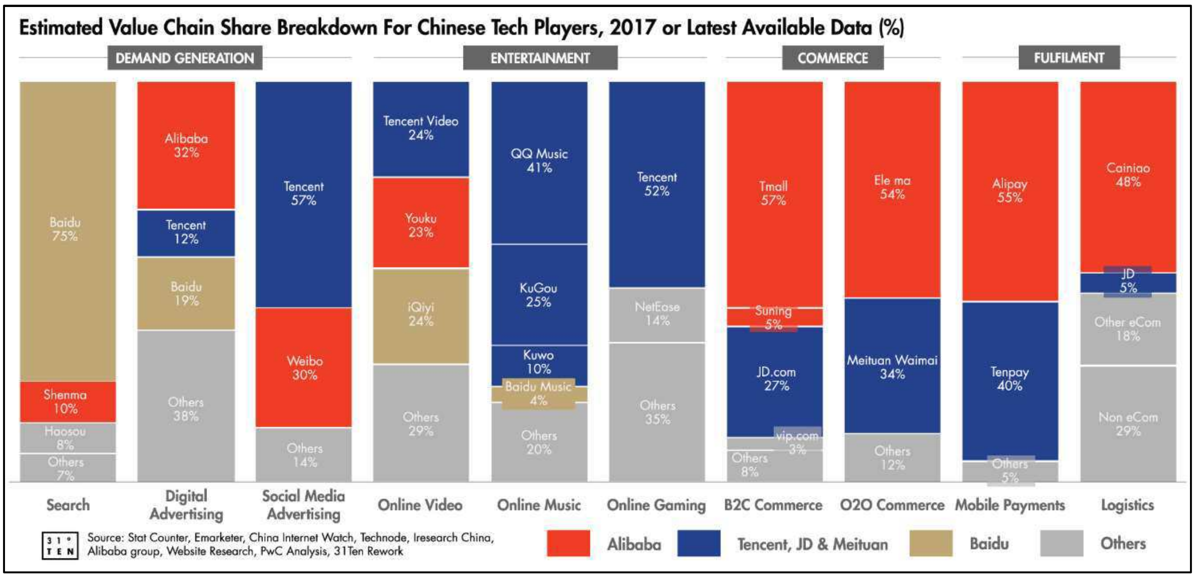


Figure 11 : BAT group's share in key tech sector

The competitive strategies of the internet players may help to understand how the market might evolve. There are two internet ecosystems in China: Alibaba, and the Tencent and JD alliance. While each have evolved from different core competencies they have built independent ecosystems that span the entire value chain of online consumer experiences. In the Tencent ecosystem can seamlessly move from the discovery of a product endorsed by their favorite KOL on WeChat to a transactional environment in JD. That same consumer would be blocked from transferring across WeChat to Alibaba's Tmall. In China, seamless consumer experiences (and data) only exists if the user will stay within the "walled gardens" of the internet giants.

Solving big problems and removing inefficiencies is at the core of how the internet giants look at opportunities. China's offline retail market is worth around USD 4.5 trillion and presents a significant opportunity, however the aim is not to become retailers in the traditional sense but rather identify opportunities in the retail value chain where they can solve problems, build solutions and create new business models.

China will continue to focus on economic growth with an emphasis on restructuring the economy and improving the population's quality of life. Thanks to these 3 giants, the country is already taking a global leading role in key sectors such as fintech and artificial intelligence.

2.3) Fintech

China is the world's leader in fintech (short for "financial technology") and it is far and away the biggest market for digital payments, accounting for nearly half of the global total. The speed, sophistication, and scale of development of China's fintech ecosystem have been at a level unmatched in more established markets, thanks to multiple hubs such as Shanghai, Hangzhou, Beijing, and Shenzhen. This revolution is a consequence of multiple factors such as regulatory facilitation and easy access to capital; furthermore, consumers and small-to-medium-sized enterprises (SMEs) are increasingly turning to alternative providers for access to payments, credit, investments borrowing and insurance because underserved by China's incumbent banking system. According to the "EY FinTech Adoption Index 2017 ", Chinese companies covers four of the top five slots last year in the rank of the world's most innovative fintech firms (Fig.12).

	Money transfer and payments		Financial planning		Savings and investments		Borrowing		Insurance	
1	China	83%	China	22%	China	58%	China	46%	India	47%
2	India	72%	Brazil	21%	India	39%	India	20%	UK	43%
3	Brazil	60%	India	20%	Brazil	29%	Brazil	15%	China	38%
4	Australia	59%	US	15%	US	27%	US	13%	South Africa	32%
5	UK	57%	Hong Kong	13%	Hong Kong	25%	Germany	12%	Germany	31%

Notes: The figures show the average percentage of respondents in each market who reported using one or more FinTech service in that category.

Figure 12 : Comparison of the top five markets with the highest FinTech adoption for each FinTech category

China's FinTech dominance is leading domestic technology companies setting out to own entire customer journeys and consumption ecosystems across both financial and non-financial activities. As consequence of the 'Platform effects', local internet giants are capturing data and use it to offer ever more services with significantly better and comprehensive customer experiences than traditional financial services players. The relationship with Chinese corporates and start-ups is also often very collaborative, helping to fuel the rapid innovation and expansion.

China's fintech get so big thanks to heady mix of rapid urbanization, regulatory acquiescence, a massive and underserved SME market, escalating e-commerce growth, and explosion in online and mobile penetration, that have created a fertile ground for innovation in commerce, banking and financial services more broadly. The first field where is possible to observe China's dominance in daily life is mobile payments. Just a few years ago, everybody was still using cash in China, but as its middle-class consumers have always been inclined to shop online they quickly became early adopters of digital payments. (fig. 13)

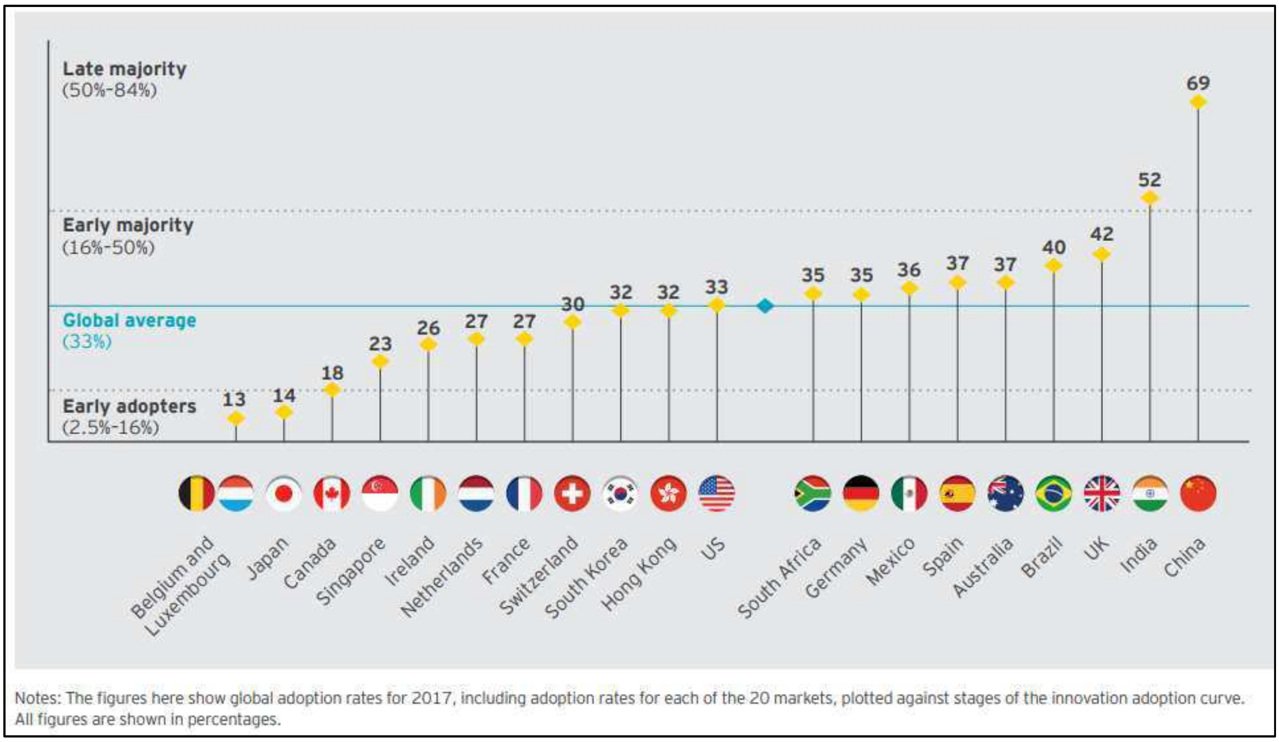


Figure 13 : Progress of FinTech adoption globally

China also had a late-starter advantage compared to developed economies that long time ago swapped cash for credit cards. Indeed, until a decade ago, it was overwhelmingly a cash-based country. The shift to digital payments accelerated with the arrival of smartphones, bought by many Chinese who had never owned a personal computer. Alipay, the payments arm of Alibaba, became soon the mobile wallet of choice at today is leading the local market with a market share over 50%. But it quickly faced a challenge, when Tencent, a gaming-to-messaging company, launched a payment function in its wildly popular WeChat phone app.

Competition has sparked a stream of innovations, especially in the way mobile apps can connect online to face-to-face retail transactions. QR codes, the matrix-like bar codes that generally failed to catch on in the West, have become ubiquitous in Chinese restaurants and shops as these let you make a payment immediately. And phones themselves can serve as payment cards: with another click, users display their own bar codes, which shopkeepers then scan. And it is as simple for people to send money to each other as it is to send a text message—a vast improvement over the bricks of cash that used to change hands. Today, if you offer cash in most stores they won't have cash to make change: everybody in China is using a smart phone to pay for just about everything.

From the late 1990s up to around 2013, the main reason credit cards weren't popular was mostly related to the slow nature of credit card adoption coupled with the reality that China was relatively late to the development party. But over the last five years, the key reason why credit cards have continued to remain a niche payment method in China — and are unlikely to ever be anything more. It is simply that they have been leapfrogged by a next-generation payments platform. On their platforms If you want food delivery, you need to order through a virtual wallet, the only way to pay is with your mobile phone. Looking to get around town, trying a bike sharing system, only your mobile phone can get you there. Taxi's take mobile payments, even the metro soon will only take mobile payments to be scanned at the entrance. Even the guys playing music on the street corners, looking for some extra change, have their own QR codes so that passersby can simply transfer tips directly to them. Mobile payments are now a default way of life: every business and every brand in China is plugged into this ecosystem.

In practical terms, this means that Tencent and Ant Financial (Alibaba's financial partner), the two Chinese Internet companies that run WeChat and Alipay, are basically sitting on top of a goldmine of unbelievable proportions. Both companies can make money off the transactions, charge other companies to use their payment platforms and at the same time collect the payment data to be used in everything from new credit systems to advertising. Recently, Ant Financial and Tencent were set to surpass Visa and MasterCard in total global transactions per day. In 2017, China's mobile payments reached $9 trillion, roughly 50 times the size of America's $180 billion market according to consulting firm iResearch (fig,14).

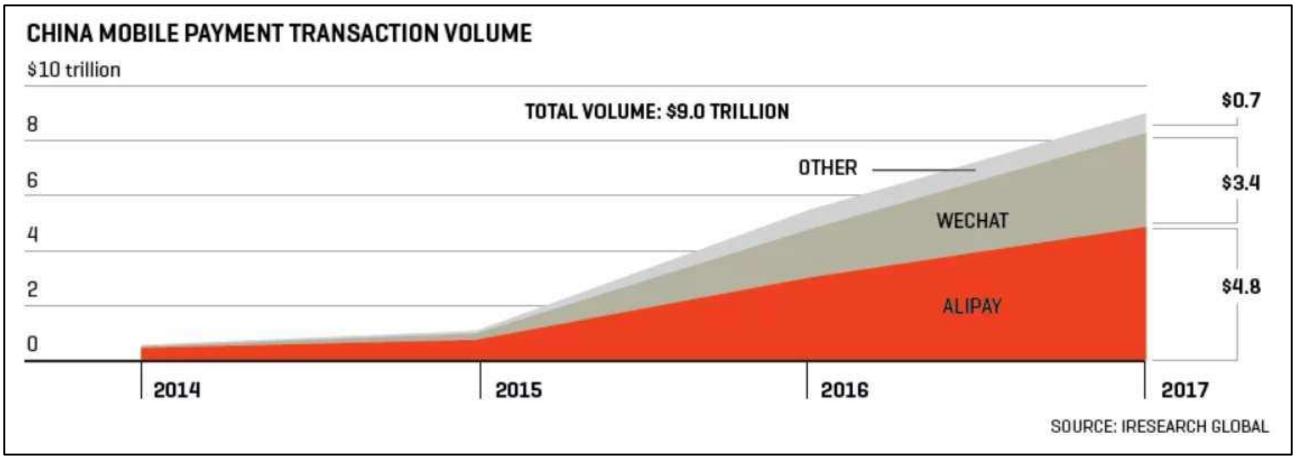


Figure 14 : China Mobile payment transaction volume

As China completely embraces online payments and grows its consumer economy, these two private smart phone payment platforms are locking out people unable to get into those networks and China is locking itself into those companies. At the simplest level, that makes life difficult for tourists and business travelers who are unlikely to open a bank account in China and so will find it hard to turn their phones into wallets. Broadly, it means things get harder for foreign and local businesses alike. Foreign companies hoping to sell to Chinese consumers now must deal with Alibaba and Tencent or risk being unable to take payments. At the same time, Chinese companies who are reliant on Alibaba and Tencent need to build out separate structures to deal with the world of Facebook, Google and credit cards that still dominate everywhere else around the world.

A second area where China has become the global leader is online lending. In most countries, banks overlook small borrowers. This problem is especially acute in China. E-commerce was again the launch-pad: online shopping platforms developed loan services, and are using their customers' transactions and personal information to create credit scores. China's two biggest e-commerce portals, Alibaba and JD.com, allow shoppers conveniently borrow small amounts, typically less than 10,000 yuan and lend to merchants, many of whom are the kinds of small businesses long ignored by banks. It is estimated 60% of borrowers in this category had never used a credit card. The absence of a mature system for assessing consumer credit-risk adds to banks' reluctance to lend to individuals. Grey-market lenders such as pawn shops provide financing but at usurious interest rates. Fintech has started to fill this gap. This points to the third area of China's fintech prowess: investment. Until recently, Chinese savers in order to manage their money could stash it in bank accounts, where interest rates were artificially low or punt on the stock-market. And Fintech has opened that middle ground: in China asset managers barely had a chance to serve as intermediaries in the first place, and the market skipped into the digital stage. In large part this resulted from a generational divide that is the inverse of the global norm: the best-paid workers in China tend to be younger, the country's first big generation of white-collar workers. They are much more likely to be willing to trust web-based platforms to manage their money. Today, the promise of fintech in China is great. It is shaking up the banking system and helping build a more efficient one, especially for consumers and small businesses. But limitations are also clear. Banks are fighting back. And regulators, tolerant so far, are wading in. China's fintech champions are also trying to break into new territory abroad. WeChat's mobile wallet is usable internationally, mostly in Asia for now. Ant Financial (Alibaba) has invested in mobile-finance companies in India, South Korea and Thailand. But replicating their successes in other markets will not be straightforward. China's bigger impact is likely to be indirect, its fintech giants have shown what can be done. For emerging markets, the lesson is that with the right technology, it is possible to leapfrog to new forms of banking. For developed markets, China offers a vision of the grand consolidation—apps that combine payments, lending and investment—that the future should hold. When it comes to fintech, the rest of the world will be studying China's experience.

2.4) Artificial Intelligence (AI)

China's shift from an industrial to a new consumer economy is well underway: the Chinese government has set the goal of becoming the global leader in artificial intelligence (AI) and machine learning (ML) by 2030. The corporates and their massive data sets are coming together to create value across multiple parts of the economy. It is expected the building of an "intelligent economy" and "intelligent society" in China - with an estimated Rmb 1trn AI industry in the next deacade targeted by the central government - to drive productivity improvement and GDP growth (fig. 15).

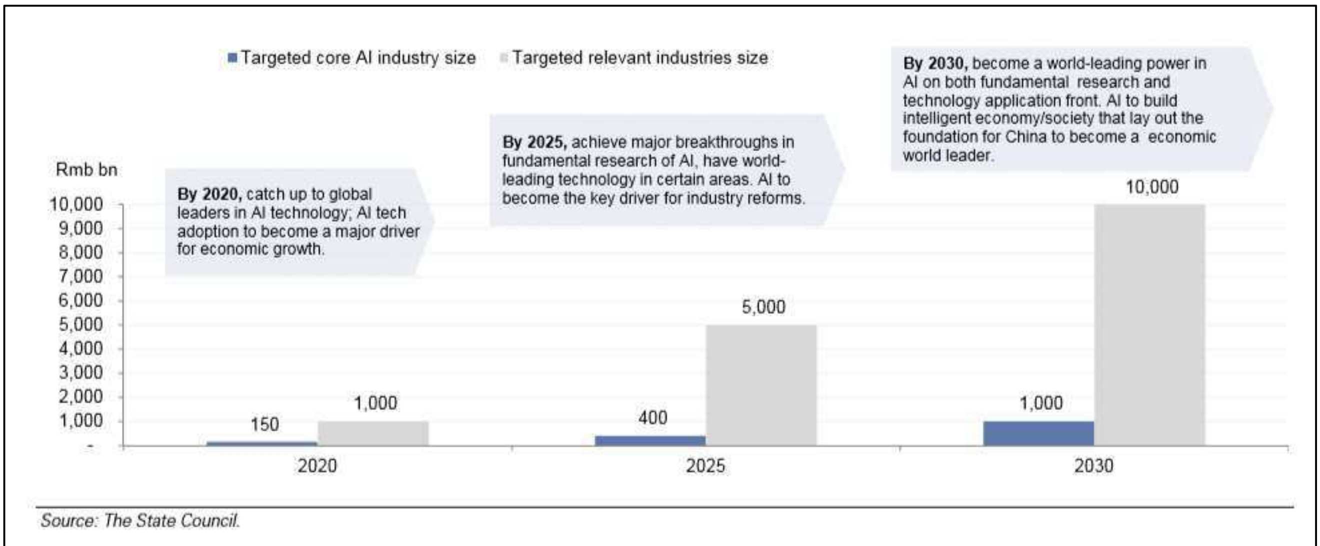


Figure 15 : Strategic goals of the national development plan on AI

Much of the momentum behind AI in China is being driven by private-sector tech firms: Baidu, Alibaba, Tencent, with their unique and substantial volumes of data sets, will have the opportunity to crystalize the value in the data from their multiple, distinct businesses as well as their associates. As a result, the battle of the giants in China will extend also to AI talent. Some technologies such as image and voice recognition have already been integrated into new products, including automated personal assistants, autonomous cars, and so forth.
The frontier of AI/ML in China, meanwhile, has begun to move on to innovative startups that boast the best in class global talent, pushing AI adoption across different industries to create new demand. Both the government and industries have identified artificial intelligence and machine learning as the next big areas of innovation. And given that China is often home to emerging business models, AI will play a broader role in the economy given the scale of operations of the giants that are adopting this technology. China has reason to feel optimistic about its role in a future defined by AI: its huge population can generate a tremendous volume of data, (prerequisite for "training" AI systems) and China also has the advantage of its fertile market for deployment.

Artificial intelligence is poised to unleash the next wave of digital disruption, and companies should prepare for it now. Since some early-adopting firms are already reaping real-life benefit, making it has become more urgent than ever for others to accelerate their digital transformations. Hundreds of millions of Chinese workers could be affected. Jobs made up of routine work activities and programmable tasks will be particularly vulnerable. While impact on the labor market is likely to be gradual at the aggregate level, it can be sudden and dramatic at the level of specific work activities, rendering some jobs obsolete quickly.
AI capabilities have exciting and far-reaching potential to enhance human welfare by improving health care, the environment, security, and education; on the other hand, AI also raises complex ethical, legal, and security questions surrounding issues such as privacy, discrimination, liability, and regulation. The technology industry is becoming increasingly global. China has the capability and opportunity to lead international collaboration in the development and governance of AI, ensuring that this breakthrough technology will positively contribute to the general welfare of all humanity.

Chapter (3): Digital disruption

3.1) Introduction

As new technology trend as fintech and artificial intelligence are coming more and more in China, many industries will be affected by huge shifts in revenue and profit pools across the value chain, creating digital disruption. This value shift and creative destruction is happening around the world as digitization sweeps across economies. Given its particular combination of inefficiencies in traditional sectors and massive potential for commercialization it is likely to be on a relatively large scale in China. Three digital forces are boosting productivity and will inevitably create losers and winners. And those who are going to succeed in the global digital landscape will inspire digital entrepreneurs far beyond China's borders. As mentioned in the " CHINA'S DIGITAL ECONOMY A LEADING GLOBAL FORCE" report produced by McKinsey & Company in 2017, the three types of digital force that can disrupt and restructure value chains, sometimes in combination, are the following:

1. **Disaggregation**

Figure 16 : Disaggregation

This digital force turns large assets into services, matches supply and demand. Digital attackers are disrupting traditional business models and reinventing industries by disaggregating huge assets into many pieces, turning them into services, and meeting the needs of fragmented consumer bases. They charge for the use of owned assets and unlock unused supply. Industries that have high value, high durability, and fluctuating utilization are ripe for this type of disruption. Digital platforms can offer multisided solutions that enable the rapid expansion of supply while meeting underserved demand.

Digital disruption through disaggregation is increasingly prominent in China: service like Didi Chuxing now serves 360 cities and arranges three million rides per day, accounting for 86 percent of the market, according to Analysis International. The company also offers P2P private car services in 80 cities. The sharing economy in the property sector has also emerged in China but has evolved in a way that addresses local needs. For example, China has many vacant homes that were purchased as investments. Affluent homeowners are reluctant to rent to tourists with whom they are unfamiliar. And disaggregation can continue to happen in many other sectors. In the consumer-goods industry, the shared-economy model may come to include highly valued, highly durable products such as jewelry and bags. In health care, shared physical resources and facilities are emerging in a bid to optimize the matching of the supply of resources and patient demand. In freight and logistics, crowdsourcing-based models are emerging to meet demand for last-mile delivery.

China has an ambitious target to promote the sharing economy for use in products, services, capital, knowledge, skills, and production capacity.

2. Disintermediation

Figure 17 : Disintermediation

Disintermediation shortens the distance between suppliers and customers: companies such as Amazon and Alibaba have disrupted the retail industry by cutting out a middle layer and linking suppliers and consumers directly through digital platforms. Industries with high margins on digital channels, a lack of information transparency and a highly fragmented landscape are ripe for this type of digital disruption. Digital platforms play an important role in directly matching suppliers and customers, a function that can substantially improve transparency across the value chain.

Disintermediation has had a marked effect on offline retail. In the United States, for instance, segments of the retail sector have either stagnated or shrunk over the past decade. E-commerce now accounts for 38 percent of US electronics retail, up from 16 percent in 2003. Similar trends have been observed in the travel sector, where online hotel bookings have grown significantly and the number of human travel agents has fallen by half since 2000. As the rapid growth of e-commerce indicates, disintermediation has been a major trend in China too. Where there are inefficiencies linking suppliers and customers in an industry, disintermediation will continue. The increasing use of digital platforms and omnichannel by consumers effectively removes any barriers between online and offline, and it is likely to see similar disintermediation spread to other sectors. For instance, in the automotive sector, it is increasingly possible for consumers to choose, buy, and service a car entirely digitally, challenging the traditional dealership model. In health care, IoT and AI enable remote monitoring and self-management of health and treatments, improving access to and quality of care, but also disintermediating traditional care delivery by hospitals.

3. Demateralization

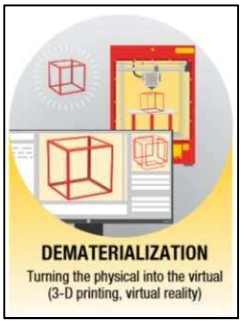


Figure 18 : Demateralization

Dematerialization is the virtualization and unbundling of products and processes. This means changing the formats of products (or processes) from physical to virtual, unbundling demand with digital delivery, and enabling consumers to receive products or services anywhere, anytime. It typically happens in industries where it is technically feasible to convert products and services into digital formats and to unbundle offerings to meet a range of customer demands.

In the music industry, dematerialization has led to multiple waves of disruption. In 1998, when the MP3 was first introduced, consumers shifted in very large numbers to the digital format. Sales of physical music products fell to an 11 percent annual decline between 1998 and 2008, while digital download sales increased from almost zero to $3 billion over the same period. Since the late 2000s, a new wave of dematerialization has emerge with the arrive of streaming.
In China, the pace of conversion from physical to digital formats has been much faster, and the upside for digital attackers a great deal larger, than in other countries. In the music industry, for instance, revenue from physical records plummeted from $79 million to $21 million between 2007 and 2016 (a 13.5 percent annual decline) and during the same period, growth in digital downloads exploded with a 16 percent annual growth. The evolution of e-books in China has played out differently than in the United States. The market for internet-based literature that can be purchased and viewed on PCs or smartphones is five times larger than the market for e-reader devices. This may reflect the fact that Chinese consumers tend to use mobile devices to read literature instead of buying dedicated devices, and then share with friends through their social networks, thus generating additional traffic. Many types of technologies can drive the dematerialization of products and services, cannibalizing each other.

3.2) From digital retail to "New retail"

Over the last 5 years smartphones, social media, mobile payments and e-commerce have quickly become ubiquitous in most urban areas, forcing companies to change the way they sell to shoppers. The impact of these technologies completely changed the retail market and consumer behavior, and as consequence China has experienced a digital growth miracle without precedents. Although this phenomenon has been dramatic, it has mostly been one of front-office transformation: at 5 years old, digital may feel like a new trend but it is already becoming mature, as mobile, social and e-commerce are now reaching the top of their S-Curves and so too is digital retail.

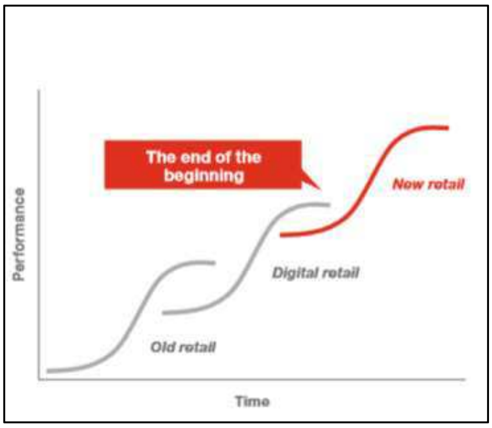


Figure 19 : new paradigm shift

In the last years, many retailers and brands started to embrace the growth of digital by experimenting with the so called online-to-offline (O2O) marketing, that basically means using online channels to drive consumers into physical stores. Although this strategy has proved successful results, on the other side with this approach the return on investment was difficult to track, costs were rising and customer experience was disjointed. While O2O focuses on marketing, many retailers and brands in China started to invest in omni-channel capabilities: covering various operational steps of the processes including marketing, merchandising, customer service and fulfilment, those strategies aim to improve operational efficiency, customer experiences and overall profitability. Most companies are focusing investments in omni-channel fulfilment as they believe it is the area where the greatest opportunities exist. As well as with e-commerce, China's internet giants are the primary drivers of this trend pushing traditional retailers into a new period of disruption, through rapid capability building strategies via build, partner and acquisition models. Today China is in the middle of a paradigm shift: from "Digital Retail" to "New Retail". E-commerce has disrupted retail and to stay competitive in the industry and uphold the brand credibility, retailers could invest more in various channels to enhance convenience, improve customer experience and strengthen personal data protection. While retailers and brands identify business opportunities through the data driven shopping habits and capture economic value through data, it would also be wise to not lose sight of the core competencies of your brand that maintain its competitive advantage. After all, complacency is a recipe for being disrupted. Proactive focus on maintaining and building the distinctive capabilities to deliver on the value proposition is a disruption-proof winning strategy

3.3) The New Retail

According to Bain & Company's report "Embracing China's New Retail ", in the past few years, *multi-channel* and *omni-channel* marketing have been the preferred approaches employed to make use of both online and offline marketing opportunities. The goal in both cases is to be ever-present in major online and offline channels to increase the likelihood of customer interaction and be available on all major platforms where a consumer can encounter them. While some brands give alternative experiences across those channels, others have made great headway in trying to put the customer at the center of these interactions and create a uniformity of experience across their channels. Here comes the *New retail,* Alibaba's strategy to redefine commerce by enabling seamless engagement between the online and offline worlds. It's not about converting online users into offline customers or vice versa, Alibaba aims to use their data and technology capabilities to digitally transform offline retail in China, which accounts for around 80% of the total volume. Although in the past it referred to companies that offered products only through one outlet, the new concept of "*uni-channel*" refers to a unified channel merging all the online and offline ones, including online platforms, brick-and-mortar store, supply chains, financing options and more. China's e-commerce platforms are evolving to establish New Retail infrastructure, empowering brands with data. Leading brands are gaining an edge by using the emergence of New Retail as an occasion to build a new consumer-centric model while at the same time creating operations that are more efficient. Consider the fundamental changes and ways that the best brands are responding:

- **Consumers.** People are no longer viewed only as consumers. The most forward-thinking brands also see them in the role of coproducers. In the past, with relatively limited consumer insights, it was sufficient for a brand to identify target consumers and determine their needs. Now, armed with a comprehensive—and dynamic— profile, brands have new missions, such as finding ways to stimulate consumer needs, identifying look-alike consumers and turning consumers into brand ambassadors who effectively cocreate the brand. Welcome to the C2B (consumer-to-business) age.
- **Merchandise.** Products are advancing from commodities to become part of the consumption process and an integrated consumer experience. As the old business-to-consumer model evolves from the simple goal of meeting mass demand to a world of consumer-data-inspired personalized products and delivery, the best brands are determining how to integrate products into the overall customer experience: not only shopping but also learning about a product, using it, talking about it on social media and recommending it.
- **Stores.** Stores have extended from online-only or offline-only into a seamless omnichannel consumer experience that's fully integrated. People can shop while enjoying content or while spending time on social networks, for example, as well as in stores or on e-commerce platforms. Creating occasions beyond the constraints of time and location is among the new moves that winning brands are making to get ahead.

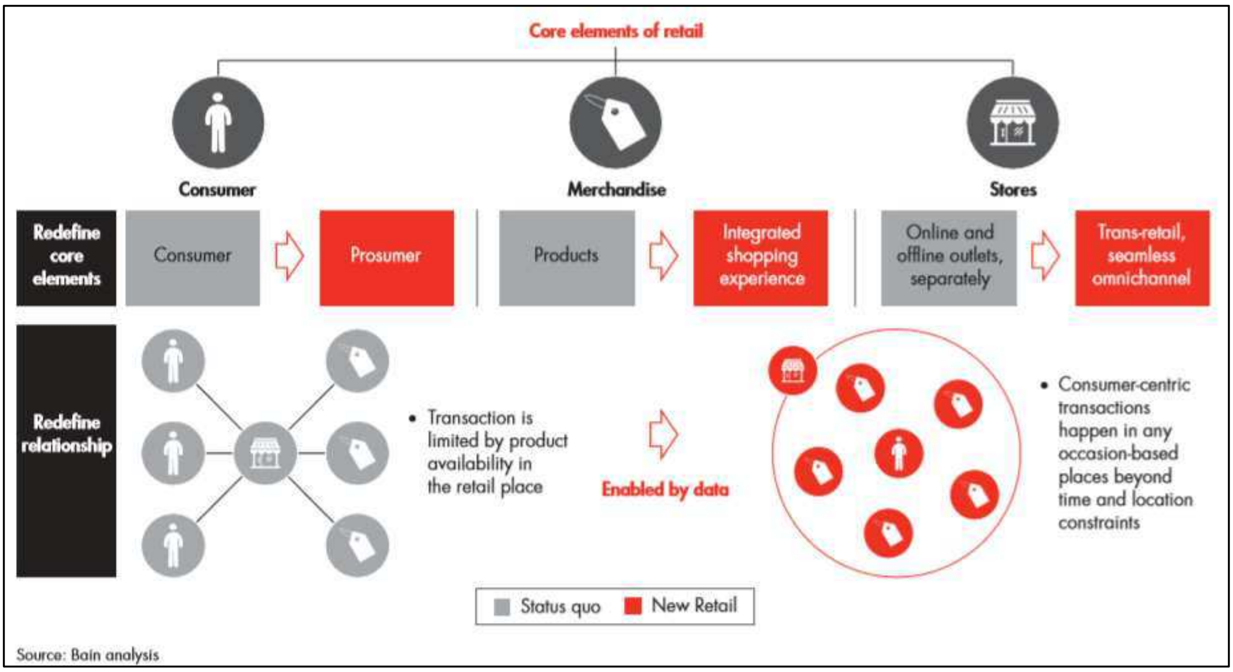


Figure 20 : New's retail disruption

New retail is not just transforming consumer engagement but the entire value chain: retailers are building smarter, more flexible and multiple-purpose supply chains capable of orchestrating inventory across online and offline channels. Data is being used to make product development more demand- based and short the time to market. Sourcing traceability, particularly via blockchain, is also becoming increasingly important to enable greater consumer trust. The application of AI technologies that enable more effective targeting, however, brands must be careful to strike the delicate balance needed to protect data privacy, consumer trust and network security.

The New retail model also attempts to provide in-store quality customer service in the virtual world: clients can "try on" their desired items in virtual dressing rooms and get product recommendations directly from brands or popular influencers.

Indeed, with millions of mom-and-pop stores now taking on new life as order-and-delivery stations for e-commerce, with food delivery platforms such as Hema fulfilling more than half of its orders online, and with mobile payments volume rising to more than 60 times the US level, wherever retailing is headed, China is already there and it is going to set the pace for the rest of the world.

Chapter (4): E-commerce in China

4.1) Introduction

As it is the largest e-commerce market in the world, China is setting the benchmark for present and future global retailing. China is a must-play market for retailers and brands globally, and its 415 million millennial consumers will sustain the future growth for a long time. *E*-commerce is enabling international retailers and brands to enter China more quickly and easily than before through online-only business models. The booming growth of this sector has also propelled the government to take notice and support this growth, drafting its first e-commerce law to include online transaction security, intellectual property rights protection and the protection of consumers' rights. With a forecasted compound annual growth rate in double digits, online retailing is expected to grow from 17% of total retail sales in 2017 to 25% by 2020. The current scale and growth trajectory has made e-commerce a strategic priority for most retailers and brands.

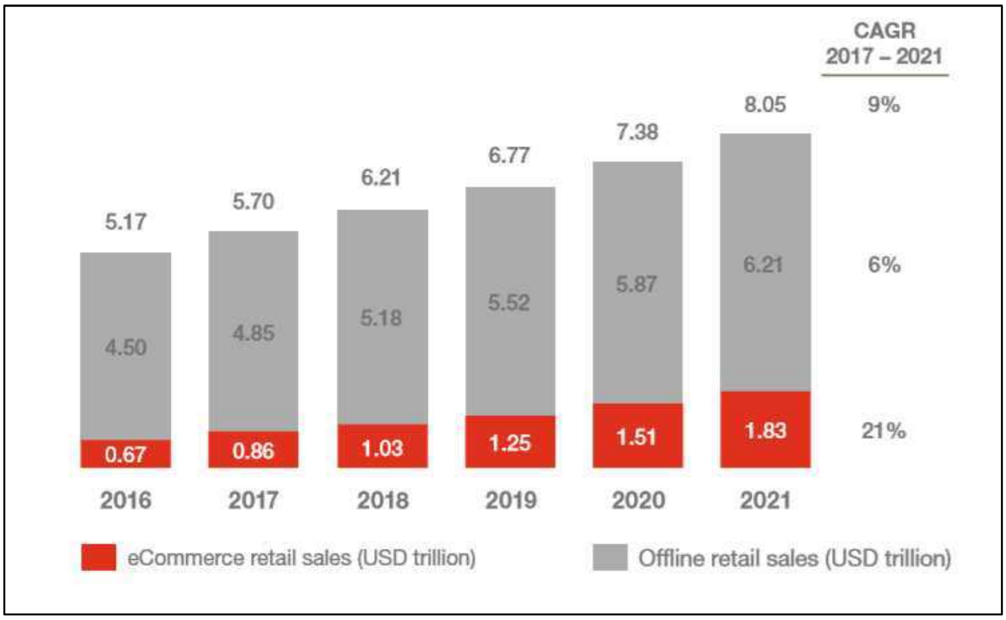


Figure 21 : China's e-commerce retail sales growth

China's retail market has never been so simultaneously attractive and challenging. Consumer's spending power is increasing, but they are faced with an abundance of choice and are easily bored. Although e-commerce is experiencing tremendous growth, the market is fiercely competitive and innovation is constant: retailers and brands in China are racing to stay relevant with consumers. Local and international brands compete for consumer's attention and wallet share, the internet giants race to build broad digital ecosystems to strengthen their existing network effects, and well-funded start-ups redefine customer experience.

4.2) Market analysis

In China, the internet is mainly mobile. As 52% of Chinese consumers shop using their mobile/smartphone on a weekly or daily basis, compared to 14% of consumers globally, the mobile -commerce continued to rise. Within only 4 years this trend has come to characterise the e-commerce landscape in China (fig.22). Alibaba's mobile penetration of gross merchandise value has grown from 6% in 2013 to 80% in December 2016, **making desktop almost irrelevant**.

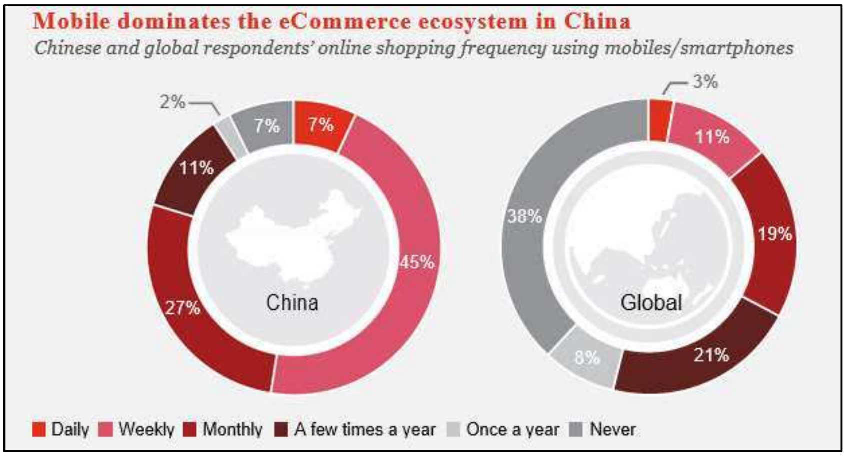


Figure 22 : Mobile-commerce in China vs World

In the local market, Alibaba currently dominates both B2C and C2C e-commerce also if is facing strong competition from JD.com and other emerging outlets. Alibaba runs two main ecommerce platforms:

- **Taobao**: Created in 2003, the Taobao marketplace is a consumer-to-consumer platform similar to eBay, where customers can post new or used goods for sale or resale. Taobao is also used as a means for merchants to sell their wares directly to consumers, and, notably, Taobao doesn't charge commission fees on transactions. Alibaba's Taobao is reputed to hold an 80% share of China's C2C market.

- **Tmall**: Formed in 2008, Tmall is a business-to-consumer platform similar to Amazon which, in 2017, accounted for around 56.6% of China's B2C online sales. The unique 'mall experience' offered enables retailers to set up their own websites within the platform, so that they occupy virtual 'mall space' on the site. To display on this platform, sellers must pay a deposit and Tmall recoups a commission on each transaction made.

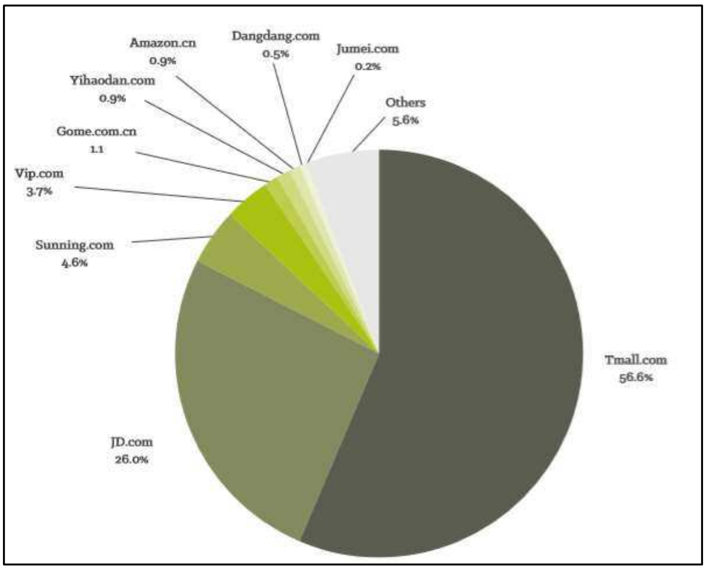


Figure 23 : Chinese local e-commerce B2C market share (2017)

And as mobile-commerce developed in the last years with incredible growth rates, shopping in China became a sort of national sport. Last 11th November during Alibaba's *Double 11* festival, also knew as the "Singles Day", shoppers have spent more than $25 billion (168.2bn yuan) in just one day, smashing previous records for the world's largest retail event. On this day, now nearly four times larger than Black Friday and Cyber Monday in the US, saw customers spend about 40% more on Alibaba than last year, and 2016's sales figure was reached in just 13 hours with $1bn spent in the first two minutes after midnight.

Tmall Sales Progress on Double 11 2017

- 1 billion yuan: 28 seconds (vs. 52s in 2016)
- 10 billion yuan: 3 mins 1 seconds (vs. 6m 58s in 2016)
- 19.1 bn yuan: 5 mins 57s (exceeds total Double 11 sales in 2012)
- 36.2 bn yuan: 16 mins 10s (exceeds total Double 11 sales in 2013)
- 50 bn yuan: 40 mins 12s (vs. 2 hrs 30m 20s in 2016)
- 57.1 bn yuan: 1 hours 49s (exceeds total Double 11 sales in 2014)
- 91.2 bn yuan: 7 hours 22m 54s (exceeds total Double 11 sales in 2015)
- 100 bn yuan: 9 hours 4s(vs. 18 hrs 55m 36s in 2016)
- 120.7 bn yuan: 13 hours 9m 49s (exceeds total Double 11 sales in 2016)
- 168.2 bn yuan at 24:00

Figure 24 : Tmall sales on Singles Day 2017

This year, Alibaba says over 15 million products from more than 140,000 brands, including 60,000 international brands, will be offering discounts on Tmall – up from 100,000 last year. Besides the e-commerce giant, other platforms like JD.com have become a key competitor and will be pushing equally hard to attract shoppers.

When talking about B2C platforms in China, Alibaba is usually the first name that comes to people's mind. Almost anybody in the West knows something about JD.com, the largest retailer in China that is aiming to compete with Amazon on a global scale. As the middle class is expanding fast in China, consumers are paying more attention to the quality and authenticity of goods, enabling JD.com to focus on customer experience. JD.com is essentially a direct online retailer that buys and sells product, placing its emphasis on direct retail, in-house logistics and highly dedicated customer service operations. People that are familiar with JD.com would know that the company delivers most of their orders directly to customers themselves with 90% same-day or next-day delivery. JD.com does so because it believes that it can gain more control and guarantee a better customer experience by doing everything in-house. It is with this belief that JD.com started investing in its in-house logistics and today the firm covers almost all counties and districts in China. Despite Alibaba owns the largest B2C platforms and the leading e-retailer by volume, JD.com is actually the number one leading e-retailer in Asia in terms of direct e-commerce sales, while Tmall/Taobao lead the way in terms of merchandise volume from third party vendors. The company has also been leading the market in terms of direct sales from mobile devices. In April 2018, the platform had 50% of direct mobile e-commerce sales market share which is twice the market share of its nearest rival Tmall.

Figure 25 : Leading e-retailers in Asia in 2017 ranked by direct e-commerce sales

Furthermore, JD.com has been experiencing positive growth of annually active customer accounts since 2013 and the number of annual active customer accounts broke through 300 million already in the first quarter of 2018. Therefore, even though Tmall is currently the single largest player, taking around 57% of the market share, JD.com has been posing an increasing threat to Tmall. JD.com chose to develop in-house logistics and take on inventory risks. As for the global retail market, JD.com has publicly stated its intentions to challenge Amazon for primacy in the US. Although The company has still not revealed a concrete strategy for this purpose, it is left with quite a few options and leverages: not only its partnership with Walmart and Google can be put into great use, JD.com can also gain market share by sourcing goods at a lower price in China than Amazon which puts Amazon at a disadvantage. JingDong.com reached RMB 159.2 billion in sales during its annual 618 Shopping Festival, a result similar to Alibaba's RMB 168 billion during the Singles Day. JingDong.com is the main competitor that will have the potential to challenge Alibaba in the next years.

4.3) The rise of social commerce

Social commerce is an evolved form of e-Commerce, in which platforms rely on current users to "activate" potential buyers by sharing promotions and items with them. Clients are incentivized by steep group-buying discounts and game-like campaigns that make sharing fun and interactive. In the U.S., brands may give discounts to customers who share via email, Facebook or Instagram, but their single-function nature makes the process less interactive, so social-based commerce still hasn't taken off in the U.S. like it has in China.

A prime facilitator of social commerce in China is WeChat. Approximately 65% of the transactions of Pinduoduo (an emerging local player) are completed through its WeChat mini-program, which enables users to share products and make purchases without having to switch to another app. Mini-program pages are limited to a size of 1mb each and integrate with WeChat Pay so users can carry out transactions quickly. Users in smaller cities tend to use cheaper phones, so mini-programs are better suited for this user base.

Social commerce has provided a solution to bottlenecks that have arisen from slowing e-Commerce growth in China. With traditional e-commerce, users generally log on to a platform with an existing intent to purchase a certain product or brand. The search function plays the core role in connecting users with products, and merchants pay to access user traffic through ads or discount promotions. However, as more and more brands sell products through marketplace platforms, the market becomes increasingly saturated and traffic becomes more expensive to access as brands bid up advertising costs. Social commerce provides a remedy to this "problem" by opening up a new, decentralized avenue in which customers can discover products through trusted friends and family. Since China e-Commerce is rife with cases of fraudulent and shoddy goods, many consumers have grown to suspect the authenticity of online products. Customers are much more likely to purchase goods recommended by family and friends, and WeChat is instrumental in facilitating the sharing process.

Figure 26 : Emerging players in social commerce

In addition, international brands and retailers also can set up their own WeChat mini-programs and create unique campaigns and promotions with which they can build customer loyalty. This may finally even the playing field between brands and marketplace platforms, which raise the bar higher and higher for brands who want to list their products on them.

4.4) How to enter China

Although the Chinese market is extremely hyper-competitive and sophisticated, on the other hand it has an unimaginable potential and companies that today are not looking in this direction may risk to miss enormous opportunities. Here's three different ways for a foreign brand to enter China:

1. Using a local distributor

Good local distributors can give advice and help bring foreign products to market, as they already have localization insights, specialist market knowledge and existing customers. To build brand awareness, overseas companies can partner with larger distributors or several smaller regional ones and cover most areas of the Mainland China. Furthermore, local distributors can also handle customers service and product returns to reduce brand's workload and, on the other hand, controlling the quality of these services on behalf of the partner. The main advantage of engaging local distributors is their vast network of established contacts that allow the company to grow its business quickly and find the right salesforces into the local market. They can also hold inventory to shorten the product to market lead time; however, distributors may have exorbitant markups thus sometimes it could be difficult achieve a deal with them or find the right partner.

2. Establishing a business presence in China

There are five ways to establish a business presence in China.:

- You can set up a Wholly Owned Foreign Enterprise (WFOE or WOFE), which is a limited liability company wholly owned by foreign investors.
- Establishing a Representative Office (RO) is another option. They can engage in some liaison and promotional activities but can't directly engage in operational activities such as issuing invoices and receiving payments.
- A Foreign Invested Partnership Enterprise (FIPE) is an unlimited liability business entity with no minimum requirements on registered capital. It's similar to a WFOE, but enables partnerships and is popular with startups.
- Joint Ventures (JVs) are limited liability companies formed between a Chinese and foreign company that share expenses, management and profits and losses. Authorities in China favour this model because it brings in new technology and skills while foreign investors value the low labour and production costs and a potentially huge market share. Business such as restaurants, bars, construction companies, automobile manufacturers and cosmetics producers are required to use this model.
- Hong Kong Companies are often used as a Special Purpose Vehicle (SPV) to invest in a WFOE. Companies often manage their supply chains from HK because of its infrastructure, sound legal framework, efficient banking system, low taxation, convertible currency and qualified workforce.

Although there are a range of options available, it must be remembered that setting up any kind a business presence in China comes with substantial costs and a big commitment of time and resources. Thus, this option is suggested after building a prominent online presence and an integrated distribution network.

3. Engaging in Cross-border e-commerce

Although entrepreneurs need to stay alert for changing rules and regulations, Cross-border e-commerce is widely used in China. As is the most popular entry model for new entrants in China, cross-border e-commerce will be descripted in detail in the last chapter.

Chapter (5): Cross-border e-commerce in China

5.1) Introduction

Today in the super-connected Chinese society the vastly growing middle class is frequently exposed through the internet to foreign products, which are often considered of higher quality and status. In emerging markets with a huge local market, such as China, consumers may face difficulties when searching for affordable imported goods in their local retail stores, and the Chinese demand for overseas goods steadily increases every year. As products are usually unavailable or too expensive in Mainland China, many consumers use overseas' websites or separate domestic marketplaces, which are specialized in international e-commerce, to complete their purchase. 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".
Indeed, Cross-border e-commerce (CBEC) is the process of purchasing products online directly from international retailers and suppliers that do not have a business entity in China. This type of shopping is becoming more and more attractive thanks to the perception than products available on cross-border e-commerce platforms are higher quality and genuine, because the brands are established and authorized abroad. On top of that, items are exempt from import taxes under certain condition thus prices can be significantly lower than for items imported the usual way.

Figure 27 : CBEC's sales market from 2014 to 2018

Cross-border e-commerce market growth extremely fast at a 60% rate in the last years, and it is estimated sales accounted for around $100 billion in 2017. Several factors have converged to drive the explosive growth of CBEC in China. Firstly, the proliferation of smartphones and growth in internet penetration coincided with rapidly rising disposable incomes and demand for high quality foreign products. CBEC is not only popular among Chinese consumers, but also foreign sellers because it allows businesses to sell in China without a physical presence, which necessitates incorporation and licensing. One of the main features of CBEC is allowing companies to test the Chinese market while potentially making significant profits at the same time.

There is an unfortunate tendency for foreign companies to start their path into the Chinese market with the same strategy they use their local country: setting up a legal entity in China, hiring local staff and then expecting them to deliver results within months. But launching a business in China is similar to launch a new brand, it is a process of trial and error, and companies have to test your initial assumption. As there is no magic formula to succeeding in the Chinese market, here are three suggested advices to test the market and assess interest for your product and services:

• Step 1: cross-border sales & social media aims at testing the market within a frame of 3 to 9 months. It relies on direct sales through Key Opinion Leaders and lays down initial brand presence on the Chinese Internet.

• Step 2: Finding local distributors in China enables to leverage local third parties in order to extend product distribution. It also means consolidating logistics to make it more affordable and efficient.

• Step 3: company creation and full localization consists in setting up a legal entity in China, hiring local staff and expending further brand recognition, setting up a legal entity in China, hiring local staff and expending further brand recognition.

Figure 28 : Suggested steps to test the market and enter in China

Thus, selling via cross-border e-commerce is the suggested first step option to enter and understand if a product/service can fit Chinese market.

5.2) Business models

Overseas businesses first need to choose their modeland this can be a challenging endeavor due to the varied nature of CBEC models and platforms, especially for those unfamiliar with the China. The final choice depends on a strategic analysis of each model, and a breakdown of the main advantages and disadvantages the company could face. CBEC offers four models that represent the methods in which investors can sell directly to consumers (B2C) or indirectly through a marketplace intermediary (B2B2C).

Figure 29 : CBEC's platform ecosystem

1) Company standalone website (outside China)

Many companies are attracted by the idea of having their own standalone website hosted outside of China. At first glance, this option appears to be the most convenient as it does not require a legal Chinese entity and is cost effective. However, these websites often have low web traffic and interest from potential consumers. This is due to three main reasons. First, if the website is hosted outside of China, consumers may have some problems to find or access the site. Secondly, there is already intense competition for Chinese consumer traffic waging between the giants of e-commerce in the country. Finally, these standalone websites often fail to provide customer supports that Chinese consumers demand, such as refunds, exchanges, Chinese payment methods, after sales support, reliable delivery, and more.

2) Selling through CBEC online mall store (B2C)

Online malls are marketplaces that act as a centralized platform for different “stores”. Each brand can have its own store and operate it by themselves. Consumers can purchase items from stores using the online mall’s checkout system. This model has grown in user popularity as it is convenient and reliable for the consumer. Users can access to a variety of different stores, allowing them to shop around and use a familiar payment method. Finally, Online malls to directly talk with the shops and offers easy and fast sales support.

Different from websites like Amazon.com, 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. The most famous examples of online malls in China are Tmall Global and JD Worldwide, the cross-border platforms of the two local giants. On several platforms the shopfronts are branded according to country of origin.

3) Selling through CBEC online malls direct purchasing model (B2B2C)

In the B2B2C model, foreign businesses indirectly reach Chinese consumers because there is an intermediary marketplace where products are sold. There are three main intermediary marketplaces: hypermarkets, vertical specialty, and flash sales.

- Hypermarket

The hypermarket purchases goods directly from the overseas company and adds it to their product stock, charging a mark-up from the wholesale price to retail prices on their online platform. Therefore, the intermediary is the hypermarket and Chinese e-customers are reached indirectly by overseas suppliers. Additionally, the goods are stored and delivered through the hypermarket’s own warehouse and distribution centers, reducing the logistics burden for the foreign brand. The foreign brand need only deal with the procurement manager with whom they can negotiate prices. Usually, the hypermarket focuses on particular categories of products, such as wine, handbags, or milk powder. Furthermore, popular brands and high-turnover items may find it easier to sell their products because hypermarket platforms are more confident to bare the risk of storing and distributing these items. 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.

- Vertical specialty

Like hypermarkets, vertical specialty platforms also buy goods directly from the overseas supplier. However, these platforms focus on niche product categories, consumer demographics, or regions. Vertical specialty platforms are growing quickly as their niche focuses target potential customers better and leads to higher sales conversions. In recent years many specialty marketplaces have entered the competition with the largest online malls and hypermarkets. Despite the fact that consumer traffic is lower and the product catalogue is limited, specialty marketplaces provide brands valuable opportunities to sell their goods which would likely remain under the radar of consumers on large e-commerce platforms. Traffic on speciality marketplaces tends to be more qualitative, with a higher conversion into sales.

- Flash sale

As the name suggests, flash sale platforms offer limited quantities of products at discounted prices for a short period. The goods are usually new to market or surplus products. Flash sale platforms offer foreign brands the ability to test out the popularity of various products. As consumers go to these sites especially to hunt the newest overseas gadgets, flash sales sites can be an effective trial tool for foreign merchants to receive new product's feedback before venturing into more substantial activities. At the same time these websites can be considered an effective marketing technique to give more exposure to one's brand. Despite the fact that sell 'limited quantities' of products, the market size of the Chinese flash sales web shops is substantial. 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 vast amount of goods, that need to be supplied by small to medium sized companies once the products prove popular. SMEs may encounter sudden stock shortages when dealing with these platforms' procurement demands.

4) WeChat Store

WeChat Stores are an emerging CBEC method, but unlike the afore mentioned models it is primarily a social media app with related services. Despite this, its growing popularity and CBEC implications make it an attractive option for many foreign brands as it became the super-app that virtually everyone uses in China. Once a company has a verified account, it can open an in-store app through which it can sell directly to Chinese customers, that of course will purchase through its WePay wallet. As Chinese customers often get product recommendations through social media, WeChat store is a potentially powerful model. People in China use to spend lot of time on mobile, and around 1/3 on WeChat (and more than 50% on the Tencent ecosystem) (Fig.21). Thus, this application is powerful to reach Chinese consumers but, on the other hand, it also means it is extremely competitive as many companies are trying to catch user's attentions on that. Even that, foreign brands that aim to enter China must to be on WeChat. Additionally, through the chat capability, brands can interact directly with the consumer and access to consumer data, which allows them to improve their services, products, and image.

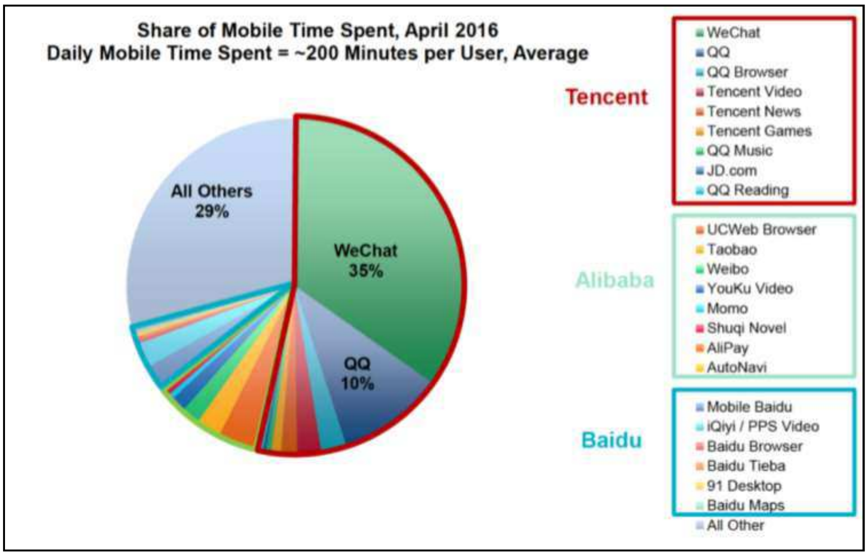


Figure 31 : Share of mobile-time spent

WeChat represents a big opportunity for marketers who wants to sell to China. Although is often consider a social network, it allows you to access to many other services from one-to-one conversation between people to a social line to payments. In practice merchants can have campaigns with bloggers that can share with their followers on their "moments", and then users can share it with friends or familiars through the messaging part. Connecting all those elements, it results as a super-integrated platform that offer amazing tools for marketers. Brands can create some channels and use it to push information to the customers, using the so-call "Official Account". As reported in the article "WeChat Official Account: the simple guide" by the company WalktheChat, there are four different type of account:

Figure 32 : Four ways for brands to communicate with end user

- WeChat Subscription accounts (订阅号): can send up to 1 push message per day to their followers and are grouped together in a dedicated folder appearing alongside your friends in the "chat" section of WeChat. Subscription accounts can be created either with a Chinese ID (in which case their features would be limited, especially access to the WeChat API) or with a local Chinese business license.

- WeChat Service accounts (服务号): appear as friends in the "chat" section of WeChat. They are extremely visible, and have additional features compared to subscription account (in particular WeChat login, WeChat payment and geo-localization). However, they can only post 4 messages per month. If a service account send you a message, it's like if one of your friends send you a message: you have to be careful in preparing just high-quality content, because the un-follow rate is really high because messages are really visible. Service accounts are really good for e-commerce, because they are really visible, and you can use those for customer services to speak with them and you can send some powerful push notifications, promotions and interactions with customers.

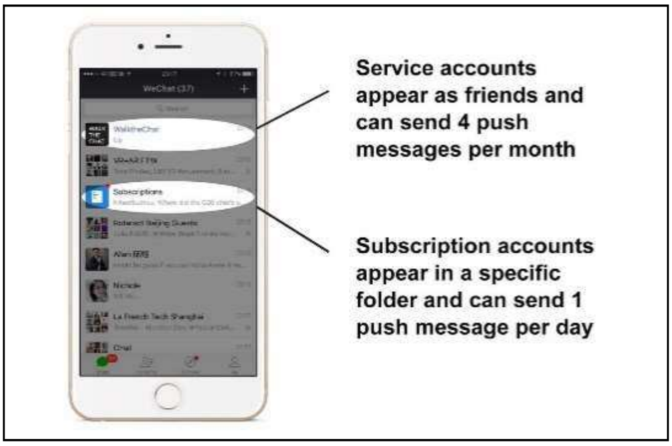


Figure 33 : Service and Subscription accounts

- Enterprise accounts (企业号): are meant for internal management of companies. They require both the account and the follower to approve each-other. Their content can't be shared to unauthorized users. They are perfect for a company wanting to spread an internal newsletter.

- WeChat mini-programs (微信小程序): are a new type of accounts launched in January 2017 by Tencent. They are mostly used for offline applications when user are only meant to use the APP once. They can't send push notifications. As of March 2017, WeChat mini-programs seem to struggle to get significant traction.

As Enterprise Accounts are mostly used for internal management, and WeChat mini-programs are struggling to find relevant use-cases, most companies will usually gravitate around either Subscription (for media) or Service account (for e-commerce features), which are the main channels for marketing. Public accounts link to e -commerce via bottom-menus & QR codes, where people can discovers and buy products. This is a classic purchasing path, as people are going to:

- follow "service" account
- receive a message from that
- click on the button to access to blog/website
- purchase goods.

In order to open an official WeChat account, companies are required to provide a local business license and an ICP license. Foreign firms can get around this requirement by either engaging a local party or a third-party agent or a local third-party WeChat e-commerce platform.

5.3) Market Analysis

In the cross-border sector the landscape is becoming more fragmented compared to the just a two-horse race between Alibaba & Tencent. According to iResearch's report, 4 platforms have a market share of 12.5% or above. Netease Kaola's share accounted for 26% of the total market share of the 2018 (Q1). The platform run a hypermarket model, and via self-operated bonded warehouses Kaola mainly sells products related to health and wellness, including mother and baby products, cosmetics, skincare.

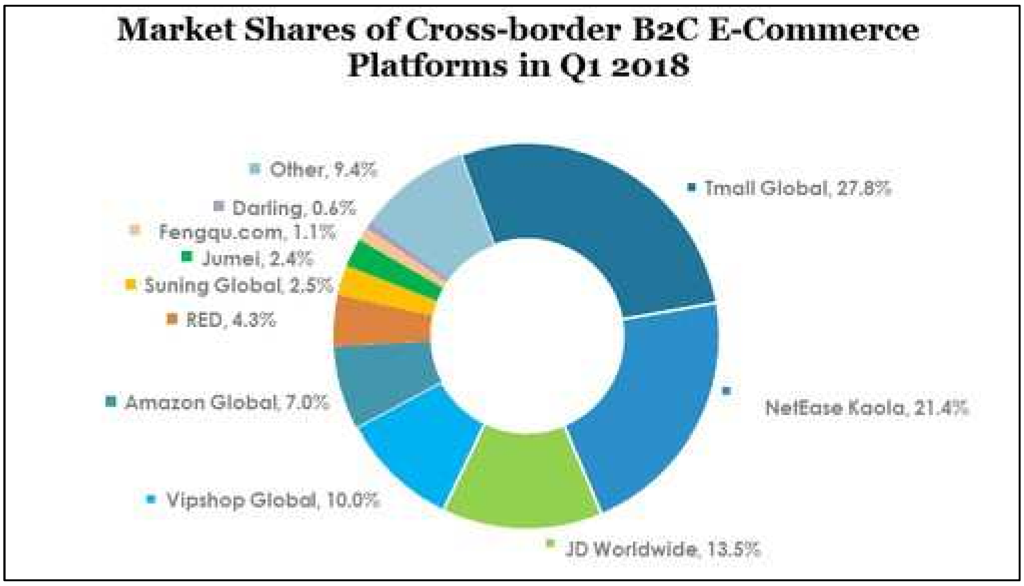


Figure 34 : CBEC market share in 2018 (Q1)

Following, Tmall Global (20%) and JD Global (13%), the two cross-border platforms of the big local player are still key players but aren't leading. On the 4th position VIP.com operates under the so-called 'branded sales events' model, specialized in offering products new to the market. It is estimated more than 58 million Chinese consumers purchased goods via cross-border shopping in 2017 thanks to the ease of use, improved logistics speed, and support over mainstream mobile payment methods. Total shoppers increased by 41% compared to 2016 and will maintain a double-digit growth momentum into 2018 (fig.34).

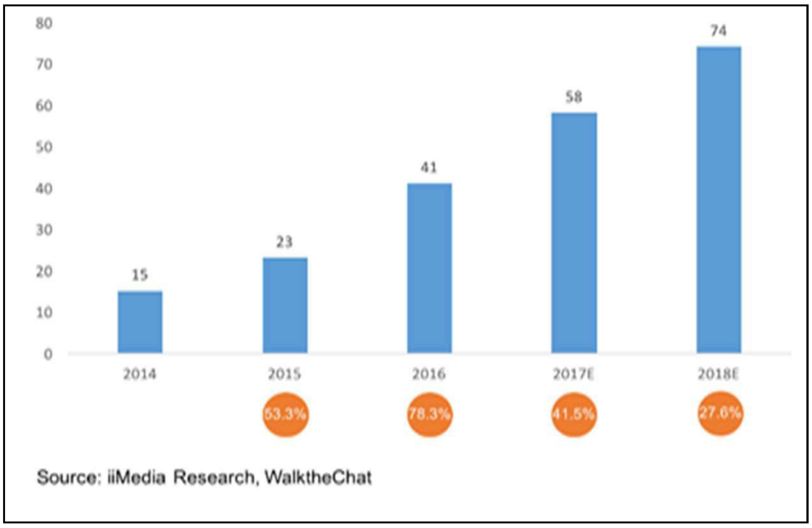


Figure 35 : CBEC consumers growth from 2014 to 2018

Overall, cross-border e-commerce has reduced the risk and costs of doing business in the China market, but retailers need to mind the threat of increasing competition and market uncertainties. Having a good understanding of the Chinese consumer demands and their behaviors are crucial to the sustained growth in the China market.

Advantages of Cross-Border E-Commerce

Historically, those players that have been able to enter and offer their goods to Chinese consumers were mainly strong multinationals or those smaller actors with extensive relations and local business entities: a subsidiary, a partner or an own manufacturer. As this legal entity would pay duties and taxes over these products and clear customs, it allowed may strong businesses to import into the Mainland China. But as it is different from "traditional commerce", Cross border e-commerce let foreign brands avoid this long and costly process of establishing a legal or physical business presence and it does not require a trade agent strenuous (requiring a considerable margin of profits). Indeed, it appears clear how CBEC is the most convenient entry strategy to sell online directly from overseas. mainly thanks to the following primary advantages:

- reduced import taxes
- product compliance checks applied to certain products under China's Luggage and Postal Tax Policy.

Especially for merchants that have never exported to China, Cross-border e-commerce is the most convenient way that short value chain for certain product categories. Launching (new) products through this option can be exponentially lower in terms of costs and dispatch times at the border are considerably faster. Compared to the traditional wholesale imports B2B import, the B2C business model has the advantage that the data transfer to the customs-supervised platforms considerably expedites and simplifies the customs clearance procedure. Thus, as traditional trade channels use to require long procedures (such as compliance checks and product registrations) to export goods to China, with CBEC overseas companies get another chance to access the Chinese online consumer market directly with smaller financial risks.

5.4) Rules and Regulation

As mentioned in the "China Cross-Border E-Commerce guide*"* written by the consulate-General of the Kingdom of the Netherlands in Shanghai, low or zero confidence with local rules is the earliest and strongest challenges for businesses when entering a new market. And this especially true for the Chinese CBEC players, as it is crucial to identify and understand these rules, as it may very well impact the way companies (can) sell their products to Chinese consumers.

Lack of consistency in regulations is one of the biggest challenges for companies engaging in CBEC. At times, the only consistency in regulation apparently in China seems to be the fact that rules and regulations are ever-changing: this is due to the fact that, although already a big market, CBEC is relatively new and develops rapidly. In 2016, two new rules were coupled with stronger implementation from the Chinese authorities:

- "Tax Policy for Cross-Border E-Commerce Retail Imports"
- "List of Imported Commodities for Retail in Cross-Border E-Commerce".

After protest from Chinese e-commerce companies about the new rules and out of fear of tanking the Chinese e-commerce market, the Central Government decided upon a transitional phase which ends in 2018. Foreign firms need to pay attention continuously to updated e regulations; any business should be prepared to adapt their CBEC products compliant to the new requirements.

Although in China many sectors are strongly regulated, national rules and regulations are often kept general, flexible and inexplicit. As consequence, this opens a broad scheme of interpretations by local authorities as well as regular updates to the rules. Pilot zone s' detailed protocols might differ quite extensively from location to location, even if though the general outlines of CBEC regulations and procedures are similar. Starting out in the right CBEC pilot zone can help to better understand the local procedures. and being able from the scratch to manage and win the local rules to save major fines and relocation costs, as well as benefitting from local legal exemptions such increase profits.

Taxation rules

For the first time in its history in March 2016 the Ministry of Finance, General Administration of Customs and State Administration of Taxation jointly issued the "Tax Policy for Cross-Border E-Commerce Retail Imports" to adjust the tax policy for CBEC retail (B2C) imports effective from 8th April 2016. According to the new circular has different effects on different import models. It stipulates that consumers purchasing goods imported under both the direct shipping model and the bonded warehouse model need to pay import taxes including tariffs, import value-added tax (VAT), and consumer tax (if applicable). The value of an individual order transaction is below 2000 RMB (around EUR 280) and is limited to 20.000 RMB per person per year. (around 2800 EUR). Above this value, general trade rules apply. In addition, the 50 RMB tax exemption policy is abolished and single items exceeding the 2000 RMB limit are handled according to general trade tariffs, without 'personal use' exceptions. The new rules will greatly influence companies from overseas in different sectors. A zero-rate customs duty will apply and taxes (import VAT and exercise, in China referred to as consumer tax) will be charged on such goods at the rate of 70% of the regular standards. Also the duty-free threshold applicable so far has been abolished.

Positive list

On 7th April 2016, 11 ministries and commissions of China including Ministry of Finance, China Food and Drug Administration, General Administration of Quality Supervision, Inspection and Quarantine, Ministry of Agriculture, General Administration of Customs co-released the "List of Imported Commodities for Retail in Cross-Border e-commerce". Also called "Positive List", the certification aim to clarify what types of goods are allowed to be imported under a cross border e-commerce model: it includes 1142 different tariff lines covering food and beverages, clothing, footwear, hats, home appliances, cosmetics, diapers, children's toys and other items commonly purchased by Chinese consumers on e-commerce platforms. After the "Positive List-2nd Batch" was announced on 15th April, the full list involves a total of 1293 commodity categories, categorised in 8digits HS codes. The goods included in the positive list are exempted from submitting an import licence to Customs. However, products under CFDA rules require registration prior to import. 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 mailing models, it is of utmost importance to check whether one's products are on either of the lists.

Import Models

Before explaining the impact of the new rules, it is important to understand the major import models of cross border ecommerce and how different work. There are two options for foreign companies engaging in CBEC business: the direct shipping model and the bonded warehouse model. Last one was previously more popular due to the more convenient real-time custom clearance, faster logistics, as well as availability of after-sale services. However, with the new CBEC tax policies and positive lists coming out, the popularity of the bonded warehouse started to diminish as it required to obtain the AQSIQ clearance form if the positive list is finally implemented, while goods bought through direct shipping model could be exempted from this requirement. Indeed, in 2017, many foreign companies moved out of the bonded warehouse and started to focus more on the direct shipping model.

<u>Bonded imports</u>: Bonded imports include bonded warehouse model (B2B2C) and direct mailing (B2C) model.

1. Bonded warehouse model (B2B2C): 'stock first, order later'
   Products on two lists of 1,293 HS codes can be imported in bulk into approved CBEC bonded warehouse zones across China. After Chinese consumers place orders through cross- border e-commerce sites, these products go through customs clearance directly in the bonded area and are then delivered. Consumers will normally receive their goods within 2-3 days.

2. Direct mailing (B2C) model: 'order first, deliver later'.
   After customers place orders on registered cross-border e-commerce platform, it needs to submit the records of order, shipment and payment to customs. At the same time, the products will 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.

Bonded imports are subject to both new taxation rules and positive lists. For bonded imports, personal postal articles tax will no longer be levied. Instead, for online imported commodities both under the bonded warehouse model (B2B2C) and direct mailing model (B2C) import tariff, VAT, and consumption tax will be levied upon customs clearance. In the transition period temporary rates are set.

Figure 36 : Bonded import model process

Direct Purchase Imports (B2C)

Products which are not on the CBEC Positive lists can also be shipped directly from overseas merchants (B2C) and individuals (C2C) to China via the postal and courier system. Companies that opt for this solution will be subject to 8 April 2016 regulations on personal postal tax only. It is important to note that Direct Purchase imports tax will only be levied when customs check the parcel during regular checks. Furthermore, Chinese customers are obligated to pay personal postal tax if they purchase goods from abroad (B2C) or through individual (C2C) that send them to China by post or international courier service. Unlike with the bonded imports, Chinese customs will treat the imported product as a product for personal use, thus taxed by personal tax: 15%, 30%, 60% depending on category, which is waved if it amounts to less than 50 RMB. Additionally, the low postal tariffs China benefits from due to international agreements make this an attractive mode of import for many Chinese consumers. The latest details on tax policy can be accessed on the website of the Chinese Ministry of Finance, the General Administration of Customs and the State Administration of Taxation.

Figure 37 : Direct shipping model process

5.5) Entry Strategies

After familiarising themselves with the different models of selling via CBEC, most of the foreign companies will have the same question: which model and marketplace is "the best" for my company?

Find a generic answer to this question is almost impossible as different CBEC models and platforms are suitable for different products, types of businesses and budgets. Generally, firms have to make a choice in the kind of marketplaces, logistic and payment solutions, marketing strategy, and third part service providers they will use. The decision on which one suits the company best will depend mainly on four things:

1. Products
2. Rules and regulations
3. The company's business model
4. Budget

Companies will need to understand the dynamics of their specific industry and define the appropriate channels, investments and marketing execution strategy based on its target Chinese user preferences. CBEC market provides these alternative models to allow businesses to experiment committing to investment.

How can foreign businesses use the different platforms and marketplaces to their advantage? There are two business development strategies for companies that just start to enter the Chinese market via CBEC. Both growth strategies focus on different aspects of selling cross-border, have their distinctive starting points and development cadence.

1. Fast growth strategy (high costs, higher growth)

2. Organic growth strategy (lower cost, slower growth)

It should be underlined that CBEC is never the final objective as it serves as an entry strategy in order to acquire market share, brand equity and a base of consumer base in China. Ultimately, brands will try to aim to achieve an omni-channel sales strategy whereby they sell their products via traditional channels (both off- and online) in the long term.

- *Fast growth strategy*

This solution requires huge investments in marketing to fight the strong local competition and making the "big entry" aggressive; at the same time, spending more in resources at the beginning will allow our business to growth faster and get results quickly.

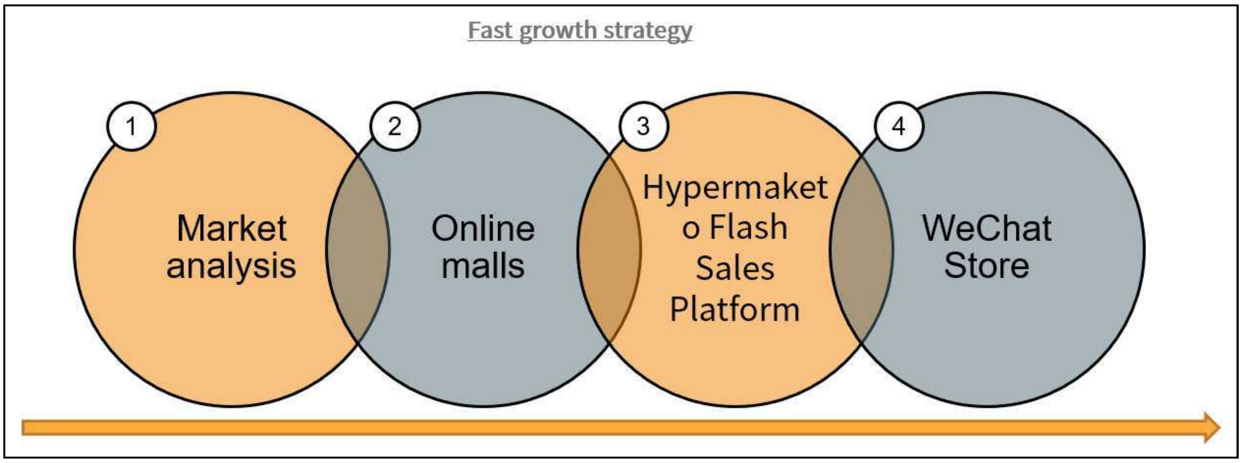


Figure 38 : fast growth entry strategy

Step 1: Think on brand equity, do market analysis, check compliance rules and regulations. If this step will be omitted, costs will probably rise in the medium-long term due to problems like moving money in and out of the country, relocation costs, etc.

Step 2: Enter all the big cross-border e-commerce platforms

Online traffic is monopolised by large platforms and instinctively and of course many try to acquire a flagship store on the big CBEC platforms. It will bring lot of traffic and exposure, and the opportunity to speak with you consumers right there and quickly get some feedbacks from them. On the other hand. it's difficult to be placed on those platforms and it takes a lot of time and money. They can also pressure you to lower the price to give them discounts for their consumers, which can make it difficult to materialize profit for starting companies. Companies will definitely need to advertise with those to drive consumers on your flagships store.

Step 3: Hypermarket, Specialty or flash sales marketplaces (B2B2C)

Setting up and start selling on those platforms will be faster and cheaper rather than the first step. Through this kind of CBEC hypermarkets, specialty shops and flash sales, companies from overseas can reach a wider Chinese consumer base and quickly expand their sales volumes. Compared to selling on online malls merchants will lose a certain margin of their profit to procurement of selling on these hypermarkets.

Step 4: Branding via WeChat stores and Public Accounts (B2C).

Entering China aggressively through the previous steps means a brand already created its audience, and it will be easier to start its community on WeChat. Rather than an initial entry method, already wellknown brands can integrate WeChat to complement their existing omni-channel branding strategies. This platform will be extremely important at this step not only in terms of sales, but specially it will be crucial as customer service platform. It will help merchants to generate repeat sales and let them to adjust their product offer. To sell on WeChat successfully, unique products are the best way thus it will be important understand the community around the brand. The platform will provide huge connections with the audience, as it will be possible listen to them and send news, providing stronger fidelity.

- *Organic growth strategy*

If you don't have a budget that allows you an aggressive-entry strategy, or you have other constraints, you may adopt a slower strategy with lower costs, and obviously lower results.

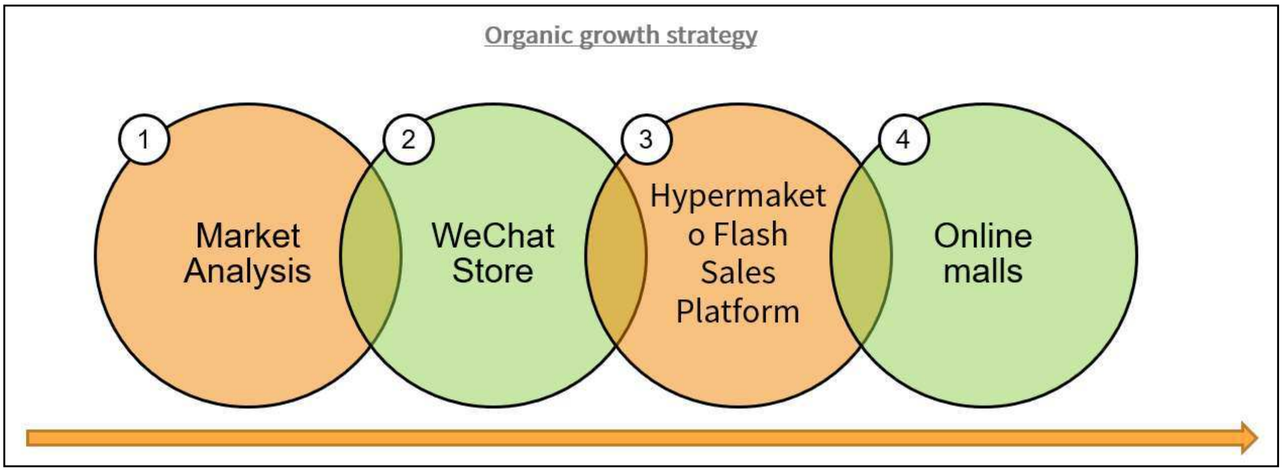


Figure 39 : Organic growth entry strategy

Step 1: Think on brand equity, do market analysis, check compliance rules and regulations. If this step will be omitted, costs will probably rise in the medium-long term due to problems like moving money in and out of the country, relocation costs, etc.

Step 2: Selling and branding via WeChat store (B2C).

Starting to enter the Chinese market via smaller CBEC platforms like WeChat can be a valuable decision, as this strategy is based on slowly familiarising and testing the Chinese market and is especially useful for niche products. Opening a store on a WeChat gains brands more exposure and "low cost" accurate branding via social marketing. Consumers will generally have a strong consumer impression due to the more personal interaction. Brand equity can grow quickly among a dedicated consumer base. Set-up times are much lower than on big platforms and WeChat is still fragmented and not monopolised by big players. Initial sales volumes will most likely be low, as for new brands it will be more difficult to attract new consumers.

Step 3: Hypermarket, Specialty or flash sales marketplaces (B2B2C).

Foreign companies can now start initial selling on specialty marketplaces to a limited but niche audience, after receiving initial feedbacks via social marketplaces. Requirements to entry and error costs are usually significantly lower than on large online malls and big hypermarkets. Although merchants will lose a certain margin, by engaging in the procurement model, vertical CBEC hypermarkets will bear the risks of selling products.

Step 4: Setting up a flagship store on major CBEC platforms
After succeeding in implementing the first 2 steps, to complete the China strategy it will be necessary be present on almost one of the big online mall, such as Tmall Global or JD Worldwide. The company will understand much better the market and its customer and will have a much more exposure. Users will consider and trust more the brand. The major benefit will be much more traffic on the store and a stronger awareness.

In both entry-strategies, after the 4th step it will be necessary shift from CBEC to general trade via domestic e-commerce platforms. As mentioned before, general trade requires a business entity in China, and compliance with local product registrations. Moreover, it will generally add costs on imports and long preparations. But it will assure a higher volume of sales and the brand's market expansion will be around 10 times, because CBEC still accounts for a small portion compared to overall retail in China. Thus, at this point it will be the right choice to enter China for real.

Chapter (6): Case study, Ferrino S.p.A. in China

6.1) The company

Ferrino is a family-run business with a great history. It has been a leader in the creation and development of the outdoor phenomenon in Italy and Europe. Founded in 1870, the company made its name thanks to its innovative, top-performance products, built to last, which have accompanied mountain professionals, and outdoor enthusiasts on their adventures everywhere. The key to such a long presence on the market has been the ability to adapt its product range to the constantly changing lifestyles, passions and interests of outdoor's customers. *Ferrino*'s headquarters is located in Turin, northern Italy, the first world design capital and the heart of Italian industry, just minutes from the Alps mountains, the privileged test ground for new products. It is here that the *Ferrino* and *Rabajoli* families, in partnership since 1971, rely on 60 people with a passion for sport and for their profession: this established team designs, develops, sells and distributes products. In 2010, on the occasion of the company's 140th anniversary, the logo underwent a significant change, leaving behind the historic, stylized tent for a sun rising up from behind a mountain, to emphasize the fact that *Ferrino* is aimed at a broad public, offering products for different types of activity.

Figure 40 : Ferrino's Brand

Figure 41: The company's brand transformation in 40 years

The brand is not only a point of reference and more for sportsmen and women and enthusiasts, it is also the go-to manufacturer for international organisations and businesses that rely on it for the distribution of their products and for specific projects within Italy. The company's mission is *to create reliable, durable and cutting-edge outdoor equipment and apparel to accompany professionals and enthusiasts on their adventures*. *Ferrino*'s products are the result of ceaseless technological research and painstaking tests in the field to guarantee practical use and reliability, making them essential partners for every type of outdoor experience. Although the Italian firm entered the outdoor market as a tent manufacturer, it has diversified and extended its ranges to include backpacks, sleeping bags, apparel and accessories for different types of activity.

- **Backpacking**

A vast range of comfy, hardwearing backpacks, lightweight tents with a quick setup, and compact sleeping bags with excellent thermal capacity: these are just some of the products designed by *Ferrino* for those who make backpacking a genuine lifestyle choice. A consolidated product line dedicated to lovers of independent travel and the all-round open-air experience.

- **Mountaineering**

Ferrino accompanies the exploits of great mountaineers and explorers with customised products incorporating a wealth of innovation and technology. It works with these professionals to develop ground-breaking solutions that once perfected, are then introduced on products for the general public. Extremely hardwearing tents, designed to withstand the harshest climates, versatile backpacks and sleeping bags for rigid temperatures, a range of technical apparel and accessories are all part of the *Ferrino* line dedicated to those who love the mountains in any season.

- **Trail running**

This is a line created in 2012 to provide the perfect response for a continuously growing sector. It provides lightweight, hardwearing backpacks, apparel and accessories for trail running, made in close collaboration with the athletes themselves. The company has tested these products in some of the most extreme races, including the Marathon de Sable and the Tor de Géants, to offer trail runners solutions with no compromises.

- **Climbing**

A range of clothing entirely dedicated to bouldering: pants, sweatshirts and accessories with innovative designs: versatile models to suit all types of climbing but also suitable for everyday wear. In 2014 the *Ferrino* created the *Rockslave* project created in 2014, a new collection of urban-climbing apparel for a young target.

- **Camping**

For a long time, the name *Ferrino* has been synonymous with tents and outdoor living. The company continued to evolve to reach out to different types of outdoor enthusiasts, without ever forgetting where adventures in this industry began. Today there is a wide range of products for those looking to relax while surrounded by nature: roomy, functional tents that are ready to bring unforgettable nights under the stars; sleeping bags, airbeds and a full range of accessories to enjoy outdoor living in the utmost comfort.

Ferrino also supplies tents and equipment to government and humanitarian aid organizations all over the globe. Thanks to its versatile solutions to provide fast responses to those in need, the company put its experience and best materials into keeping men and women on missions safe. Essential, excellent products to offer top performance and reliability, even in the most extreme conditions. *Ferrino* proudly supply tactical backpacks and tents to Italian and international armed corps.

Figure 42: Ferrino provides goods both in B2B and B2C markets

If, for the public *Ferrino* are a reference brand for hiking and camping, distributors and retailers see the company as a reliable and flexible partner, ready to meet their requirements. Based on mutual trust and shared goals, the firm aims to establish solid business relations. For production and logistics, the company have selected partners able to guarantee the high quality standards it want to offer. The company is well known in the industry for our R&D team and for the ability to create bespoke products, tailored to the reference market and in line with the brand identity of the client, as well as compliant with set times and budgets. That's why large multinationals, private labels and new brands in the industry come to *Ferrino* for the development and manufacture of their products.

6.2) Market Analysis

Today the middle class in China goes after a balanced lifestyle, with an increasing view to appreciate life and derive leisure experience. As they like to engage in various outdoor activities and short trips into the Mainland China, there is a stylish, specialist image built by department stores for outdoor clothing and products, which shoots for the discerning consumers' hearts and produces a cross-over market. These are looking for professional fashion sense brought by products and brands, as well as the variety of specialized services provided. After years of consumption experience, as well as changes in social and workplace environment, its lifestyle has also been evolving, making an impact on their purchasing behaviors. The focus is gradually shifting from brand chasing, materialism and status symbol in the past to taste, personal style and leisure experience today. The estimated amount of Chinese outdoor activity consumers in China was between 150-170 million in 2016. One of the consequences of the change is the growing interest in all kinds of outdoor activities, directly stimulating demand for related supplies. Especially in large cities, an increasing part of habitants tend to work longer hours and feeling stressful. Indeed, many developed regular travel habits and use to practice outdoor in other cities for holiday by high-speed rail, and the number of mainland residents travelling domestically has grown at around 12% on average annually. Of course, some of those chose to go abroad for sightseeing, hoping through a variety of trips and outdoor activities to relax. Many social media and online platforms took this opportunity to launch dedicated channels, providing news and information related to a variety of outdoor activities. As this industry became hot topics for discussions among consumers, promotions and discounts became more viral and helped to popularize and develop the sector. The forecast for 2020 predicts around 1/3 of the sales will be online. Today the number of overseas outdoor brand is bigger than the local ones, and this notable trend suggests opportunities for foreign companies such as *Ferrino.*

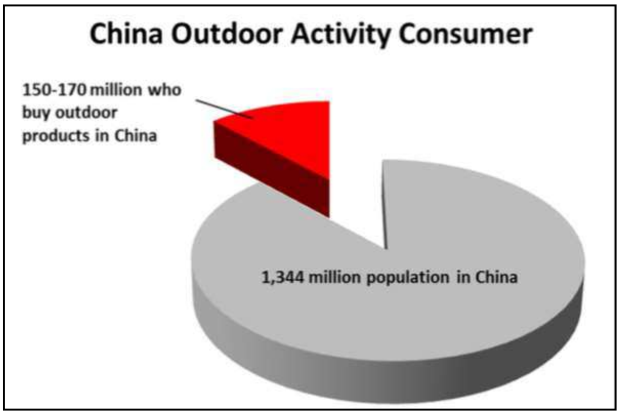


Figure 43: Chinese outdoor consumers (2016)

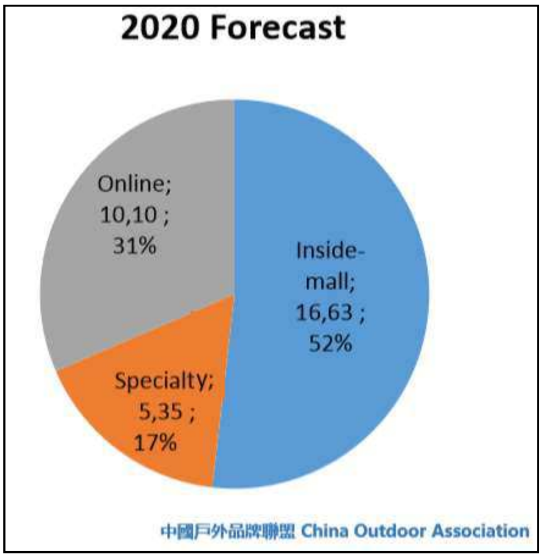


Figure 34 : Forecast market channels 2020

During the last two decades the outdoor industry market has grown very fast, starting from the scratch in the early 2000's and reaching an estimated amount of 26,8 billion RMB (around 3.37 billion €) in 2019.

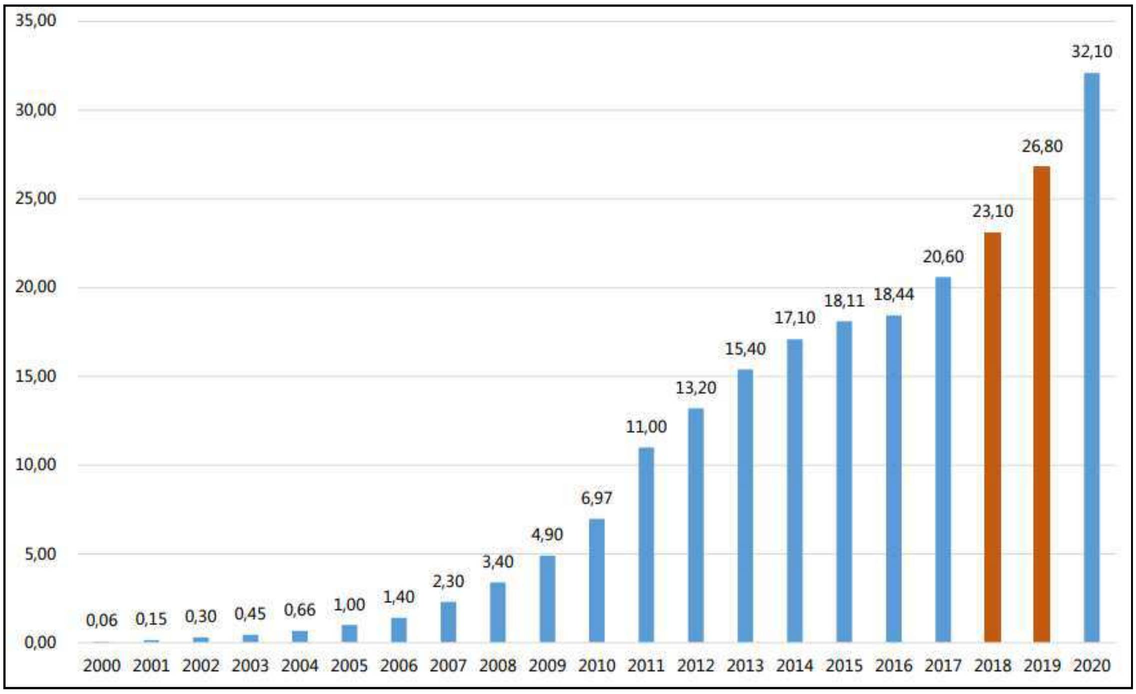


Figure 45: Growth of the outdoor market in the last 20 years (B RMB)

The outdoor market suits both Chinese producers and distributors and a growing number of multinational companies. In 2017 the total outdoor market volume reached 20.6 Billion RMB (around 2.59 billion €), splitted into into 4 main categories:

- Outdoor core market (Outdoor national and international professional brands)
- Low budget outdoor market (i.e. Decathlon, Walmart)
- Textile brands with outdoor collections (i.e. Lonsdale, Camel, Royalway)
- Sports brands (i.e. Adidas, Li Ning)

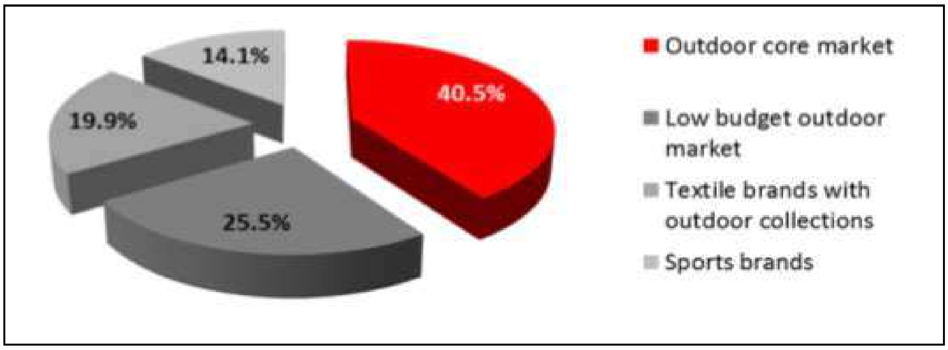


Figure 46: Main categories in the Chinese outdoor market

As *Ferrino* can be considered a player in the "outdoor core" category, the potential market for the Italian firm is supposed to reach around 10,8 billion RMB in 2019. Thus, as the outdoor market in China will continue to grow (especially online channels), *Ferrino* is willing to enter China via cross-border e-commerce to receive quick feedbacks from local consumers and to evaluate future opportunities without huge financial risks.

6.3) Digital strategy for Ferrino in China

The following digital strategy aim to build the *Ferrino* brand as synonymous of Italian premium quality, proposing the company as 'native experts' for camping gear and outdoor products. The goal is to grow the brand based on the positive Italian reputation for lifestyle, implementing the following steps:

1. Branding via WeChat and Weibo
2. Set up a WeChat shop
3. Set up a store on RED
4. Next steps

1) Branding via WeChat and Weibo

Weibo and WeChat are the two largest social networking platforms in China, and they both exert significant influence in Chinese society playing an indispensable role in modern life. For branding on Chinese social media, Weibo and WeChat are the best solutions: each is best suited to different communication methods and branding purposes. Here are the forecast activities on these platforms:

01.WECHAT	01.1 WeChat Account Setup	Design / Set-Up / Formatting / Creatives
	01.2 WeChat Account Management	Content Writing & Publishing / Interactions With Followers
	01.3 WeChat Account Promotion	Pure Banner Ad Spend
02.WEIBO	02.1 Weibo Account Setup	Design / Set-Up / Verifcation / Formatting / Creatives
	02.2 Weibo Account Management	Content Writing & Publishing / Interactions With Followers
	02.3 Weibo Account Promotion	Weibo Ads & Promotion (In-Feed DSP/Promoted Posts)

Figure 47: Weibo and WeChat strategy

WeChat is the main platform to drive engagement, that can help brands build consideration and preference with customers. As it is the most popular communication channel in China, most high-end companies like the idea of privileged access and members deals, whilst mass-market brands use to produce viral content in order to receive maximum exposure. In both cases, the goal is not "to be opened" but to move readers to give a thumbs up, or even type a quick comment. As brands begin to reassess WeChat KPIs, it's no longer about number of followers but how engaged those are. It is important to observe the content overload that happens every single day for WeChat users as brands continue to flood platform, making this environment extremely competitive. *Ferrino* have to open its official service account to create the basis of its online presence, producing high-quality content, H5 pages, and eye-catching videos to give an attractive introduction of the brand to new consumers. WeChat is a powerful tool to give a personalized image of the brand. Here are the planned KPI for each month during the campaign:

WECHAT ACCOUNT KPI POSTING (Per Month)	
New Followers	1000
Campaign Post Interactions and Comments	500-750
New Content and Creatives (Image, Text, Banner DSP)	12 Items
Campaign Post Impressions	75,000 Impressions

Figure 48 : WeChat account Kpi Posting

Place *Ferrino* Italian identity at the heart of the WeChat marketing aesthetic and core messaging is the suggested way to engage new clients at the beginning. As WeChat is a semi-closed network, the account is only as effective as the number of followers grows up. Indeed, after created an initial community of followers, *Ferrino* will start sharing contents to new potential consumers in WeChat existing community groups interested in health and wellness topics to drive organic growth. Here are the planned KPI:

WECHAT GROUP SHARING KPI (Per Month)	
New WeChatPosts (Unique Content)	4
Number of Groups toShare Content Per Month	250 Groups
ArticleContent with Links to Official Accounts	250 Linked Article Shares
Campaign Post ImpressionTarget	25
Audience Total Size (150-200 Members Per Group)	50

Figure 49 : WeChat group sharing KPI

Weibo is an ideal platform for marketing, advertising and new follower acquisition, as today it is China's second largest social network with more than 400 million monthly active users. Compared with the semi-closed platform WeChat, the open and public nature of Weibo ensures a higher level of exposure for brands. Whilst Weibo drives higher engagement, the relationship between brands and their followers isn't typically as strong, and thus a smart content strategy is required for cumulative growth. Weibo can be considered an 'e-commerce social platform', and *Ferrino* could use this opportunity to drive traffic with direct links to its Little Red Book Store. Here are the planned KPI for each month:

WEIBO KPI (Per Month)	
New Followers	2500
Campaign Post Interactions and Comments	750-1250
New Content and Creatives (Image, Text, Banner DSP)	16-20 Items
Campaign Post Impressions	250,000 Impressions

Figure 50: Weibo campagin KPI

2) *Set up a WeChat shop:*

Foreign and local brands can open their own WeChat shop, a mobile website linked to the menu of the official account that provide users a simple access to its products and a convenient way to handle payment. WeChat shops also enable businesses to easily send discounts to customers via chat and keep them engaged and updated about the latest promotion. Another major asset is the customer service, allowing users to ask questions simply by speaking or writing to the public account. Thus, after creating its presence online branding through the BAT's products, the subsequent step for *Ferrino* is create its own store, in order to upload products information (pictures, price and description etc.) and connect the bank account to receive cross-border payments directly from Chinese customers. As they can pay in RMB, companies will be able to collect payments in EUR, USD, HKD etc. This will be the best solution for the Italian company to start selling goods in China with low investments.

WECHAT STORE & NEWS APPS	WeChat Store Set-Up	Registration / Design / Set-Up / Youzan Solution
	Store Management	Store Updates / Banners / Content / Customer Service
	News APP Data Base Building	Targeted In-Feed Ads on Sina, Tencent, Sohu News etc

Figure 51: WeChat store strategy

While mobile ad revenue continues to be consolidated by the BAT group sites/platforms, there is a growing number of complimentary media and players which are taking an increasingly strong role in overall brand success. Businesses who have already established a strong foundation on BAT sites, should be looking to other channels to connect with new audiences. Indeed, the following step for *Ferrino* is to create an online presence on alternative emerging platform such as RED.

3) Set up a store on XiaoHongShu

Xiaohongshu (小红书), literally meaning "little red book" and commonly called RED, is one of the emerging social e-commerce apps. This community driven cross border shopping platform started as a peer to peer purchase information portal doling out shopping tips and strategies to help the readers shop smarter overseas. The shopping notes feature assisted the users in their travel to draw out their shopping lists, learn how to apply for tax refunds, wisen up about spotting fakes and bag the best purchase deals. It evolved from allowing its users tag the brands share their shopping experiences (which would further linked to third party sites) to finally let businesses set up their brand store, creating a complete commercial loop. In 2018 (Q2) the platform boasts over 100,000,000 registered users. Xiaohongshu's motto of "*Find best things from around the world*" is well synced with its audience's core needs. With high purchasing power, higher awareness of international brands and a need to keep up with the trends, its community is continually seeking to upgrade their consumption and standard of living. Consumers love RED for its access to a variety of goods usually not present in China, and the platform became a virtual place where discover new hot products and the most recent, and check which should they opt for, reading reviews of other users. The consumer journey on RED is clean, aesthetically pleasing and user-friendly, allowing the user to complete the full commercial cycle from discovery to buy there. Purchases are primarily conducted directly through the RED Store and the payment options include both WeChat Pay and Alipay. F*errino* can set up their brand shop with the primary purpose of e-commerce but the main value lies in using RED to create digital word of mouth and desire using Key Opinion Leaders (KOL) collaborations and product seeding route.

RED STORE (CONSIDER VIP & KAOLA)	Store Set-Up & Audit	Design/ Formatting / Creatives / Optimization
	Store Management	Store Updates / Banners / Content / Customer Service
	Paid Ads & Media Buying	Banners Design / Retargeting / Events

Figure 52 : Xiaohongshu strategy

Having a clear digital entry-strategy is an essential element for any business looking to tap into the Chinese market. Leveraging online channels to connect with consumers will help to increase the brand's reputation and ultimately improve the long-term performance in China. Typically, overseas brands and retailers have sold into China through big online marketplaces, although this best-known model did not fit smaller companies with low budgets. But today, Chinese cross-border shoppers are looking beyond marketplaces and are purchasing goods on retailer or brand owner standalone direct-to-consumer online stores, which offer them a greater level of personal engagement and a more authentic online shopping experience. Thanks to this recent trend, today foreign SMEz such as *Ferrino* have enormous opportunities in the biggest online market in the world as the amount of resources required is lower compared to the (historical) local trade via distributor, agent or local entity. With an initial fixed investment of 10.000 € to set up various accounts and an average spent of 8000 €/month for marketing campaigns, the Italian company will have its possibility to succeed in China without creating a local business license and presence.

FIXED COSTS		
WeChat Account Set Up Fee	10000 RMB	1.257 €
Weibo Account Set Up Fee	10000 RMB	1.257 €
Little Red Book Store Set Up Fee	35000 RMB	4.400 €
WeChat Store Set Up Fee	25000 RMB	3.142 €
TOTAL FIXED COSTS	**80000 RMB**	**10.056 €**
MONTHLY COSTS		
WeChat Management Fee (Per Month)	15000 RMB	1.885 €
WeChat Group Sharing (Per Month)	12500 RMB	1.570 €
Weibo Management Fee (Per Month)	15500 RMB	1.948 €
Little Red Book Management Fee (Per Month)	10000 RMB	1.257 €
Little Red Book Ad Spend (Per Month)	10000 RMB	1.257 €
TOTAL MONTHLY COSTS	**63000 RMB**	**7.917 €**

Figure 53: Total proposal strategy: costs and activities

When sales and results will arrive, the company will have to continue to invest in marketing and advertising to differentiate its online presence through various channels. Cross-border e-commerce is just the beginning of the entry strategy, and companies need to be aware that the costs involved in this process-implementation will be just a part of the total plan spent.

In the last decade consumer behaviors and technology platforms have evolved differently in China from the rest of the world and as consequence a disruptive digital revolution is happening right now. The idea of shopping for new generations will be completely different compared to what the previous ones have in mind. It is not just about the scale of e-commerce; the speed of adoption and the aggregation of the ecosystems let China became a country of mobile commerce in less than 5 years, largely thanks to the three giants *Baidu*, *Alibaba* and *Tencent*. These internet companies are reforming supply chain, distribution, marketing, product innovation etc. and consumers are giving back to those the power to know *what*, *how* and *when* they want to purchase. When the large Chinese base of mobile shoppers meets aggregated ecosystems, a sort of chemical reaction happens: today China is a huge laboratory generating all sort of experiments.

Most Chinese consumers are still very new in their middle-class lifestyles with a strong desire to buy and try recent goods and with this integrated ecosystem it is so easy for them to complete purchase click by click. It is now back to global business leader to open their eyes and see what is happening, reflect about it and take actions. A common misconception, and precursor to failure, is the assumption that a Western solution can be applied to a scenario in China without taking into account the very specific cultural considerations and differences in the digital landscape. But Companies such as *Ferrino* aiming to succeed in the online market need to understand the differences between Western and Chinese online lifestyle. Demographics, cultural differences and alternative buying patterns all play a part in e-commerce. Overseas brands must create a presence on their alternative search engines and platforms used to access online sites, otherwise they will not exist and there will not be any chance to gain market share.

China is a glimpse into the future.

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