

HOW TO SUCCEED WITH E-COMMERCE IN CHINA

Alibaba's online marketplace Tmall may have topped ¥120 billion in total gross merchandise volume (GMV) during the 24-hour Singles' Day shopping spree this year – but did you know that more than 85% of brands **DO NOT MAKE MONEY** on Tmall and other e-commerce platforms in China?

And here's why:

- **Most foreign brands are activated in China by accident** – Foreign brands are typically activated through offline networks, tourism, Taobao grey trade or unauthorised resellers, rather than by intention. As a result they face an uphill battle to convert Chinese consumers to their official flagship store and therefore fail to control traffic, revenue, search rank and market share. They often lack the infrastructure, talent and relationships that are needed to execute on the ground.
- **Many foreign brands try to use e-commerce platforms to activate their brand** – Tmall and other major e-commerce platforms are not designed for this purpose. They favour winners because they are driven by a number of key performance indicators (KPIs) such as earnings per impression (EPI), volume, popularity, growth rates, social rankings and store rankings, as well as acceptable usage policies (AUPs). Specific levels of brand awareness are therefore needed to generate sufficient revenue to break even or become profitable. Most foreign brands have not reached this level in China.
- **Brands can easily get lost or undervalued in China** – Foreign brands need to approach e-commerce expansion strategically and find the right marketplace for their brand and products. Poor decisions made overseas will have a direct and lasting impact on brand performance and pricing in China's e-commerce marketplaces.

The Chinese e-commerce environment is also subject to constant and rapid change. In April 2016, for example, the Chinese government made significant changes to the regulation of cross border e-commerce (CBEC) in the country, including a new tax policy and a list of products authorised to be imported via CBEC. Both changes could substantially impact participants in the supply chain of imported products through CBEC into China. Meanwhile, China has set up seven new free trade zones (FTZs) in September this year to bring the total number of free trade zones across the country to 11. Each zone is positioned differently to reflect the unique economic characteristics of the region.

As market entry specialists in China, we receive enquires every day from clients who are seeking to enter China's e-commerce space. They want to identify an e-commerce strategy that will enable them to enter Tmall or other e-platforms as a flagship brand. But typically they are confused and unprepared for the complexity of doing business in China. They do not understand how to approach the market or how to choose the right partner. They are also unsure whether their product has a fair chance of success.

Investors should have a clear market-entry strategy. A company's size, reputation, industry, region of origin and long term strategy need to be examined before making the move to the Chinese e-commerce market. There is no silver bullet to cut through the complexity and provide an immediate solution but to operate a successful Tmall flagship store there are three things that any company **MUST** get right:

- **Brand awareness**
- **Key account status**
- **Partner selection**

China's e-commerce ecosystem is highly dynamic. Sovereign has the experience and expertise to help design an effective e-commerce strategy that will account for this unique operating environment.

Topics and question we will answer:

- China's Free Trade zones and their impact on CBEC;
- The impact on the Circular on Tax Policy of CBEC Retail Imports;
- Brand protection beyond intellectual property (IP) and trade mark protection;
- How to control a T-mall store when you do not have a physical presence in China?
- Should I be on Tmall's or domestic platform?
- What does a Tmall partner do?

Do you have any questions?

To make the luncheon as valuable possible, please send us any questions you might have on this topic. We will review all the questions, prepare our answers and share them with you during the event.

Please send any questions to rgorris@sovereigngroup.com

Rundown:

- 11:45 - 12:00 Registration
- 12:00 - 12:30 Mark Ray
- 12:30 - 13:00 Josh Gardner
- 13:00 - 13:15 Q&A

Speakers:

About Mark Ray

Based in Shanghai China, Mark Ray is the Director of Sovereign China's consulting division. A seasoned business consultant, he helps his clients navigate through the complexities and nuances of China and offers them insights to crack and win in one of the world's most difficult markets.

About Josh Gardner

Co-Founder and CEO of Kung Fu Data, an ecommerce partner specialising in data analytics, brand control and business development inside China's largest e-marketplaces. Tenaciously objective and data driven, Josh spends his days helping consumer brands navigate tough situations in China, bringing third-party transparency and accountability to all stakeholders.