Inclusive growth drives consumption upgrading
China’s imported goods market research
China Chamber of International Commerce, Deloitte Research, AliResearch
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Inclusive growth drives consumption upgrading

Preface

The China International Import Expo (CIIE), an important window for China to show the world its strategy to expand opening up, gives unswerving support to trade liberalization and economic globalization. The spillover effect of the 1st CIIE in 2018 was reflected in the promotion of consumption upgrading, transformation of China’s trade structure, and empowering pillar industries through science and technology innovation.

In 2018, the consumer market contributed 76.2 percent growth to China’s GDP, making it the leading driver of China’s economic growth for a 5th consecutive year. Driven by the strategy of continuous opening up and strong domestic demand, China’s consumer market is taking a greater share of and contributing more to the global consumer market. In addition, China is becoming an important growth driver in the global consumer market. In our studies of China’s consumer market, we have observed three major trends:

• Consumption upgrading the main theme in China’s consumer market. As part of a wider national strategy, China is opening up its consumer market further to the outside world. The trend of upgrading consumption through personalization, diversification and quality continues to ferment among Chinese consumers, exemplified by increased consumption of imported goods. According to the survey by the Ministry of Commerce, Chinese consumers clearly hope to increase imports rather than reduce imports in the next six months. Safety, quality, and design are the key words most frequently mentioned by Chinese consumers in this context.

• The trend of inclusive growth of imported goods consumption is increasingly obvious. In the past year, it is not only tier-1 and tier-2 cities in China that have witnessed the consumption upgrading trend, but tier-3 to tier-5 cities and county areas (i.e. tier-5 cities or below) also being penetrated. These lower-tier cities are becoming a potential space for the growth of China’s consumer market for imported goods. Three factors are promoting the inclusive growth of consumption of imported goods in China: Positive national policies promoting rising incomes; internet popularization fostering gradually maturing consumption concepts, which are converging with those of tier-1 and tier-2 cities; and the expansion of cross-border e-commerce to extend the reach of imported consumer goods amid retail digitalization. Consumers in lower-tier cities are releasing demand for imported consumer goods through a new, cross-border, e-commerce consumption model.

• Innovation is facilitating overseas brands’ access to the Chinese market. Cross-border e-commerce platforms are rapidly optimizing how they cooperate with overseas brands across the world through digital optimization, and cross-border e-commerce platforms are becoming an important driver, spreading the inclusive growth of imported goods consumption. On one hand, cross-border e-commerce platforms are promoting overseas brands to accumulate consumption data, as well as build sales and new retail channels through digitalizing online and offline consumption scenarios. On the other hand, the overseas warehouse incubation model has been adopted to introduce limited volumes of high-quality small and mid-sized overseas brands. In addition, various channels and institutions have cooperated to establish a way to increase traffic and sales for e-commerce for content e-commerce, expanding content access channels and establishing a new marketing model under this retail trend.
Key findings

• China has become a growth driver in the global consumer market.
  Consumption has been the leading driver of China's economic growth for five consecutive years, and China's national strategy of continuing its opening up policy is making it a key growth driver in the global consumer market. According to World Bank statistics, China's share of its final consumer spending in the global consumer market has been expanding over the past 10 years. By the end of 2017, the share had increased to 10.9 percent growth, making China the world's second largest consumer market after the United States. Since 2019, the new import model of by cross-border e-commerce has made ties between China and the rest of the world much closer.

• Opening-up policy, digital applications and inclusive development becoming new drivers of China's import and consumer markets.
  Under the opening-up policy, China is actively adjusting tariffs on the one hand and lowering its threshold for foreign goods to enter the Chinese market on the other hand. China's retail sector has been reconstructed under the trend of digitalization around consumers, goods, markets and chains. Consumers in the tier-3 to tier-5 cities and counties areas (urban areas under tier-5) are releasing demand for the brands with added value and qualified imported consumer goods as the consumption concept in these regions matures, local income increases, and convenient, efficient e-commerce channels start to meet the lifestyle and shopping desires of people in these regions.

• The penetration rate of cross-border e-commerce in county areas is growing
  China's consumer market for imported goods is developing towards "universal benefits"; the consumer market in county areas is gaining momentum and becoming a new, promising incremental segment. According to Tmall data, the penetration rate of cross-border e-commerce in China's county areas increased from 1 percent growth in 2014 to 7 percent growth in 2018. People from China's tier-3 to tier-5 cities and county areas now represent 45 percent growth of consumers, with county-area buyers of cross-border e-commerce goods increasing to 23 percent growth or more than a fifth of the total.

• Varieties of imported consumer goods are increasing, with beauty and cosmetics ranking 1st in the China's market
  Cross-border e-commerce has been growing rapidly in the Chinese market, driven by consumption upgrading, and consumer goods availability has expanded from maternal and infant goods to multiple segments. Cross-border e-commerce consumption has four significant characteristics: rapid growth of beauty and individual care goods; increasing expenditure on pet goods and digital appliances; rising consumption of popular overseas brands and clothing; and diversified consumption in county areas. The market for beauty and cosmetics shows steady growth, accounting for 32 percent growth of cross-border e-commerce goods consumption.
Inclusive growth drives consumption upgrading

**Key findings**

- **The Silver market (60 years old or older) shows vast potential**
  China’s Silver market has the largest potential in the world, and "grey hair" consumers are becoming a noticeable engine of cross-border e-commerce development. Chinese Silver consumers mainly buy health management and health maintenance products, and daily necessities, through cross-border e-commerce, within which healthcare product, daily necessity and food expenditure takes a relatively large share. In particular, healthcare products account for more than 30 percent growth of annual Silver cross-border e-commerce goods consumption.

- **Livestreaming on e-commerce platforms playing a vital role**
  With the gradual maturity of the livestreaming business model and the industry entering a new stage of development, a business model combining e-commerce and livestreaming has become a new industry driver. According to Tmall Global, the audience browsing goods on Tmall through Taobao livestreaming increased from 8.55 million in 2018 to 35.03 million in 2019, and the number of consumers motivated to buy goods they saw on taobaolive.taobao.com increased from 445,000 in 2018 to 2.36 million in 2019. GMV generated through Taobao livestreaming sessions, meanwhile, increased from RMB61.59 million in 2018 to RMB 470 million in 2019, showing explosive growth. In particular, beauty, cosmetics and healthcare products saw sharp growth.

- **Cooperation between cross-border e-commerce platforms and overseas brands is constantly being optimized**
  After a long breaking-in period, the cross-border e-commerce platform/overseas brand cooperation model is being optimized and updated across application scenarios, brand operations and sales. First, China's e-commerce platforms are helping overseas brands gain a deep understanding of Chinese consumer data, build channels with rapid growth in performance, as well as enhance brand awareness and reputation through vertical, refined operations combining offline and online consumption. Second, the overseas warehouse model has helped small, high-quality overseas brands that are temporarily unable to open flagship brand stores online enter the Chinese market. Finally, an e-commerce content filtering mechanism has been established that combines multiple channels and organizations, there are more channels for audiences to reach e-commerce content, and a new marketing model influenced by retail industry trends has been established.

- **Niche brands have good opportunities to enter the Chinese market**
  Overseas brands can adopt short-term yet highly efficient strategies with flat structures when entering the Chinese market, making full use of modern scientific and technological management tools utilizing big data, cloud computing and AI. As an important means to improve their operational efficiency, a new, digitalized and asset light model can help niche brands escape tedious daily tasks to focus on their core businesses and market development, which in turn promotes their rapid business growth.
Chapter I
Digitalization fuels China’s consumer market to realize inclusive growth

1.1 Domestic demand drives global economic development

1.1.1 China to remain a growth driver in the global consumer market

Today, the Chinese market offers more abundant goods and services than ever before, with consumption constantly expanding. In 2018, total retail sales of social goods in China’s consumer market reached RMB38 trillion yuan (about USD5.38 trillion), up 9.0 percent growth year-on-year, or 6.9 percent growth is price changes are factored out (all changes listed in following paragraphs are nominal unless otherwise noted).

Consumption has been the most powerful driver of growth in China’s economy for five consecutive years. In 2018, final consumption expenditure contributed 76.2 percent growth of GDP. Tier-3 to tier-5 cities and county areas are giving new impetus to China’s consumer market growth. In the coming three years, China’s share of the world’s consumer market will continue to rise.

Figure 1-1: Retail sales growth in China and the US

<table>
<thead>
<tr>
<th>Year</th>
<th>US sales of retail goods, food and services (month-on-month)</th>
<th>Retail sales of consumer goods in China</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-09</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014-11</td>
<td></td>
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<td>2015-01</td>
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<td>2015-05</td>
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<td>2015-07</td>
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<td>2015-09</td>
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<td>2016-01</td>
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<td>2016-05</td>
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<td>2016-07</td>
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<td>2016-09</td>
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<td>2017-01</td>
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<td>2017-05</td>
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<td>2017-07</td>
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<td>2017-09</td>
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<td>2019-03</td>
<td></td>
<td></td>
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<tr>
<td>2019-05</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Wind, Deloitte Research
Inclusive growth drives consumption upgrading | Chapter 1 Digitalization fuels China's consumer market to realize inclusive growth

China's consumer market, driven by the national strategy of continuous opening up to the outside world, as well as strong domestic demand, is becoming an important growth driver in the global consumer market. According to the World Bank, China's share of global final consumption expenditure has been expanding for the past decade. The latest available figures show China's share rose from 5.5 percent growth in 2009 to 10.9 percent growth in 2017. During this period, China surpassed Japan and Germany to become the world's 2nd largest consumer after the United States.

At the same time, China is integrating further with the global market under the opening up strategy. In recent years, China's consumer market for imported goods has been innovating business models using science and technology. Emerging import models, with cross-border e-commerce the most obvious feature, are connecting Chinese consumers with goods imported from across the world. By 2020, China is expected to have more than 200 million consumers of cross-border goods.

1.1.2 China's market for cross-border e-commerce consumer goods is growing steadily
China's consumer market for imported goods has expanded in recent years, with cross-border e-commerce becoming another powerful force for growth. On one hand, China has laid good foundations for online consumption. With more than a decade of market education, China's e-commerce sector is far ahead of the rest of the world in terms of total e-commerce sales, although the penetration rate of imported goods in the local market is lower than those of developed countries. On the other hand, with upgrading domestic consumption, Chinese consumers' demand for high-quality, personalized and diversified goods continues to grow. Cross-border e-commerce emerged at the perfect moment to meet Chinese consumer demand for a better life.
Inclusive growth drives consumption upgrading | Chapter 1: Digitalization fuels China’s consumer market to realize inclusive growth

**Figure 1-4: Retail ecommerce sales and growth by country**

<table>
<thead>
<tr>
<th>Country</th>
<th>2018</th>
<th>2019E</th>
<th>% change yoy</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>2,500</td>
<td>3,000</td>
<td>20.00%</td>
</tr>
<tr>
<td>US</td>
<td>1,500</td>
<td>1,800</td>
<td>20.00%</td>
</tr>
<tr>
<td>UK</td>
<td>1,000</td>
<td>1,200</td>
<td>20.00%</td>
</tr>
<tr>
<td>Japan</td>
<td>500</td>
<td>600</td>
<td>20.00%</td>
</tr>
<tr>
<td>South Korea</td>
<td>300</td>
<td>360</td>
<td>20.00%</td>
</tr>
<tr>
<td>Germany</td>
<td>200</td>
<td>240</td>
<td>20.00%</td>
</tr>
<tr>
<td>France</td>
<td>100</td>
<td>120</td>
<td>20.00%</td>
</tr>
</tbody>
</table>

Source: Emarketer, Deloitte Research

The volume of retail goods imported through cross-border e-commerce continues to rise as China's favorable policies are promoted. In July 2019, the State Council added several pilot cities to the existing 35 pilot zones for cross-border e-commerce, as well as adjusted and expanded the list of imported goods allowed to be retailed through cross-border e-commerce.

This attracted international brands to launch new products in China, which in turn boosted consumption as well as upgraded China’s consumer goods industry. According to China Customs’ cross-border e-commerce management platform, compound growth in the consumption of imported goods through cross-border e-commerce has reached 76 percent growth. In 2018, goods imported into China via cross-border e-commerce reached RMB 78.58 billion in total. In the first half of 2019, the value of retail goods imported through cross-border e-commerce reached RMB 45.65 billion, up 24.3 percent growth year-on-year.

**Figure 1-5: Goods imported into China via cross-border e-commerce from 2015 to 1H2019**

Source: Cross-border e-commerce management platform of China Customs, Deloitte Research
1.2 Drivers of China’s consumer market for imported goods

1.2.1 China’s consumer market for imported goods has entered a golden age, encouraged by favorable policies.

China is optimizing its consumption policies on imported goods, actively expanding imports on the one hand and lowering the threshold for foreign goods to enter the Chinese market on the other. In recent years, China has cut import tariffs several times, meeting or even exceeding World Trade Organization (WTO) requirements for developing members in this regard. By 2018, China's average tariff had dropped from 15.3 percent growth, the level when it joined the WTO, to 7.5 percent growth.

China has sharply reduced import taxes on automobiles and pharmaceuticals. China has so far signed 18 free trade agreements. Discussions on another 13 free trade agreements are ongoing. Some 24 countries and regions are involved in free trade agreements in force or being implemented, and imports of more than 8,000 types of goods have zero tariffs. In addition, China is culling the categories of goods subject to import quotas and striving to make trade in overseas goods more convenient. In 2018, China’s overall customs clearance procedures were reduced by 56.36 percent growth. In the latest World Bank cross-border trade business climate index(2019), China jumped from 65th to 56th.

China's cross-border business has developed rapidly since the introduction of favorable policies for cross-border e-commerce. In 2018, China added 22 comprehensive pilot zones for cross-border e-commerce. It now has 37 pilot cities for cross-border e-commerce retail goods imports. In the same year, China added 63 retail goods to its list of those allowed to be imported through cross-border e-commerce. At this year’s Two Sessions (Chinese People's Political Consultative Conference and National People's Congress), Premier Li Keqiang announced a cut in China's VAT rate from 16 percent growth to 13 percent growth, which came into effect on 1 April. The comprehensive tax rate on retail goods imported through cross-border e-commerce will soon be reduced accordingly.

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**Figure 1-6: New policies on cross border retail goods proposed in January 2019**

<table>
<thead>
<tr>
<th>Higher trading limit</th>
<th>Changes to goods categories</th>
<th>Added new pilot cities for retail goods cross-border e-commerce imports</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Higher single purchase limit</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RMB 5,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>RMB 2,000</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Higher annual purchase limit</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RMB 26,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>RMB 20,000</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Goods with strong consumer demand included in list of allowable consumer goods</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>63 tariff items.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>List expanded to 1,321 8-digit tariff items.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sparking wine</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Malt beer</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Telescopes</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Video game consoles</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Ski boots</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Razor blades, etc.</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sparkling wine</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Malt beer</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Telescopes</strong></td>
<td></td>
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</tr>
<tr>
<td><strong>Video game consoles</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Ski boots</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Razor blades, etc.</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>37 pilot cities are now open for retail goods cross-border e-commerce imports</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Hohhot City</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Shenyang</strong></td>
<td></td>
<td></td>
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<tr>
<td><strong>Nanchang</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Changsha</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Nanning</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Guiyang</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Kunming</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>22 cities in Xi’an</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Ministry of Commerce, Ministry of Finance, Deloitte Research
Industry and consumers now much more confident: The Chinese government’s sound import and consumption policies have boosted the confidence of imported goods players and the enthusiasm of consumers. Sales of many categories of consumer goods, including aquatic products, seafood, fruit and vegetables, and shoes, have grown sharply over the past two years as a result of China’s policies. At the same time, Chinese consumers’ desire for diversified, personalized and quality imported goods has been fully met and released.

According to the Statistical Survey and Analysis Report on Demand for Major Goods released by the Ministry of Commerce in July 2019, suppliers and consumers alike favor increasing imports over reducing imports. Amid consumption upgrading, what Chinese consumers want from various categories of imported goods is also evolving. Safety, quality and design are mentioned most frequently by Chinese consumers. Chinese consumers are most concerned about safety when buying imported foods (90 percent growth), mother and baby products (89.5 percent growth) and cosmetics (71.3 percent growth). They are more concerned about quality when it comes to imported furniture and home decorations (69.7 percent growth) and sports and leisure goods (67.2 percent growth). In imported glasses and jewelry, Chinese consumers pay most attention to design, at 79.9 percent growth and 83.6 percent growth, respectively. When it comes to imported clothing, footwear and hats, Chinese consumers’ are focused on price, with 70 percent growth consumers saying this is the most important factor in purchase decisions.

Source: General Administration of Customs, Deloitte Research
Figure 1-8: Chinese consumers' preferences when buying imported goods (2019)

<table>
<thead>
<tr>
<th>Concerns</th>
<th>Categories that cannot be supplied by domestic makers</th>
<th>Import intentions in the next half year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Food</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Safety</td>
<td>Fresh fruits, seafood and fresh milk</td>
<td>+</td>
</tr>
<tr>
<td>Price</td>
<td></td>
<td>&gt;&gt;</td>
</tr>
<tr>
<td>Raw materials</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td><strong>Clothing, footwear and hats</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Price</td>
<td>Sports shoes, casual wear and sportswear</td>
<td>+</td>
</tr>
<tr>
<td>Style</td>
<td></td>
<td>&lt;&lt;</td>
</tr>
<tr>
<td>Fabric</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comfort</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Maternal / infant items</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Safety</td>
<td>Infant milk powder, supplementary food for infants, infant diapers and children's toys</td>
<td>+</td>
</tr>
<tr>
<td>Raw materials</td>
<td></td>
<td>&gt;&gt;</td>
</tr>
<tr>
<td><strong>Household furniture / home decoration items</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quality</td>
<td>Pots and kitchen hardware</td>
<td>+</td>
</tr>
<tr>
<td>Safety</td>
<td></td>
<td>&gt;&gt;</td>
</tr>
<tr>
<td><strong>Toiletries</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Safety</td>
<td>Skin care products, cosmetics and perfume</td>
<td>+</td>
</tr>
<tr>
<td>Quality</td>
<td></td>
<td>&gt;&gt;</td>
</tr>
<tr>
<td><strong>Cultural, education, sports and leisure items</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quality</td>
<td>Outdoor equipment and fitness equipment</td>
<td>+</td>
</tr>
<tr>
<td>Safety</td>
<td></td>
<td>&gt;&gt;</td>
</tr>
<tr>
<td><strong>Electric and electronic items</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Functions</td>
<td>Water purifiers, household cleaning robots and air purifiers</td>
<td>+</td>
</tr>
<tr>
<td>Safety</td>
<td></td>
<td>&gt;&gt;</td>
</tr>
<tr>
<td><strong>Clocks, watches and glasses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Design</td>
<td>Watches and sunglasses</td>
<td>+</td>
</tr>
<tr>
<td>Price</td>
<td></td>
<td>&gt;&gt;</td>
</tr>
<tr>
<td>Materials</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Jewellery</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Design</td>
<td>Diamond jewellery, pearl and jade ornaments and gold ornaments</td>
<td>+</td>
</tr>
<tr>
<td>Price</td>
<td></td>
<td>&gt;&gt;</td>
</tr>
<tr>
<td>Materials</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Ministry of Commerce, Deloitte Research
1.2.2 China a testing ground for international brands to realize digital transformation.

The imported retail sector is being rebuilt, with a focus on consumers, goods and markets. Amid digitalization, the general trade consumer market for imported goods faces growing challenges from consumers who desire a more efficient, convenient shopping experience and personalized goods, among other things. Across the industry chain, brand owners, retailers and logistics providers are making their operations more efficient through digitalization, as well as striving to obtain online and offline data, to provide consumers with a more colorful and hassle-free shopping experience.

For brand owners, digitalization helps predict consumer demand, facilitate personalized marketing and purchase experiences and intelligent customer services, as well as continuously and effectively engage consumers in the process.

User-oriented, digitalized operations can efficiently and conveniently meet consumers’ latest demands for personalized, unique shopping experiences. New era consumers attach equal importance to products and the shopping experience. Imported goods retail market players can better understand individual consumer’s demands and provide unique goods and services that satisfy them.

Retailers can make full play of their goods and outlets through digitalization. For example, intelligent shelves can assist in payments, inventory, promotion and pricing, and technology can be used to optimize store locations, in-store shopping experiences and staffing levels.

In the digital era, consumers enjoy more product choices and convenient shopping experiences, with choosing how to shop becoming just as important as deciding what to buy. Digitalization can ease consumer issues in the product search process (including information asymmetry) and barriers to shopping (such as number of outlets). It also helps enterprises implement strategic decisions from online pilot sales to offline sales. Take Costco and ALDI, for example. The former is a conventional offline membership warehouse retail supermarket in the United States and the latter is a German chain store. Both have devised offline strategies based on the data they accumulate online. In 2014 and 2017, Costco and ALDI met Chinese consumers through overseas flagship stores on Tmall Global. After both overseas retailers’ online channel sales matched their expectations, they opened offline stores in Shanghai in 2019. In the digital era, consumers enjoy more product choices and convenient shopping experiences, with choosing how to shop becoming just as important as deciding what to buy. Digitalization can ease consumer issues in the product search process (including information asymmetry) and barriers to shopping (such as number of outlets). It also helps enterprises implement strategic decisions from online pilot sales to offline sales. Take Costco and ALDI, for example. The former is a conventional offline membership warehouse retail supermarket in the United States and the latter is a German chain store. Both have devised offline strategies based on the data they accumulate online. In 2014 and 2017, Costco and ALDI met Chinese consumers through overseas flagship stores on Tmall Global. After both overseas retailers’ online channel sales matched their expectations, they opened offline stores in Shanghai in 2019.

In addition, digitalization has transformed supply chains.
Inclusive growth drives consumption upgrading | Chapter I Digitalization fuels China’s consumer market to realize inclusive growth

through intelligent pricing, intelligent delivery and warehouse storage, making them more efficient in the consumer market for imported goods.

Changing goods and consumer flows in the imported goods market are prompting brand owners to rebuild their supply chains, as well as enhance product quality, efficiency and network capacities, to cope with emerging demands. The consumer-centric transformation of delivery models will influence every layer of the supply chain, with various changes arising from the role, network and collaborative logistics models. Digitized e-commerce logistics has brought customer flow resources firmly to the front of logistics ecosystems. E-commerce logistics providers are building backbone networks by creating their own platforms or organizing platforms through which they offer high-quality, efficient mid-stage logistics services. At the same time, enterprises in the e-commerce logistics ecosystem are improving their background technology and advancing intelligent construction.

Figure 1-9: Schematic of the Cainiao Logistics Network ecosphere

1.2.3 Inclusive growth trend becoming a driver of China’s consumer market for imported goods.

During the first half of 2019, China’s consumer market maintained its development momentum, with tier-3 to tier-5 cities and county areas providing new growth drivers. By the end of 2018, the catchment areas of small and medium-sized cities (tier-3 to tier-5 cities and county areas) extended to 91.3 percent growth of China’s land area and 73.7 percent growth of its population. In 2018, their aggregate economic was RMB50.1 trillion, or 55.64 percent growth of China’s economic output.

Consumer demand in tier-3 to tier-5 cities and county areas has been unleashed thanks to the rising disposable income there. Stimulated by the national policies of cutting taxes to increase people’s income, shanty renovation and poverty alleviation policies, local people in tier-3 to tier-5 cities and county areas earn more year by year. Consumers in tier-3 to tier-5 cities and county areas are living under less pressure in living costs compared with their peers in tier-1 and tier-2 cities, and they have more disposable income and leisure time. The increasing income will release the consumption demand of the lower and middle-income families in those cities and areas to a considerable extent. By the end of March 2019, the monthly active users of the mobile version of Taobao and Tmall reached 721 million, increasing by 104 million year on year, of which 77 percent

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Figure 1-10: Regional and urban distribution of China’s cross-border e-commerce users

The penetration of cross-border e-commerce in China’s urban and county areas is increasing. According to Tmall Global, the cross-border e-commerce penetration rate in tier-3 to tier-5 cities and county areas increased from 1 percent growth in 2014 to 9 percent growth and 7 percent growth in 2018, respectively. Per capita consumption in county areas increased from RMB395 in 2014 to RMB465 in 2018. Of the 20 county areas with the greatest consumption of imported goods, 17 have per capita consumption that is higher than the average level in emerging tier-1 and tier-2 cities. The data also indicate that the consumption structure of tier-3 to tier-5 cities and county areas is upgrading. In the coming years, as more overseas brands expand market share in tier-3 to tier-5 cities and county areas, these areas’ consumer markets will add growth momentum to China’s overall consumer market for imported goods.

As the consumption concept in tier-3 to tier-5 cities and county areas is getting mature, local people’s income is increasing year by year and the convenient and efficient e-commerce channels have fully covered the consumers in those areas, consumers there are releasing their demand for the brands with a certain added value and high-quality imported goods. According to the data released by Tmall Global, users located in tier-3 to tier-5 cities and county areas accounted for 45 percent growth of the total number of users in China, of whom users of cross-border e-commerce goods in county areas accounted for as much as 23 percent growth.

growth users located in tier-3 to tier-5 cities and county areas. As the Internet penetration rate continues to rise in tier-3 to tier-5 cities and county areas, efficient and convenient e-commerce and retail brands will reach more regions and potential consumers. At the same time, e-commerce platforms and brand owners are able to explore new markets for growth.

Source: Tmall Global, Deloitte Research
**Figure 1-11: Penetration of cross-border e-commerce for imported goods (2014 to 2018)**

Unit: %

- Across China
- Tier-1 to tier-2 cities
- Tier-3 to tier-5 cities
- County areas

Source: Tmall Global, Deloitte Research

**Figure 1-12: Top 20 county areas in per capita consumption of imported goods vs. per capita consumption in other city tiers (2018)**

Unit: RMB

- Tier-1 Cities: RMB727
- Emerging Tier-1 Cities: RMB583
- Tier-2 Cities: RMB540
- Tier-3 Cities: RMB484
- Tier-4 Cities: RMB467
- Tier-5 Cities: RMB463
- County Area: RMB465

Source: Tmall Global, Deloitte Research
Chapter II
The cross-border e-commerce market's new landscape

Amid favorable state policies and the digitalization of consumption, recent years have seen a boom in cross-border e-commerce in China. It has penetrated all tier-1 and tier-2 cities, with consumption of imported goods in tier 3 to tier-5 cities developing rapidly. At the same time, as China’s consumer market for imported goods benefits more consumers, county areas have huge untapped momentum and are becoming a potential growth market. With the popularization of cross-border e-commerce in many regions of China, consumers are evidencing new vitality the following ways: 1. The penetration rate of consumer groups for imported goods is rising, and markets focused on women and Senior consumers continue to grow; 2. The available categories of imported goods are increasing, with beauty and cosmetic products witnessing the fastest growth, and household digital appliances and pet products two rising stars; 3. Consumer goods are being imported from more countries, with Japan and South Korea exporting a larger share to China; 4. Digitalization has enriched how imported goods are consumed, with live streaming + e-commerce and social media + e-commerce playing an important role in attracting consumers.

2.1 Imported goods are penetrating more consumer groups, driven by the trend of inclusive growth

2.1.1 Younger consumer groups of 30-years-old or below are now the main drivers of imported goods consumption

As the scale of China’s consumption of imported goods grows, imported consumer goods have gradually become an important element of family life in China. In cities at every level, per capita expenditure and purchase frequency of imported goods through cross-border e-commerce have maintained high growth rates for the past two years.

Figure 2-1: Per capita spending on imported goods through cross-border e-commerce (RMB)
In terms of age groups, the number of the consumers under 30-years-old is increasing, and they have become the major driver in consumption of imported goods through cross-border e-commerce. From 2014 to 2018, the proportion of annual payments for imported goods made by consumers under 30 increased from 13.6 percent growth to 44.1 percent growth. In coming years, as these consumers release more purchasing power, the overall scale of the consumer market for imported goods in China should witness sustainable growth.
2.1.2 Female consumers lead the imported goods consumption trend

The share of Chinese women in the consumption of imported goods has accelerated since 2014, reaching 73 percent growth in 2018. Females have become the major force in imported goods consumption in China. By age group, although women aged 30 to 59 are the main force in consumption of imported goods through cross-border e-commerce, those born after 1990 are rising as a proportion of total consumption, having reached 46.0 percent growth in 2018, injecting new energy and power into the growth of imported goods consumption in China.

Figure 2-4: Female consumers by age group (2014 to 2018)

![Graph showing female consumers by age group from 2014 to 2018](image)

Source: Tmall Global, Deloitte Research

Female consumers in county areas have become a new driver of growth in cross-border e-commerce. As the internet and mobile devices have spread across China, cross-border e-commerce in county areas has posted strong growth. Consumption by women at all regional levels is increasing, within which county areas have witnessed the most dramatic growth in recent years, moving from -2 percent growth in 2015 to 7 percent growth in 2018. County areas now have the fastest cross-border e-commerce consumption growth of all regional levels, clearly demonstrating the huge potential of female consumers in these areas.

Figure 2-5: Proportion and growth rate of consumption by female consumers by region level (2014 to 2018)

![Graph showing proportion and growth rate of consumption by female consumers by region level from 2014 to 2018](image)

Source: Tmall Global, Deloitte Research
2.1.3 Senior markets cannot be ignored. The “Grey Hair Group” (people aged 60 or older) is an important consumer segment in China whose contribution to the development of cross-border e-commerce cannot be ignored. China has a huge number of senior consumers who are contributing considerable growth to consumption of imported goods. By the end of 2018, China had 150 million people aged 65 or older, or 10.9 percent growth of the total. As China's population ages in the next 20 to 30 years, the market for products and services focusing on Silver consumers will develop rapidly. There is huge potential in this segment, and the market for Silver consumers has a bright future.

Figure 2-6: China's senior population and senior population as a proportion of total population (2011 to 2018; 100mn)

![Graph showing the growth of China's senior population and its proportion of the total population from 2011 to 2018.](image)

Source: Tmall Global, Deloitte Research

The Silver segment in China covers diverse goods, radiates across a wide range of areas and has an extensive industrial. In 2018, China's Silver consumers maintained positive growth rates in all product categories and in every regional market, within which pet products saw the most dramatic growth of more than 150 percent growth in each regional market. China has the largest market potential for Silver consumption, but has not released all that potential yet. In coming 5 to 10 years, China's Silver segment will usher in a “Golden Era” with rapid development, and the affluent members of the Grey Hair Group will contribute the biggest dividend to China's Silver segment.
Consumers in tier-1 and tier-2 cities taking the lead in China’s Silver segment. Since 2016, Silver consumers in tier-1 and tier-2 cities, tier-3 to tier-5 cities and county areas accounted from 65 percent growth, 20 percent growth and 10 percent growth, respectively, of the Silver segment’s consumption of cross-border e-commerce goods. As a larger proportion of seniors in tier-1 and tier-2 cities receive pensions, enhance their financial power and have more opportunities to access fresh goods and diverse consumption channels than their peers elsewhere in China do, and these Silver consumers in tier-1 and tier-2 cities will contribute the bulk of consumption in China’s Silver segment.

Figure 2-7: Geographical distribution of cross-border e-commerce consumption by Silver consumers (2014 to 2018)

Chinese Silver consumers’ purchases of cross-border e-commerce goods are dominated by disease management and healthcare products, and daily necessities. Food products also take quite a large share. In particular, Chinese Silver consumers’ expenditure on healthcare products represents more than 30 percent growth of their annual consumption of cross-border e-commerce goods.
Figure 2-8: Silver consumption of cross-border e-commerce goods by category (2014 to 2018)

By urban level, Silver consumers in 2018 generally had similar product preferences in tier-1 to tier 5 cities and county areas. Silver consumers in cities of every level favor healthcare products, beauty/cosmetics products, maternal/infant products, clothing and accessories.
Figure 2-9: Cross-border e-commerce goods preferences by city tier (2018)

Source: Tmall Global, Deloitte Research

Figure 2-10: Growth of cross-border e-commerce goods categories in China (2018)

Source: Tmall Global, Deloitte Research
2.2 Imported consumer goods are increasingly abundant.

Cross-border e-commerce is growing rapidly in China amid a wave of consumption upgrading, and cross-border e-commerce goods have expanded from maternal/infant products to ever more categories. Chinese consumers’ expenditure on cross-border e-commerce products has four significant characteristics: First, consumption of imported beauty/cosmetics products and personal care products is growing dramatically; second, consumption of pet products and household digital appliances is on the rise; third, consumption of overseas fashion clothing and accessories brands is increasing; fourth, consumption of cross-border e-commerce goods in country areas is diversifying.

Consumption of beauty and cosmetics products is growing more dramatically than all other cross-border e-commerce goods. Imported beauty/cosmetics and personal care products have become growth drivers of cross-border e-commerce in recent years. In 2014, imported beauty/cosmetics products represented only 20.8 percent growth of total consumption of cross-border e-commerce goods, but it has since risen at a stable rate, reaching 32 percent growth in 2018. There are two reasons for such dramatic growth: On one hand, the favorable policies implemented by the Chinese government fueled growth. In September 2016, the Ministry of Finance adjusted consumption tax and canceled or reduced the tax rate on cosmetics and skin care products, which greatly benefited sales of beauty/cosmetics and personal care products in China. On the other hand, growth being driven by the consumption upgrading trend in China. Chinese consumers, especially women, are more willing to pay more for beauty/cosmetics and skin care products. Maternal/infant products are the second most popular category of cross-border e-commerce goods. Although the proportion of maternal/infant products in annual cross-border e-commerce consumption in China has dropped somewhat, overall the maternal/infant market is still growing, and accounted for 19 percent growth of cross-border e-commerce consumption in 2018.

Household digital appliances and pet products are two rising stars. Since 2014, consumption of household digital appliances in China has maintained a growth rate of more than 100 percent growth. The unit price of household digital appliances increased from RMB360 in 2014 to RMB 835 in 2018, representing growth of 132 percent growth. The proportion of these products in overall consumption increased from 1.8 percent growth in 2014 to 6.3 percent growth in 2018, representing substantial growth. Pet products have risen to prominence in recent years, with their proportion of consumption rising from 0.1 percent growth in 2016 to 1.1 percent growth in 2018, representing a more-than 10-fold increase. Household digital appliances and pet products are now the fastest growing categories of cross-border e-commerce goods.
Clothing and accessory fashion brands have become a potential growth driver of cross-border consumption. With the rising consumption power of younger generations of Chinese consumers, consumers younger than 30 years old have become the main force in cross-border consumption. These younger Chinese consumers tend to have more diverse preferences and more personalized tastes. They pay more attention to design that fits their personal aesthetic and is of excellent quality. Clothing and accessory fashion brands from home and abroad meet their consumption needs. In recent years, accessible luxury categories have been booming in China. In addition, international fashion brands are all veterans in marketing, which makes their clothing and accessories more attractive topics and more popular among cross-border consumers. Consumption of fashion brands at Tmall Global has increased steadily. The unit price of imported clothing rose from RMB517 in 2014 to RMB694 in 2018, representing an increase of 34 percent growth. As the Chinese market for clothing and accessory fashion brands becomes increasingly prosperous, it should have a promising future.

Consumers in county areas tend to consume diverse categories of imported goods. In 2018, consumers in county areas of China were more accepting of imported consumer goods than ever before. Previously popular imported categories, such as maternal/infant products, medical care products and clothing/accessories are decreasing, while household digital appliances, large household furniture and large food products are increasing, as a proportion of total consumption.

In county areas, consumption of household digital appliances rose from 0.9 percent growth of total imported consumer goods consumption in 2014 to 4.9 percent growth in 2018, a more than 5-fold increase. In addition, consumption of pet products increased substantially, rising from around 0 percent growth in 2014 to 0.49 percent growth in 2018. Moreover, beauty/cosmetics products, mirroring the rise of the cross-border e-commerce consumer market overall, saw substantial growth in its share of imported goods consumption in county areas. As county areas in China release stronger consumption power, their consumption structure is becoming more diverse, with consumption of all categories of imported goods showing sharp growth.

Source: Tmall Global, Deloitte Research
2.3 China imports consumer goods from a growing number of countries/regions.

China importing consumer goods from more countries. As early as 2014, the share of major countries/regions in total cross-border e-commerce goods imports into China began to decline, falling from 90.4 percent growth in 2014 to 86 percent growth in 2018. This reflects a rise in imports from non-major countries that already contributed to China’s cross-border e-commerce, as well as the fact that China is importing consumer goods from a wider range of countries. Furthermore, these changes suggest China is expanding the range of products that are imported via cross-border e-commerce. In 2019, nearly 22,000 overseas brands across 4,300 categories and from 78 countries entered the Chinese market through Tmall Global alone. More than 80 percent growth products are first time to enter the Chinese market. More diversified import sources are benefiting from the development and popularization of cross-border e-commerce platforms as well as lower barriers to cross-border trade.

Figure 2-13: Proportion of major origin countries/regions (2014 to 2018)

Source: Tmall Global, Deloitte Research
Imports from Japan and South Korea taking a larger share.

Imports from Japan and South Korea are taking a larger share, although the share of imports from major origin countries generally declined. One reason for this change is the trend in consumption of cross-border goods in the Chinese market, which is focused on imports from Japan, the United States, Australia, Germany and South Korea. Chinese consumers are particularly keen on skincare products from Japan and South Korea, which has boosted these products’ share, as well as the share of Japanese and South Korean imports, in cross-border e-commerce goods consumption.

**Figure 2-14: Change in shares of Japan and South Korea (2015 to 2018)**

![Graph showing changes in shares of Japan and South Korea (2015 to 2018)](image)

Source: Tmall Global, Deloitte Research

### 2.4 Imported goods consumption patterns driven by digitalization trend

Livestreaming + e-commerce leads new consumption patterns, playing a major role in attracting consumers. As the business model of livestreaming industry matures, the entire industry has entered a new stage of development, with more content and forms emerging and expanding market scale. The "e-commerce + livestreaming" model has become a new force in the industry.

From 2018 to 2019, the livestreaming industry in China witnessed dramatic growth in audiences viewing consumer goods, audience members buying consumer goods and related payments. According to Alibaba, between 2018 and 2019 the audience browsing goods on Tmall Global via Taobao livestreaming surged from 8.55 million to 35.03 million, the number of audience members inspired to purchase products by Taobao livestreaming rose from 445,000 to 2.36 million, and GMV generated through Taobao livestreaming sessions soared from RMB61.59 million in 2018 to RMB470 million. Beauty/cosmetics and healthcare products saw particularly explosive growth.
Inclusive growth drives consumption upgrading

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Figure 2-15: Audience viewing Tmall Global products via Taobao livestreaming (Unit: 10,000 people) (Recent three months in 2019 vs. same period in 2018)

Source: Tmall Global, Deloitte Research

Figure 2-16: Audience members directed to purchase goods by Taobao livestreaming (Unit: 10,000 people) (Recent three months in 2019 vs. same period in 2018)

Source: Tmall Global, Deloitte Research
Livestreaming has made a breakthrough in attracting audiences, with related consumption of household digital appliances and large household furniture growing rapidly. From 2018 to 2019, the audience viewing and buying household digital appliances and large household furniture at Tmall Global via livestreaming witnessed extraordinarily fast growth, rising 4,066.8 percent growth and 4,131.4 percent growth, respectively, reflecting the tremendous potential of these categories.

Livestreaming hosts typically recommend products and promotions to their fans. These recommendations ease the resistance of potential consumers who might otherwise hesitate to place an order. Livestreaming has become an important channel for increasing household digital appliance and large household furniture sales. Some brands have integrated their shopping guides livestreaming with customer services, aiming to solve consumers' pre-sales and after-sales issues efficiently. Several well-known brands have built their own livestreaming studios, prompting explosive growth in their sales in 2019.

Social e-commerce a new trend in online shopping. As social media platforms' shopping functions have improved, they have become more than just an advertising channel, allowing consumers to conveniently buy whatever they have chosen on social media. Many international social media channels have added shopping buttons and substantially improved their social marketing functions.

Social platforms, we media and new media in China have also launched advertising and shopping channels to expand their means to transform watchers into buyers. Directing audiences to stores on social medial platforms and endorsing brands have emerged as a new channel for e-commerce shopping. For consumers, social media e-commerce not only allows them to choose the right stores to buy from and compare products when placing orders, but also facilitates communication and interaction with e-tailers through instant messaging as they shop, as well as the sharing of comments and shopping experiences post-purchase. These new models integrating social relationships with e-commerce will more deeply stimulate and fuel the growth of consumption.

Consumers tend to use social e-commerce platforms to obtain consumption guidance on beauty/cosmetics products and information on how to use them. Sports goods and gourmet foods are also main attractions for e-commerce platform users. With the emergence of a new social era and the evolution of AI and other technologies, social communication tools will arise that more efficiently and directly match consumers and goods.
Inclusive growth drives consumption upgrading | Chapter III Routes and strategies for overseas brands to enter the Chinese market

Chapter III
Routes and strategies for overseas brands to enter the Chinese market

3.1 China is becoming a center from which overseas brands can radiate across Asia Pacific and even worldwide

As we mentioned in our report last year, cross-border e-commerce, unlike conventional commerce, provides an open, efficient route for overseas brands to develop in the Chinese market. Cross-border e-commerce, as an emerging business model with rapid development in recent years, helps overseas brands access Chinese consumers more effectively and efficiently, supported by China’s further opening up and innovation policies. Overseas brand owners in beauty/cosmetics, personal care, maternal/infant products, healthcare, clothing/accessories and household digital appliances have realized explosive growth in the Chinese market.

Cross-border e-commerce has become a key node in the process of expanding across Asia Pacific markets. With the ever-rising status of Chinese consumers in global imported goods consumption, China is becoming a strategic stronghold for overseas brands to deploy their strategies across Asia Pacific. Several cross-border e-commerce companies in China have built up global supply chain networks for imports through overseas warehouses, helping more overseas brands sell products around the world. The overseas warehouse project of Tmall Global, for example, is closely integrating LAZADA, an online shopping website in Southeast Asia, with Tmall’s export business. This integration not only helps Chinese exports to overseas markets, but also benefits Japanese and South Korean brands’ sales in Southeast Asia.

Innovation and development of cross-border e-commerce. Driven by new technologies, cross-border e-commerce platforms are rapidly optimizing their cooperation with overseas brands across the world. As we also mentioned last year, the bonded model, direct mail model, B2B e-commerce platforms and direct purchases at e-commerce platforms (self-operated platforms) are the main ways overseas brands can enter the Chinese market through cooperation with cross-border e-commerce platforms. In 2019, with the support of China’s national strategy of further opening up its markets, as well as policies on cross-border e-commerce, cross-border e-commerce platforms are innovating and developing in China, offering more ways for overseas brands to enter the market.

Innovation I: Operators of cross-border e-commerce platforms have various platform advantages, including the ability to predict market trends; insights about consumer groups; changing shopping behavior, full-link operations and 360-degree marketing; opening direct-sale shopping malls and stores for imported daily necessities, food, beauty/cosmetics and other categories; and expanding brands’ offline direct-sale models. Cross-border e-commerce operators help overseas brands accumulate consumption data and build channels for rapid growth in performance, as well as establish base stations for brand construction through the vertical, refined operation of integrated online-offline consumption scenarios.

Figure 3-1: New retail empowers direct sales

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Source: Deloitte Research
Innovation II: Cross-border e-commerce platforms are incubating high-quality small and medium-sized overseas brands that want to enter the Chinese market, as well as pilot sales of new brands by multinationals, through overseas warehouses. On one hand, this model means more quality products that are popular globally can be introduced to Chinese consumers. On the other hand, it is a new route to the Chinese market for small, high-quality brands that are not strong enough to invest in an independent online flagship store on ecommerce platform. Tmall Global, for example, has opened direct purchase routes through warehouses in the United States, Japan and South Korea.

Innovation III: Multi-channel, multi-organizational e-commerce content drainage mechanisms expand the ways in which consumers can touch e-commerce content, and are establishing a new marketing model. According to data from Tmall Global, more than 13,000 beauty products generating up to RMB40 billion can be sold during just a single hour of livestreaming by influencer Viya. Under the influencer incubator model, new products can experience massive surges in sale, with more than 4,000 products once sold in a single minute through one influencer’s channel. As the content of e-commerce platforms in China develops rapidly, the interactive content-based sales helps brands to interact more with users and guide consumption decisions. Contemporaneously, this model helps users estimate the value and effect of goods promoted on e-commerce platforms, ensuring value-for-money purchases and emotional satisfaction. Several content channels, including livestreaming, MicroBlog and xiaohongshu.com, are cooperating to create a storefront for brands across the world.

**Figure 3-2 Tmall Global’s influencer incubator model**
3.2 Incubation and real deal of overseas brands

The development path of newcomers can be divided into three steps: Step 1, use cross-border e-commerce platforms as marketing channels in China and try to enter the market with several product collections, thereby building influence in the Chinese market and further exposing its brand and products through various marketing methods; Step 2, formulate a multi-channel, multi-category development strategy based on cross-border e-commerce, then expand its offline business by integrating this with conventional trade; Step 3, complete all the procedures to upgrade its business model through new retail channels, realizing integrated online-offline store operations.

3.2.1 How overseas brands of different maturities can enter the Chinese market

The development path of newcomers can be divided into three steps: Step 1, use cross-border e-commerce platforms as marketing channels in China and try to enter the market with several product collections, thereby building influence in the Chinese market and further exposing its brand and products through various marketing methods; Step 2, formulate a multi-channel, multi-category development strategy based on cross-border e-commerce, then expand its offline business by integrating this with conventional trade; Step 3, complete all the procedures to upgrade its business model through new retail channels, realizing integrated online-offline store operations.

Typically, the abovementioned development route happens gradually over three to five years. Even as overseas enterprises realize initial development in China, the ever-changing Chinese market landscape will create new challenges and opportunities in further development:

### Refining consumer-oriented operations
After successfully creating "hot products", overseas brands need to continuously understand consumers' mind-sets to improve their operations and development. For a mature brand, this process is as follows: First, build up brand image in shoppers' consciousness; second, establish a membership system and e-commerce marketing; third, create proprietary in consumers' minds.

### Brand asset management
As awareness of a brand improves, market competition becomes

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**Figure 3-2: Development routes for overseas brands to enter the Chinese market**

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<tr>
<th>Newcomers</th>
<th>Mature brands already settled in China</th>
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<td><strong>Platform</strong></td>
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<td>+ Distribution online</td>
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Source: Deloitte Research
increasingly fierce. At this point, a brand may encounter the problem of fake products. To combat this, it needs to gradually integrate its sales strategies, regulate sales and protect brand assets through internal rules and regulations and the legal system.

**Room for growth will shrink gradually:** A brand will often see weakening growth after a period of momentum and policy dividends. At this point, a mature brand has to find a new niche for growth in the Chinese market. It could choose to promote product research and development efforts based on regional consumption characteristics.

### 3.2.2 Niche brands become more competitive by adopting asset-light, digital transformation strategies.

With the further opening up of the Chinese market for imported consumer goods, an increasing number of niche brands have opportunities to access it. However, a small or medium-sized overseas brand faces three tough problems in China's fiercely competitive market. First, a niche brand may be uncertain about how it should enhance its competitiveness. Compared with big brands, niche players have limited investment available for brand promotion. Second, niche brand can encounter tax risks and other compliance challenges. Enterprises importing to and exporting from China through cross-border e-commerce platforms will face challenges in complying with related laws, rules and regulations. Furthermore, niche brands can come under operating cost pressure during their initial sorties into the Chinese market.

To cope with these problems, asset-light, digital transformation strategies are a powerful solution to branding, compliance and operational problems:

To boost brand competitiveness, an overseas brand can shorten its China market entry, circulation and feedback cycle by using functions provided by e-commerce platforms, such as accurate portraits of mass consumers, consumption touchpoints and rapid data feedback, thereby having a more targeted, convenient approach to market and reducing trial-and-error cost.

To comply with cross-border laws, an overseas brand first needs to analyze the influence of different import models in the context of its own business; second, it needs to determine customs classifications according to the specific attributes of different products and select a business model that suits the laws, rules and regulations on import consumption; third, it needs to establish an effective communication channel with customs departments to ensure the smooth development of its import business; finally, the overseas brand needs to establish a good communication platform with customs authorities and select a bonded warehouse to implement its plans.

To cope with operating cost pressure, a niche brand can adopt an intelligent management platform using big data, cloud computing, AI and other intelligent technology, allowing it to focus on branding and market construction. This improves the operating efficiency of small and medium-sized overseas brands.

The management of a niche brand can escape tedious daily issues and focus on its core business by using a multi-dimensional, one-stop digital platform integrating various intelligent functions, including finance, reimbursement, HR, supply chain, tax and business intelligent, thereby speeding up growth. When entering China's massive market, overseas brands should make full use of scientific and technological management tools and adopt effective, efficient strategies to cope with internal and external challenges that arise at different business stages to ultimately achieve rapid growth.
Case studies

**Asset-light operation strategy**

Dr. Ci:Labo (Cheng Ye Yi Sheng in Chinese) is a Japanese cosmeceutical brand of Johnson & Johnson. In 1995, Dr. Ci:Labo was officially launched in China. At first, it was for patient use only. Later, Dr. Ci:Labo expanded its skin care product family with the aim of offering a worry-free skin care experience to more consumers. Cosmeceuticals is a relatively mature concept in Japan and South Korea and other Asian markets, but was just at the start of its explosive growth in the Chinese market.

In February 2017, Dr. Ci:Labo accessed Tmall Global to conduct cross-border trade. This shortened its branding process and saved its time and manpower costs in the Chinese market. Over time, this emerging overseas brand accumulated digital assets by focusing on consumers and using various asset-light models, such as depositing data with online e-commerce platforms and building a new brand through online and offline scenarios. According to the latest data from Tmall Global, Dr. Ci:Labo is now its No. 1 ranked beauty/cosmetics brand. With more than a dozen SKUs, Dr. Ci:Labo's sales volume increased 15-fold in three months. In 2019, its annual retail sales are expected to reach RMB 1 billion. Encouraged by the success of Dr. Ci:Labo, parent company Johnson & Johnson decided to establish its overseas flagship store on Tmall Global, since which time another five of its brands have been introduced into China.

**Digital transformation**

Little Freddie is a medium-sized British organic infant food brand. Its finished auxiliary food was well-positioned to find favor among Chinese families due to the increasing number of people born in the 1980s and 1990s having children, the higher education level of those parents, the popularization of scientific parenting, advances in the food industry and increased emphasis on food safety. Little Freddie started to sell in Hong Kong in May 2015, and entered the Chinese Mainland the follow month. Since its entry, Little Freddie has made digitalization central to its efforts.

First, Little Freddie built an in-house, online digital system using data from cross-border e-commerce platforms and established a mechanism to obtain consumer and sales data. Second, the brand improved operational efficiency by infusing each part of its network (R&D, production, transaction, circulation and financing) with data. Since 2015, Little Freddie undergone several changes, putting its flagship store on www.tmall.com, moving from an online focus to exploring offline channels as well. As of 2019, Little Freddie's offline sales slightly exceed its online sales, and its offline sales network has spread across the Chinese market, with more than 8,000 sales terminals. Online, meanwhile, it covers all cross-border e-commerce platforms. According to www.sycm.taobao.com, since April 2017, Little Freddie (Xiao Pi in Chinese) has ranked No. 1 in auxiliary pureed infant food.
Digital transformation + asset-light strategy

ABC Company is a leading player in cosmetics that is well-known for its product R&D, developing products and beauty services with appeal in many parts of Asia Pacific. During its expansion, the company has targeted China as one of its major markets.

Since its accessed the Chinese market, ABC Company has become a practitioner of digital transformation and asset-light strategy. On the latter front, ABC Company chose to rely on a professional team for detailed planning of its expansion and to handle legal compliance, business process and operational issues. First, ABC Company conducted feasibility analyses and found the right cross-border e-commerce model for its business, as well as selected an appropriate port with full consideration of its information and technology infrastructure, local policies and warehousing costs. Second, the company integrated its business processes, operations and implementation, including legal compliance, logistics, warehousing, sales, payment and information systems, ensuring it could implement its cross-border e-commerce business in a safe, compliant and convenient way.

When it came to digitalization, ABC Company guaranteed smooth operations in China through a one-stop, digital platform. The company has established a cross-border e-commerce operations and management system using interactivity to help handle daily operation and compliance issues.
Deloitte contacts

**Zhang, Tian Bing**
APAC Consumer product & Retail industry leader
Managing Partner
Tel: +86 21 6141 2230
Email: tbzhang@deloitte.com.cn

**Jiang, Sunny Ying**
Consumer product & Retail industry
Senior Manager
Tel: +86 21 6141 2285
Email: sunjiang@deloitte.com.cn

Deloitte contributors

**Xu, Si Tao**
Chief Economist
Partner
Tel: +86 10 8512 5601
Email: sxu@deloitte.com.cn

**Chen, Lydia Lan**
Deloitte Research
Director
Tel: +86 21 6141 2778
Email: lydchen@deloitte.com.cn

**Li, Iris Mei Hong**
Deloitte Research
Senior Manager
Tel: +86 10 8520 7038
Email: irili@deloitte.com.cn

**Hu, Yi**
Deloitte Research
Analyst
Tel: +86 21 2316 6439
Email: yihucq@deloitte.com.cn

AliResearch contributors

**Ou Yang, Cheng**
Alibaba Cross-border E-commerce Research Center
Director
Tel: +86 10 6598 5888-74317
Email: cheng.oyc@alibaba-inc.com

**Cheng, Xin**
Strategic Cooperation Center
Secretary General
Tel: +86 10 6598 5888-74095
Email: longhai.cx@alibaba-inc.com

**Xue, Yan**
Alibaba Cross-border E-commerce Research Center
Vice Director
Tel: +86 10 6598 5888-74159
Email: yan.xuey@alibaba-inc.com

**Zhou, Yixing**
Tmall Global
Senior Data Analyst
Tel: +86 571 8502 2088
Email: edward.zyx@alibaba-inc.com
China Chamber of International Commerce

The China Chamber of International Commerce (CCOIC) is a national chamber of commerce established in 1988 with the approval of the State Council by enterprises, groups and other organizations that engage in international business activities in China. Its competent business unit is the China Council for the Promotion of International Trade.

The CCOIC aims to build a hub-type chamber of commerce. Its main duties are to promote Sino-foreign economic and trade exchange and cooperation; represent the Chinese business community to reflect its interests and appeal to international organizations and Chinese and foreign government departments; participate in the formulation and promotion of international economic and trade rules; and actively advocate social responsibility and public welfare in the business community. The CCOIC also organizes institutional cooperation with other business associations inside and outside China to provide members and other enterprises with international exchanges, industry cooperation, legal advice, market information, exhibition planning, project investment and business training services.

The CCOIC is also the national chamber of commerce that represents China’s participation in to participate in the International Chamber of Commerce (ICC), and uses the name China National Committee of the International Chamber of Commerce(ICC China) when conducting business related to the ICC. ICC China has 12 policy commissions, the Banking Commission, Commission on Arbitration and ADR, Intellectual Property Commission, Commercial Law and Practice Commission, Competition Commission, Taxation Commission, Corporate Responsibility and Anti-Corruption Commission, Trade and Investment Commission, Marketing and Advertising Commission, Customs and Trade Facilitation Commission, Digital Economy Commission and Environment and Energy Commission.

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Office locations

Beijing
12/F China Life Financial Center
No. 23 Zhenzhi Road
Chaoyang District
Beijing 100026, PRC
Tel: +86 10 8520 7788
Fax: +86 10 6508 8781

Changsha
20/F Tower 3, HC International Plaza
No. 109 Furong Road North
Kaifu District
Changsha 410008, PRC
Tel: +86 731 8522 8790
Fax: +86 731 8522 8230

Chengdu
17/F China Overseas
International Center Block F
No.365 Jiaozi Avenue
Chengdu 610041, PRC
Tel: +86 28 6789 8188
Fax: +86 28 6317 3500

Chongqing
43/F World Financial Center
188 Minzu Road
Yuzhong District
Chongqing 400010, PRC
Tel: +86 23 8823 1888
Fax: +86 23 8857 0978

Dalian
15/F Senmao Building
147 Zhongshan Road
Dalian 116011, PRC
Tel: +86 411 8371 2888
Fax: +86 411 8360 3297

Guangzhou
26/F Yuexiu Financial Tower
28 Pearl River East Road
Guangzhou 510623, PRC
Tel: +86 20 8396 9228
Fax: +86 20 3888 0121

Hangzhou
Room 1206-1210
East Building, Central Plaza
No.9 Feiyunjiang Road
Shangcheng District
Hangzhou 310008, PRC
Tel: +86 571 8779 7915 / 8779 7916

Harbin
Room 1618, Development Zone Mansion
368 Changjiang Road
Nangang District
Harbin 150009, PRC
Tel: +86 451 8586 0060
Fax: +86 451 8586 0056

Hefei
Room 1201 Tower A
Hua Bang ICC Building
No.190 Qian Shan Road
Government and Cultural
New Development District
Hefei 230601, PRC
Tel: +86 551 6585 5927
Fax: +86 551 6585 5687

Hong Kong
35/F One Pacific Place
88 Queensway
Hong Kong
Tel: +852 2852 1600
Fax: +852 2541 1911

Jinan
Units 2802-2804, 28/F
China Overseas Plaza Office
No. 6636, 2nd Ring South Road
Shizhong District
Jinan 250000, PRC
Tel: +86 531 8973 5800
Fax: +86 531 8973 5811

Macau
19/F The Macau Square Apartment H-N
43-53A Av. do Infante D. Henrique
Macau
Tel: +853 2871 2998
Fax: +853 2871 3033

Mongolia
15/F, ICC Tower, Jamiyan-Gun Street
1st Khoroo, Sukhbaatar District, 14240-0025 Ulaanbaatar, Mongolia
Tel: +976 7010 0450
Fax: +976 7013 0450

Nanjing
6/F Asia Pacific Tower
59 Xinzhou Square
Nanjing 210005, PRC
Tel: +86 25 5790 8880
Fax: +86 25 8691 8776

Shanghai
30/F Bunc Center
222 Yan An Road East
Shanghai 200002, PRC
Tel: +86 21 6141 8888
Fax: +86 21 6335 0003

Shenyang
Unit 3605-3606, Forum 66 Office Tower 1
No. 1-1 Qingnian Avenue
Shenehe District
Shenyang 110063, PRC
Tel: +86 24 6785 4068
Fax: +86 24 6785 4067

Shenzhen
9/F China Resources Building
5001 Shennan Road East
Shenzhen 518010, PRC
Tel: +86 755 8246 3255
Fax: +86 755 8246 3186

Suzhou
24/F Office Tower A, Building 58
Suzhou Center
58 Su Xiu Road, Industrial Park
Suzhou 215021, PRC
Tel: +86 512 6289 1238
Fax: +86 512 6762 3338 / 3318

Tianjin
45/F Metropolitan Tower
138 Nanjing Road
Heping District
Tianjin 300051, PRC
Tel: +86 22 2320 6688
Fax: +86 22 8312 6099

Wuhan
Unit 1, 49/F
New World International Trade Tower
568 Jianshe Avenue
Wuhan 430000, PRC
Tel: +86 27 8526 6618
Fax: +86 27 8526 7032

Xiamen
Unit E, 26/F International Plaza
8 Lujiang Road, Siming District
Xiamen 361001, PRC
Tel: +86 592 2107 2988
Fax: +86 592 2107 259

Xi'an
Room 5104A, 51F Block A
Greenland Center
9 Jinye Road, High-tech Zone
Xi'an 710065, PRC
Tel: +86 29 8114 0201
Fax: +86 29 8114 0205

Zhengzhou
Room 5A10, Block 8, Kailin Business Center
No.51 Jinshui East Road
Zhengdong New District
Zhengzhou 450018, PRC
Tel: +86 371 8897 3700
Fax: +86 371 8897 3710
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