



# How to Enter the Chinese Market via Cross Border eCommerce

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# Agenda

## 1. Overview of Chinese CBEC Market

- 1.1 Growing Trends of China EC Market*
- 1.2 Demand by Category*

## 2. Deeply Decoding China CBEC Channel

- 2.1 What is CBEC*
- 2.2 Major CBEC Logistics Mode*
- 2.3 Order Fulfillment(Logistics Mode) for CBEC*
- 2.4 Customs Clearance Management for CBEC*
- 2.5 Benefits of CBEC*

## 3. Interpretation of 2018 CBEC policy and eCommerce Law

- 3.1 Interpretation of 2018 CBEC policy*
- 3.2 Interpretation of eCommerce Law*

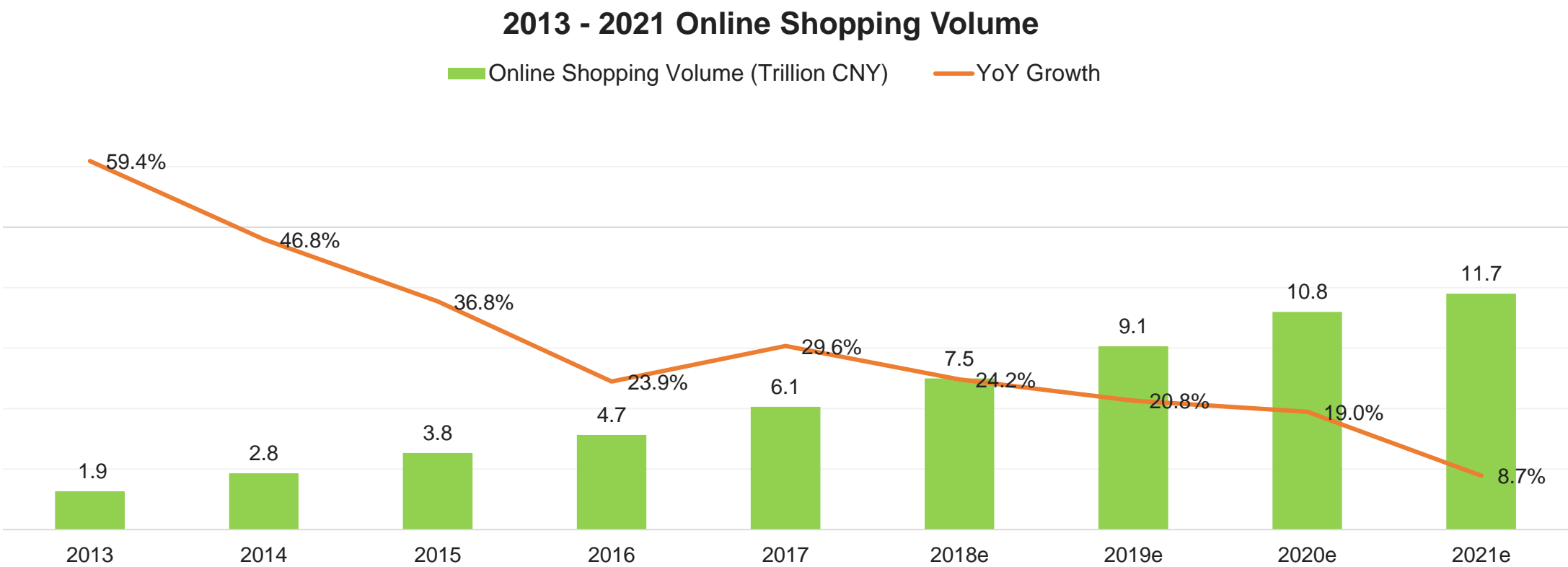
## 4. Preparation of Starting EC Operation in China

- 4.1 The Most Important Factors Of Online Shopping*
- 4.2 Are You Ready to start CBEC Operation?*
- 4.3 Consumer's Journey and Preparation from Brand*
- 4.4 Summary - Strategy for Chinese EC Market*

# **1. Overview of Chinese Cosmetic/Personal Care Products in CBEC Market**

# 1.1 China EC Market Overview

In 2017, online shopping in China reached 6.1 trillion CNY, when up 29.6% over the 2016. Among them, online shopping volume of cross border ecommerce shopping reached 111.34 billion CNY, up 49.6% from 2016.



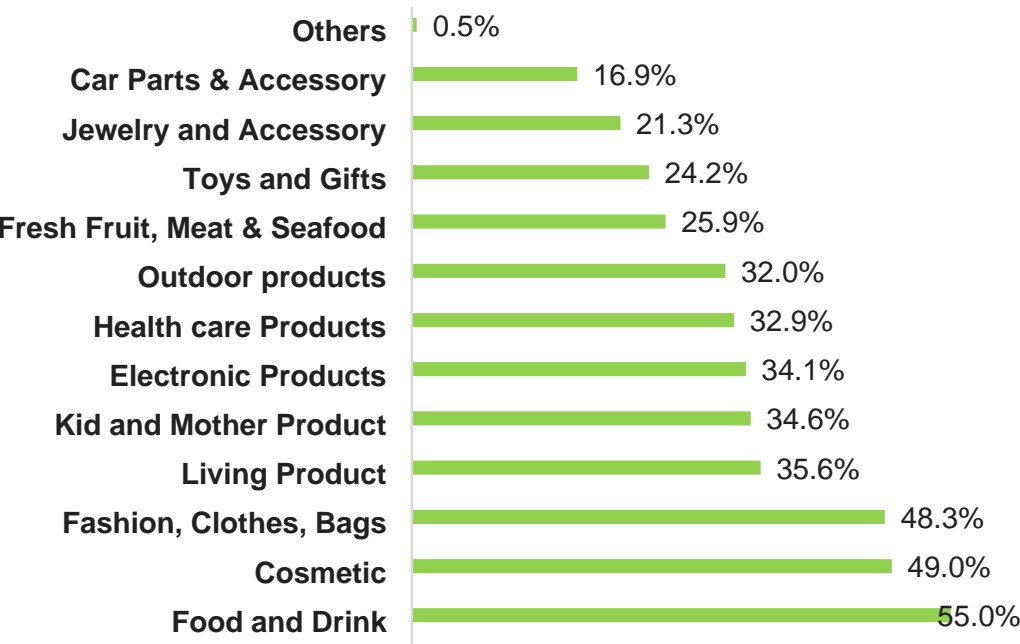
Source: iResearch

# 1.2 Demand by Category

Based on survey and research, the most wanted products are **Food and Drink, Fashion, Cosmetic and Personal Care, Kid & Mother and Living Product.**

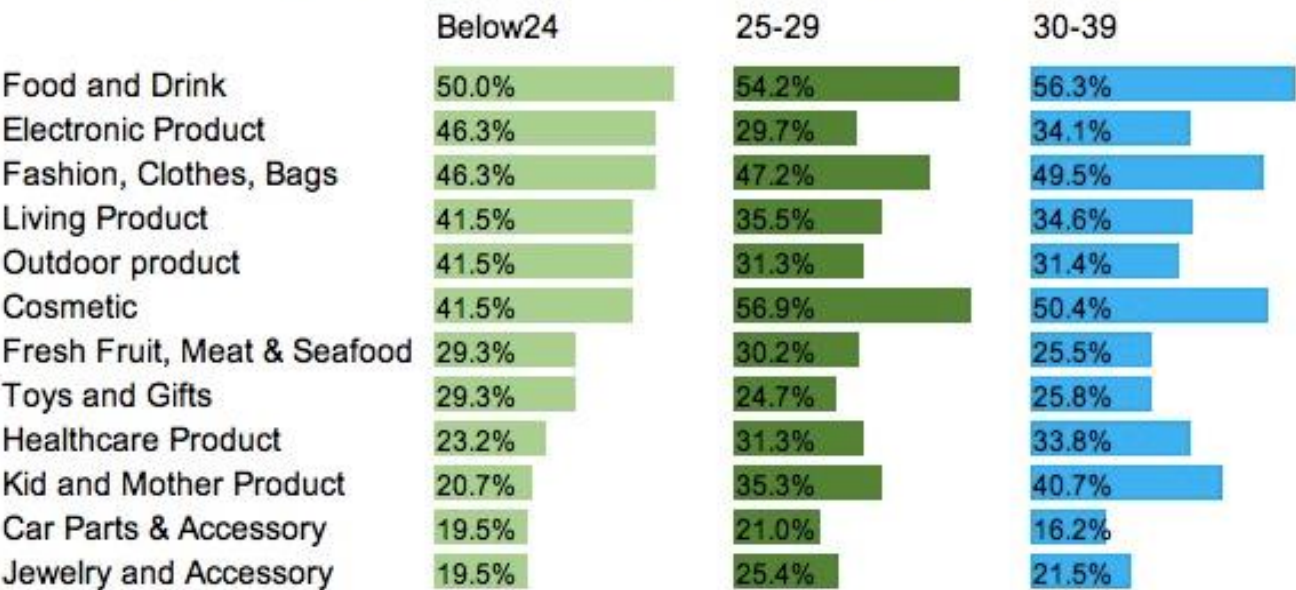
If we look at survey result by Age Group, still can see Cosmetic is the most wanted for user group between 25 to 39, which is the most important user group with purchasing power.

2018 - Most Wanted Imported Products by Category



Source: iResearch

2018 - Most Wanted Imported Products by Different Age Group

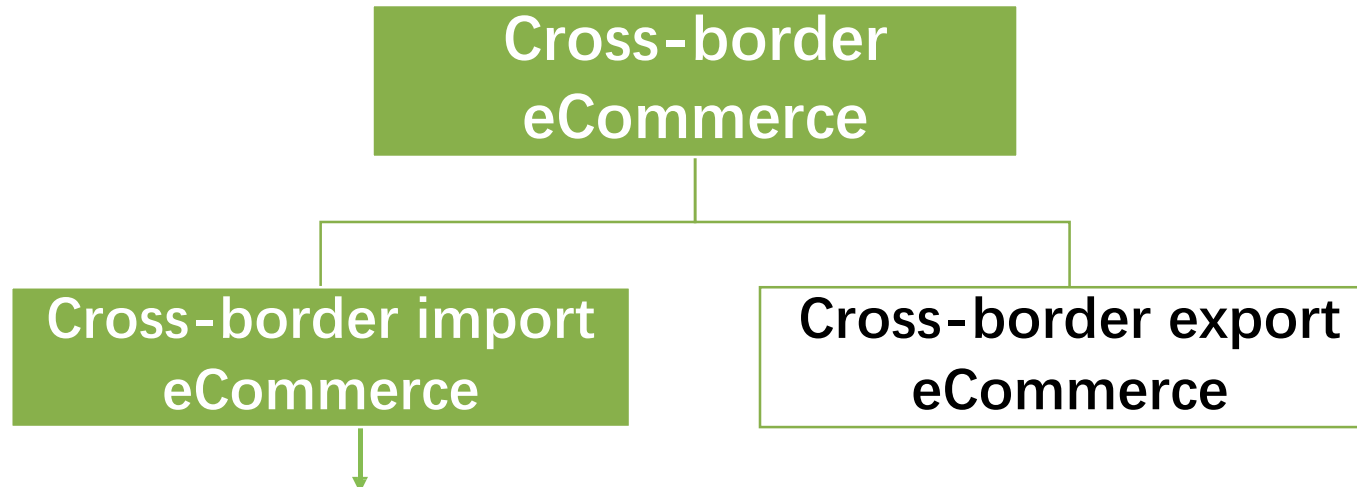


## **2. Deeply Decoding China CBEC Channel**

## 2.1 What is CBEC?

Cross-border eCommerce (CBEC): refers to the international commercial activities whose transaction subjects are in different countries and regions and conclude transactions through eCommerce.

The major process includes online ordering, payment and settlement, shipping commodities, going through procedures of customs clearance, and delivering the commodities through cross-border logistics.



The purchase of a select list of goods that are imported from overseas countries via China government sanctioned third-party ecommerce platforms such as Tmall Global, Vipshop, Kaola, JD, using the bonded warehouse mode or the direct mail mode.

## 2.1.1 Comparison between CBEC and General Trade

Cross Border eCommerce makes China entry much easier and efficient.

Items	General Trade	CBEC
<b>Supervision pattern</b>	Cargo/Commodities	Personal goods
<b>Pre-market application</b>	Registration/Filing	No requirements
<b>*Animal testing</b>	Mandatory requirements	Not required
<b>Commodity scope</b>	All compliant commodities	Categories specified in the *positive list
<b>* Tax Calculation</b>	Import tariffs + VAT + consumption tax  Coffee Example: 29.95% Pasta: 24.3%	$(VAT\ rate + consumption\ tax\ rate) \div (1 - consumption\ tax\ rate) \times 70\%$  Coffee Example: <b>9.1%</b> Pasta: <b>9.1%</b>
<b>Labels</b>	Require to have Chinese labels	Not require to have Chinese labels

*Animal testing is only applied to Cosmetic and Personal care products*



## 2.1.2 Positive lists

### What is positive list?

A list with 1321 commodity categories that are permitted to be traded via CBEC, exempt from import certificates and customs clearance.

- The positive list of CBEC will be appended to include **63 types** of new commodities in great demand, with no change of cosmetic categories.
- Currently, there are in a total of 21 kinds of CBEC-retailed cosmetics.

Complete positive list can be found at :

- <http://hd.chinatax.gov.cn/guoshui/action/ShowAppend.do?id=16325>
- <https://cosmetic.chemlinked.com/regulatory-database/china-positive-list-cbec-retail-imported-goods-2018-version>
- <https://food.chemlinked.com/f-lists/china-cross-border-ecommerce-positive-list>

429	33043000	Nail cosmetics	
430	33049100	Powder (compress and not compress)	
431	33049900	Other make-up, cosmetics and skin care products	Products in the list of imported and exported wild animals and plants are excluded
432	33051000	Shampoos	Products in the list of imported and exported wild animals and plants are excluded
433	33052000	Hair perm products	
434	33053000	Hair styling products	
435	33059000	Other hair care products	
436	33061010	Toothpastes	Products in the list of imported and exported wild animals and plants are excluded
441	33071000	Shave products	
442	33072000	Body deodorants and antiperspirants	
443	33073000	Bath salts and other bath products	
446	33079000	Depilating agents, other perfume preparations and cosmetic cleansing products	
449	34011990	Soaps for other use	
450	34012000	Soap with other shapes	
429	33043000	Nail cosmetics	
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446	33079000	Depilating agents, other perfume preparations and cosmetic cleansing products	
449	34011990	Soaps for other use	
450	34012000	Soap with other shapes	
451	34013000	Preparations used for cleansing skin	

## 2.1.3 Taxation Management - CBEC Comprehensive Tax

Transaction limit of CBEC retail products eligible for preferential tax policy was raised from 2,000 RMB to **5,000 RMB** per transaction and from 20,000 RMB to **26,000 RMB** per person per year.

New tax scheme: CBEC Comprehensive Tax

1. Within the transaction limits, the products will subject to 0.0% of import tariff rate and 70% of the import VAT and consumption tax.

$$\text{CBEC Comprehensive Tax Rate} = [(\text{VAT rate} + \text{Consumption tax rate}) \div (1 - \text{Consumption tax rate})] \times 70\%$$

2. Exceeding the transaction limits, the products imported via CBEC will be taxed in full in line with the general trade mode in any of the following cases:

%

$$\text{Tax Payable} = \text{Tariff} + \text{VAT} + \text{Consumption tax}$$

- A single transaction is over 5,000 RMB but within the annual limit of 26,000 RMB, it is allowed to be imported via CBEC but is subject to full tax.
- Any excess beyond the annual limit will be regulated as general trade.

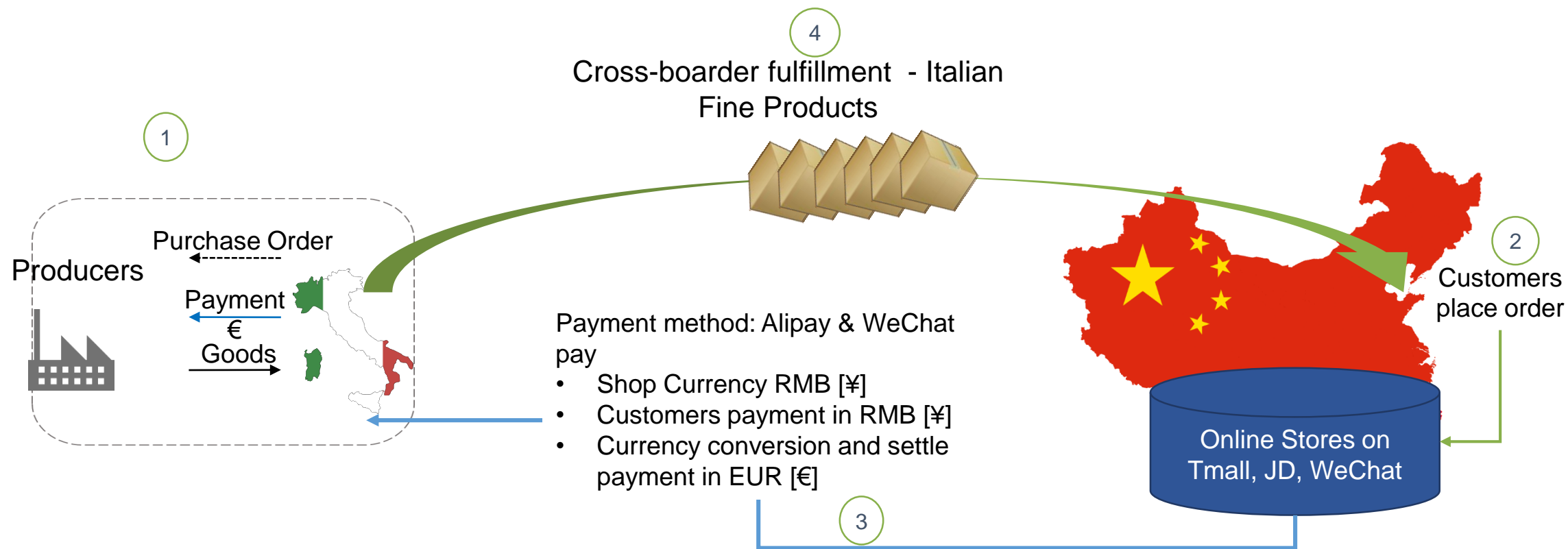
## 2.2 Major CBEC Model

Advantages	Disadvantages	Examples
<b>A. Company standalone website (outside China)</b>		
<ul style="list-style-type: none"> <li>Cheap</li> <li>Convenient setup for businesses</li> </ul>	<ul style="list-style-type: none"> <li>low traffic</li> <li>low chances of success</li> </ul>	<ul style="list-style-type: none"> <li>quinessence.asia</li> </ul>
<b>B. Selling through CBEC online mall store (B2C)</b>		
<ul style="list-style-type: none"> <li>High user traffic</li> <li>Convenient sales support for consumers</li> </ul>	<ul style="list-style-type: none"> <li>High competition with other stores</li> <li>High investment requirements including deposits, annual platform fees and payment service fees</li> </ul>	<ul style="list-style-type: none"> <li>Tmall Global</li> <li>JD Worldwide</li> <li>Suning Global</li> </ul>
<b>C. Selling through CBEC online malls direct purchasing model (B2C2C)</b>		
<ul style="list-style-type: none"> <li>Lower risk and requirements as the marketplace takes the burden of storage and distribution</li> <li>Marketplace is already familiar with consumer demands</li> </ul>	<ul style="list-style-type: none"> <li>Product categories are limited</li> <li>No branding control</li> <li>Can only sell at wholesale price</li> </ul>	<ul style="list-style-type: none"> <li>Hypermarket: Kaola, JD Worldwide, Tmall Global</li> <li>Vertical specialty: meitubeauty (美图美妆)</li> <li>Flash sale: VIP.com</li> </ul>
<b>D. WeChat Store</b>		
<ul style="list-style-type: none"> <li>Interact directly with customers</li> <li>Access and analyze consumer data</li> <li>Customize official store look and content to fit brand image</li> <li>Access to WeChat's social media capabilities and reach</li> </ul>	<ul style="list-style-type: none"> <li>Need local business license and ICP license support</li> <li>Highly competitive</li> </ul>	<ul style="list-style-type: none"> <li>Estee Lauder WeChat Store</li> </ul>

# Comparison of Main CBEC Platforms

	Tmall Global	JD Worldwide	Kaola.com
Model	Online mall (B2C)	Online mall (B2C)	Hypermarket (B2B2C)
Entry Requirements	<ul style="list-style-type: none"> <li>• Overseas entity and trade license</li> <li>• Brand owner or authorized distributor</li> <li>• Chinese customer service provided</li> <li>• Product returns handled in mainland China.</li> <li>• Invitation only since 2015:</li> <li>• Foreign company with global brand recognition</li> <li>• Turnover of at least RMB 100 million (US\$15.79 million)</li> </ul>	<ul style="list-style-type: none"> <li>• Overseas entity</li> <li>• Overseas retail and trade license</li> <li>• Brand owner or authorized distributor or franchiser</li> <li>• Chinese customer service provided</li> <li>• Product return center in Mainland China</li> <li>• Priority for brand recognized companies</li> </ul> <p>Authorization letter</p>	<ul style="list-style-type: none"> <li>• Overseas entity</li> <li>• Brand owner or authorized distributor</li> <li>• In good reputation and operational situation</li> </ul>
Entry Procedures	<ul style="list-style-type: none"> <li>• By receiving entry invitation, the entry process is: Prepare required documents and make plans-sign contracts with TPs(must)-store application-store development-store launch</li> <li>• Process takes 4-8 weeks from application</li> </ul>	<ul style="list-style-type: none"> <li>• Contact the relevant JD business development manager specified online</li> <li>• Prepare necessary documents and resources</li> <li>• Recommended, but not required to use a reliable TP</li> <li>• Process takes about 2-4 weeks</li> </ul>	<ul style="list-style-type: none"> <li>• Submit an application form online by clicking the button on the official webpage</li> <li>• Wait for contact</li> <li>• If accepted by Kaola. com, the offer will be sent together with instructions to finish the registration process</li> </ul>
Costs	<ul style="list-style-type: none"> <li>• Security deposit of RMB 150,000 (around US\$25,000)</li> <li>• Annual technology and service fee RMB 30,000 (US\$4,757)</li> <li>to RMB 60,000 (US\$9,513,depending on the specific type)</li> <li>• Real-Time Deduction of Technical Service Fee of 0.5%-5%</li> <li>• Alipay service fee for each cross border transaction</li> </ul>	<ul style="list-style-type: none"> <li>• Security deposit of US\$15,000 (refundable)</li> <li>• Service fee per store per year US\$1,000</li> <li>• Commission fee 2%-8% based on sales</li> </ul>	<ul style="list-style-type: none"> <li>• Security deposit of US\$15,000</li> <li>• Membership fee of US\$1,000/year</li> <li>• Commission fee of 2-10%</li> </ul>
Pros	<ul style="list-style-type: none"> <li>• High market share and consumer traffic</li> <li>• Good reputation</li> <li>• Marketing opportunities</li> <li>• Control over branding, pricing, marketing, customer service and logistics</li> </ul>	<ul style="list-style-type: none"> <li>• High market share and consumer traffic</li> <li>• Good reputation</li> <li>• Marketing opportunities</li> <li>• Control over branding, pricing, marketing, customer service and logistics</li> </ul>	<ul style="list-style-type: none"> <li>• Logistics support</li> <li>• Economy to luxury product positioning</li> <li>• Can be seller or wholesaler</li> </ul>
Cons	<ul style="list-style-type: none"> <li>• High start-up and maintenance costs</li> <li>• High competition for sales</li> </ul>	<ul style="list-style-type: none"> <li>• High start-up and maintenance costs</li> <li>• High competition for sales</li> </ul>	<ul style="list-style-type: none"> <li>• Product categories limited to digital, baby and children, health and beauty, food and nutrition, clothes and accessories, and household</li> <li>• Can sell at wholesale rate</li> </ul>

# Business Model - How CBEC Works



## ITALY

- Sourcing & Supply Chain
- International Logistics
- Support and cooperate marketing activities in China

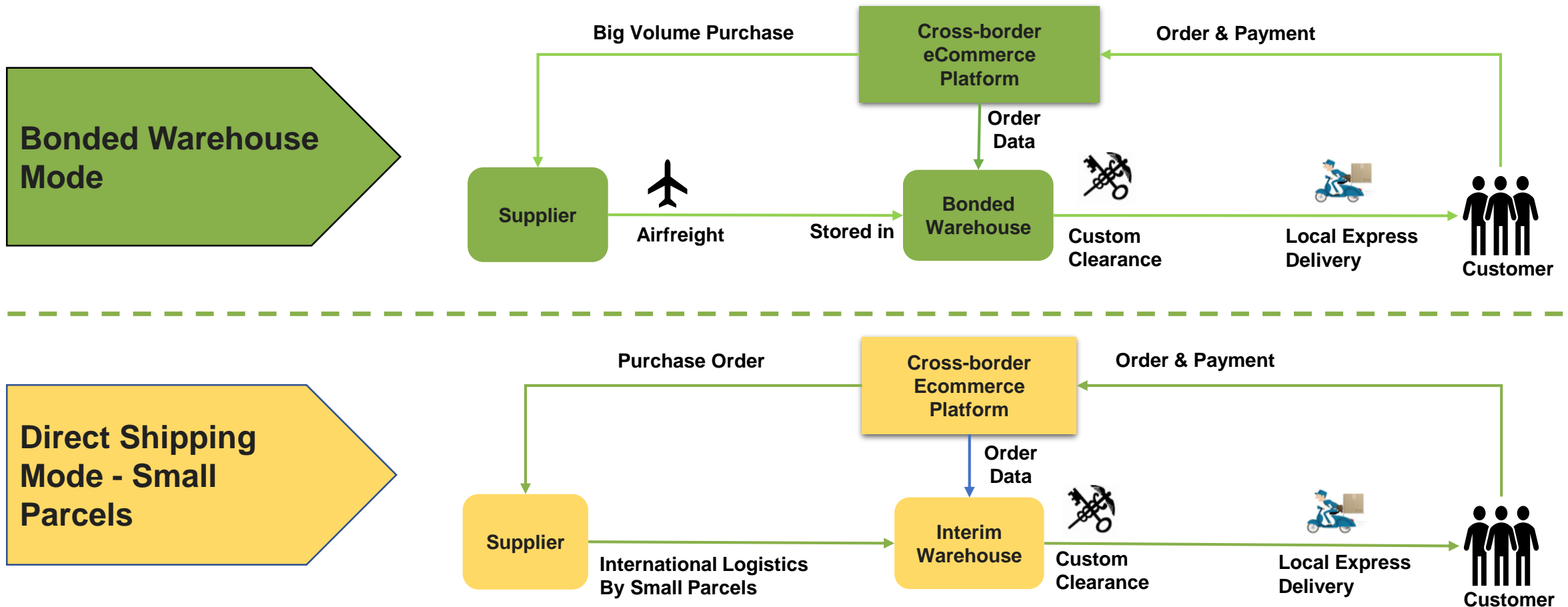
## CHINA

- Product/ Category Mgmt.
- Shop Mgmt. - content, pricing, promotion
- Warehousing and custom clearance for CBEC
- Customer Care and order fulfilment in China
- Marketing Communication

## 2.3 Order Fulfillment (Logistics Mode) for CBEC

Direct shipping mode is quicker to start and test the market.

Bonded Warehouse mode is can support big volume and cost per order is lower.



## 2.4 Benefits of Cross-border eCommerce

CBEC offers an excellent market access route for international brands who **intend to avoid mandatory general trade registration/filing requirements as well as a fast track for overseas enterprises to try out the Chinese markets and be ready to enter comprehensively.**

- **Efficient Access to Chinese Market:** Exempting from filing/registration process and expedited clearance times allows brand to enter China faster with affordable rate.
- **International Expansion:** Getting an opportunity for selling products in China without any geographical limitations
- **Increased Revenue:** Gaining recognition and amplify sales by establishing integrity with target audience
- **Brand Awareness:** Offering products that fit the needs and requirements of the customers are proportional to the awareness of brands
- **Direct Access to End Customers: Accessing:** Accessing Chinese customers who have traditionally been controlled by distributors, brand will be able to drive higher sales and profit margin.
- **Builds a Good Customer Relationship:** Genuine and good quality product offered at the affordable and competitive price will facilitate the customers shopping with brands frequently.
- **Increased Business Sustainability:** CBEC will help you achieve success in China market with ease and high levels of overall profits

### **3. Interpretation of 2018 CBEC policy and eCommerce Law**



# 3.1 Interpretation of 2018 CBEC policy

## Enterprises' obligations

- Bear the main responsibility of quality safety.
- Entrust an enterprise in China to complete the business registration in GAC.
- Implement the notification obligation to consumers with a risk notice, including information of technical standards of safety, hygiene, etc.
- It's not required to have Chinese labels on product packages but enterprises shall post e-labels on the website for consumers to check the information.
- Set up a quality safety risk control system and product traceability system.
- Declare the transaction list to the GAC.

## 3.2 eCommerce Law

### Impact of eCommerce LAW

The biggest focus of the law is that eCommerce operators shall register and obtain a business license and pay corporate income taxes, business taxes, etc.

Important eCommerce Law articles impacting market access for operators:

- eCommerce operators shall display the business license information and the administrative license information prominently on the front page of its website.
  - eCommerce operators shall not delete consumers reviews.
  - The agencies in charge of imports and exports should carry forward the comprehensive service and supervision of customs declaration, taxation, inspection and quarantine etc. and optimize the supervision procedure, accreditation sharing and enforcement cooperation.
- Challenges for small operators:
- The new requirement to obtain a business license and pay taxes represents a significant financial burden
  - Increasingly stringent customs inspections
- A significant impact to individual Daigou operators

## **4. Preparation of Starting EC Operation in China**

# 4.1 The Most Important Factors Of Online Shopping

## **12018 - The most important factors of online shopping for Chinese Users when buying imported goods**

### **1. Genuine Products Guarantee**

2. Product Discount and Active Promotion
3. EC Platform Reputation
4. Product Variety
5. Convenient to return product and professional Customer Service Team

## **Conclusion:**

1. Choose and Enter big & trustworthy EC Platform to start EC Sales, after a few months of operation and established brand reputation in Chinese market, start to expand to more channels and mix different operation model per platforms.
2. After entered EC platforms, should actively interact with Platform category management team to run campaigns and promotions to ensure enough brand exposure and brand itself is a “hot” brand and hot topic.
3. Local Operation Team is critical to provide efficient & professional support order fulfillment and customer service to customers in order to build brand image.

*1. Based on online survey result from group of 2,000 users.*

## 4.2 Are You Ready to start CBEC Operation?

### Entry strategy advisory

The best-fit platform for a company should be based on a number of different considerations, but the main decision-making points include:

#### *Order Fulfillment Process*

One of the first thing to solve is how to deliver orders to customers in China

#### *Product & Channel*

Product need to be attractive in Chinese market and depending on the product, it may be advantageous to consider specialty websites, like MeituBeauty (for cosmetics/personal care) or Bolomi (Japanese and Korean cosmetics only), or others.

#### *Budget*

Some platforms, like Tmall Global and JD Worldwide, offer high growth prospects, but also require high startup and maintenance fees. Other platforms have lower fees, but slower growth prospects.

#### *Market development plan*

The platform will have a major impact on the brand and product's image and branding in the market. Therefore, the platform (and model) has to be integrated into the market development plan.

#### *Regulations and operations*

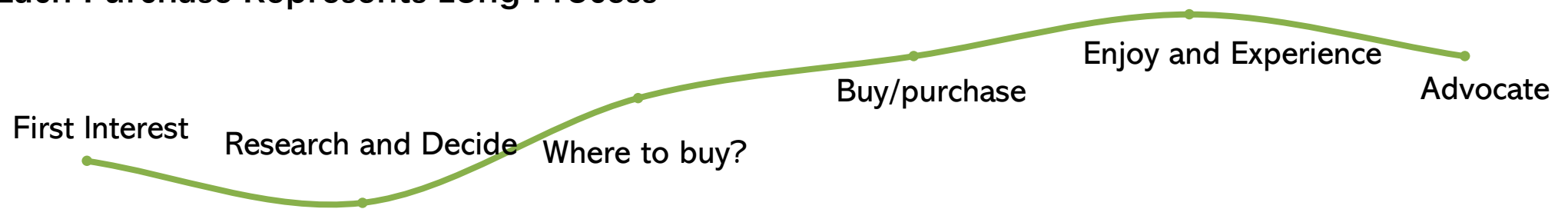
Some platforms require a business to have more Mainland China capabilities. For example, Tmall Global and JD Worldwide require companies to have product return centers and Chinese customer service capabilities.

## 4.3 Consumer's Journey and Preparation from Brand

Each of consumer's purchase represents a long process from discover new brand/product to purchase and share user experience among friends or social media.

Need a step by step solid plan to fulfill complete user experience cycle to bring orders and sustainable business to client.

### Each Purchase Represents Long Process



Brand Localization

Brand Communication

Sales Channels

Deliver and  
Experience

Loyalty/Advocate

## 4.3.1 Digital Media Landscape for brand communication Digiant

We suggest brand to have WeChat Official Account Chinese website as core center, expend activities in other channels like Weibo, Toutiao, Zhihu, Douyin, Search engine reputation and actively start marketing communication through content channel.



## 4.3.2 Digital Marketing Activities by Phases

### Brand Localization and Marketing Activities by Different Phases

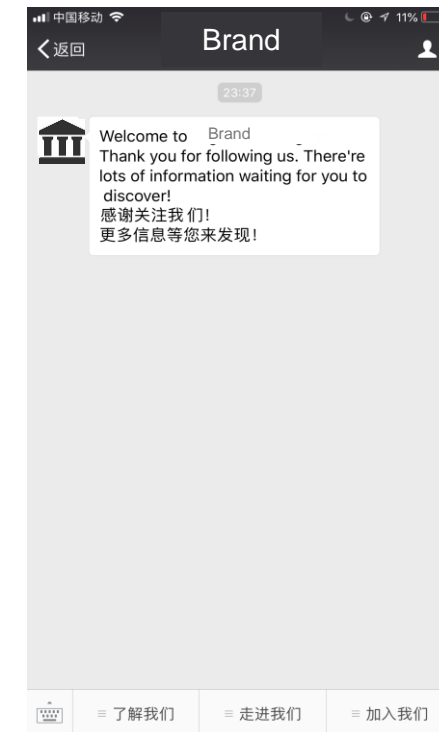
- Brand localization is the first step and fundamental for a brand to officially enter new market.
- After delivered localization support, Brand can plan and execute more aggressive marketing activities through Search, Social Media and KOLs.
- With increased brand reputation, Brand can enter selected marketplaces/EC platforms to start active sales activities.





## 4.3.3 Phase 1 - WeChat Official Account Implementation

- **Brand WeChat Official account creation and verification**
- **Website integration with WeChat:** integrate WeChat and mobile-responsive Chinese website to have users easily learn about Brand and products
- **WeChat OA Menu:**
  - Proper menu can guide users to easily navigate to information they are looking for and learn more about Brand Brand, Products, Services.
- **Auto Reply:** can efficiently guide followers to latest articles, news and campaigns - **Welcome Reply, Keyword Reply, Activity Reply:**
- **Regular content posting** through Brand's WeChat OA



**Brand WeChat OA Mockup**

## 4.3.3 Phase 1 - Chinese Website and Weibo

### Chinese Website:

Brand should have a fully localized Chinese website to present full information about brand story, products.

#### TASKS

- Collect table of content for translation.
- Translate and rewrite contents
- Design and develop a Chinese website

#### DELIVERABLES

- Table of contents in both English and Chinese
- Fully localized website in Chinese

### Weibo:

- Brand register and verify Weibo Account with its legal entity.
- Assign a team to manage content posting and actively engage with followers and KOLs to improve Brand brand influence and brand reputation.
- Most of case many brands are actively posting contents on Facebook and Instagram regularly, we should maximize usage of those content resource by localizing and reposting.

# 4.3.3 Phase 1 - Baidu Product Management

Baidu is China’s #1 search engine (Chinese equivalent to Google) , therefore Baidu product management is fundamental for brand building, positioning and popularity of Brand name and relevant keywords.

**Baidu Baike** (the Chinese equivalent of Wikipedia):  
Need to create **Baidu Baike page** and enrich Wiki content.  
Suggested Content Structure for Brand Baidu Baike Page

1. Brand介绍 (About Brand)
2. 发展历史(Brand History)
3. 产品特点(Product Features)

**Baidu Zhidao** (Chinese collaborative Web-based collective intelligence by questions and answers)

**Baidu Tieba:** it is the largest Chinese communication platform. It is an online community that heavily integrates Baidu's search engine



Baidu Baike Example of Estee Lauder

## 4.3.4 Phase 2 - Brand Marketing

After brand localization is completed, Brand can plan and execute more aggressive marketing activities through Search, Social Media and KOLs.

Followings are a few examples of marketing activities can be considered.

- WeChat and Weibo H5 interactive campaigns to gain followers and drive traffic to Brand promotions.
- Baidu SEO and SERM: Goal is to increase ranking of positive information as Brand related keyword search result and decrease ranking of fake/negative review/contents for Brand down by frequent content marketing through online medias and Baidu products.
- Interact with famous influencers, to ensure Brand is mentioned and.
  - Develop a KOL engagement strategy
  - Research and identify right KOLs for Brand based on brand target users and brand core value
  - Understand the audiences and followers of KOLs, set target and kpi for each campaign with KOL
  - Oversee creation of compelling contents done by selected KOLs.

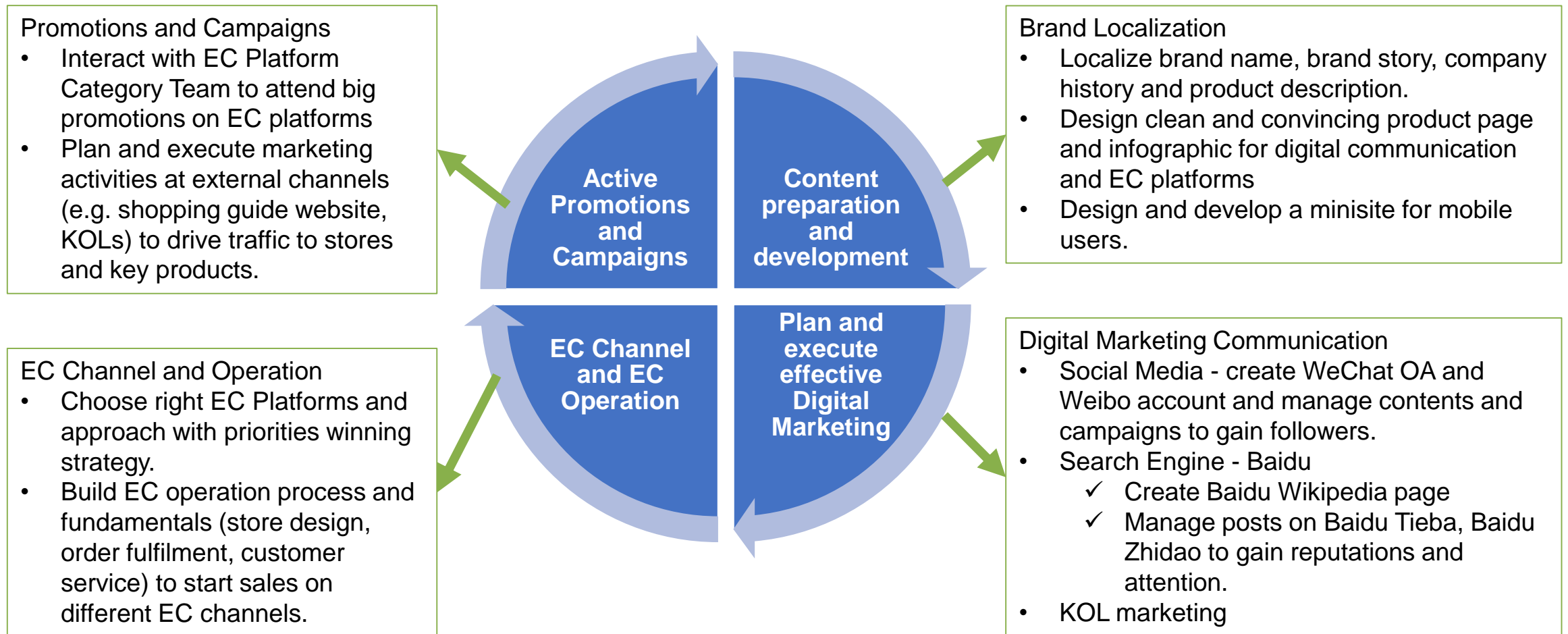
## 4.3.5 Phase 3 - Select Right EC Channels

Every company need to select right EC channel based on brand's target user group and business goal.

EC Platforms	Monthly User (m)	Operation Model	Reasoning
<b>JD.com</b>	205.2	Open Store first, B2B later	The 2 <sup>nd</sup> largest EC platform in China, has traffic support from Tencent ecosystem. 6.18 promotion is is one of biggest nationwide online shopping campaign season. Strongly recommend to open a flagship store on JD.
<b>Tmall</b>	57.7	Open Store first	Alibaba ecosystem provides sufficient traffic, Tmall is the founder of Double 11 promotion and brand online flagship store. Strongly recommended set up as flagship store.
<b>Suning</b>	43.2	Open Store or B2B supply	Ranking No.6 among comprehensive EC platform. Suggest to open store or start B2B supply at later stage.
<b>Kaola</b>	5.6	Open Store or B2B supply	Kaola platform is the main seller on the platform, well known as Genuin Product Guarantee. Has traffic Traffic support from Netease group and cosmetics/Personal Care products is the most important category, suggest to enter Netease at phase 2
<b>Red Talk</b>	36.4	Open Store and KOL	China's largest social eCommerce platform, community & KOL concept brings consistent traffic. Should leverage WangHong (KOL) to increase Sales and brand awareness.
<b>Meitu Beauty</b>	0.4	Open Store	Meitu Xiuxiu is constantly bringing traffic and users to Meitu Beauty EC platform, Meitu Beauty is offering a complete user experience by combining Big Data technology and AI technology to online shopping.
<b>WeChat Store</b>	N/A	Open Store	Open a WeChat store to bind with brand WeChat OA, with content marketing and social media campaign, could bring traffic to flagship stores and key products.

# 4.4 Summary - Strategy for Chinese EC Market

Plan should be made and executed for following 4 core areas.





# What is the RED (xiaohongshu)

## The China's most powerful social shopping platform

RED provides an all-in-one platform with both social media and eCommerce functions for its China users.

RED was launched in 2013, the social eCommerce APP now has over 200 million registered users as of 2019.



### Cost Structure of RED Store

#### Charged by Redtalk:

- One-time deposit to open a store: **\$ 3,500**
- Transaction fee: **1-5%** (depend on Category)

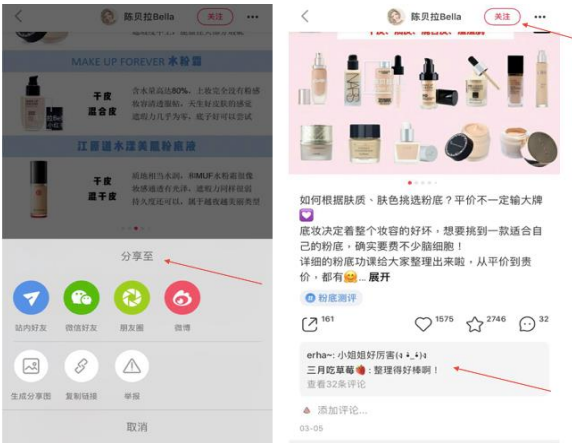
#### Operation service charged by We (Optional):

- Monthly fee\*: starting from **€ 1,500** (depends on SKUs and required manpower)

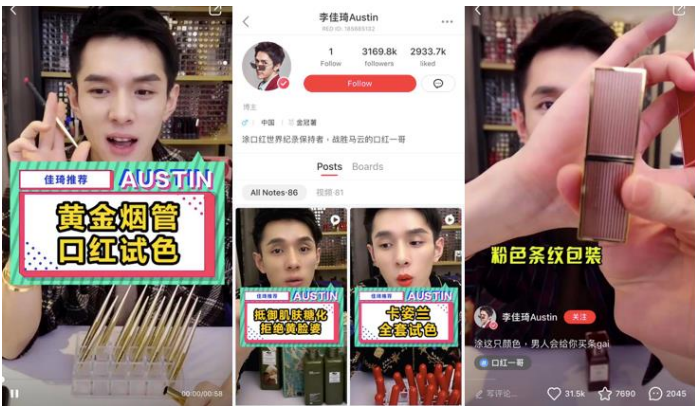
- Sales commission: xx%

#### Promotion fee charged by KOLs (Optional):

- Cost Per Post : starting from **€400** (to reach a KOL has more than 18k+ followers)

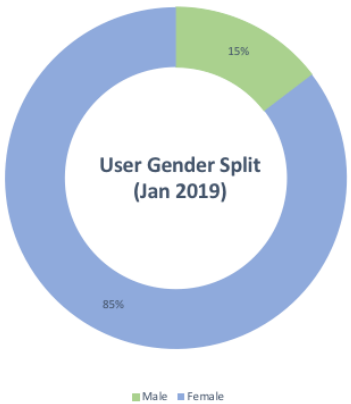
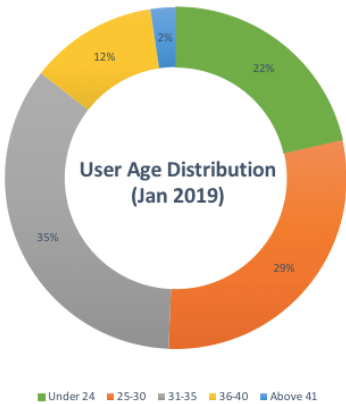


### Thriving Online Community

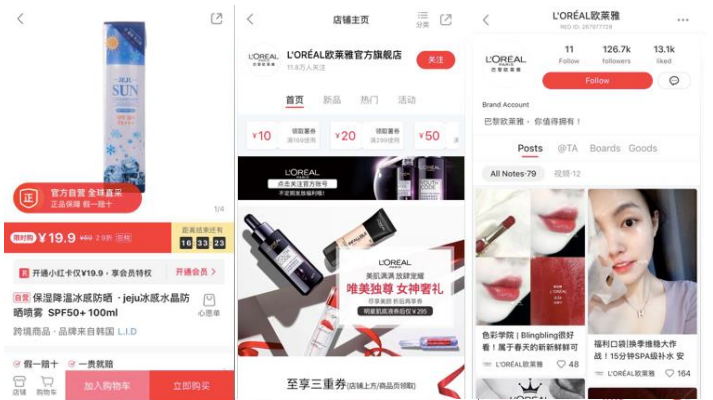


### Extensive word-of-mouth marketing

Digiant Global



### Young and High-Purchasing Power Demographic



Article will link to online store on RED: Closing the Loop

**Any question or for more information, please contact me**

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