



# How to Enter the Chinese Market via Cross Border Ecommerce

Speaker: John Piao & Winnie Xu

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# SPEAKERS



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

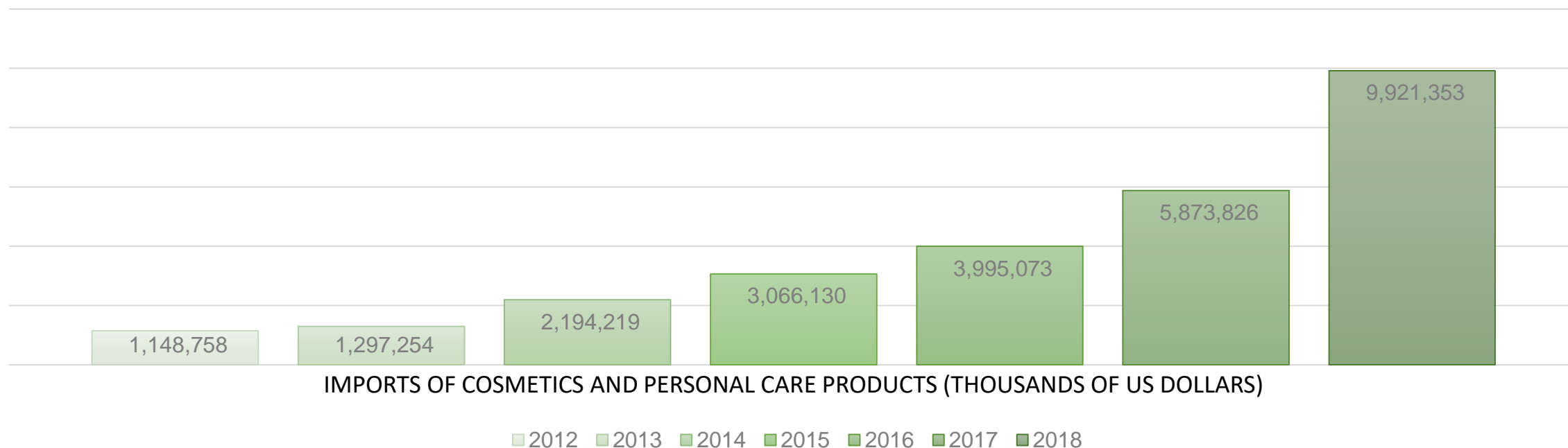


# 1.1 Growing Trend of Cosmetic Products

## Consumption and market size in China

In China, the market size of cosmetics industry has been continually growing in recent years.

### Import value of cosmetics and skin care products in 2012-2018

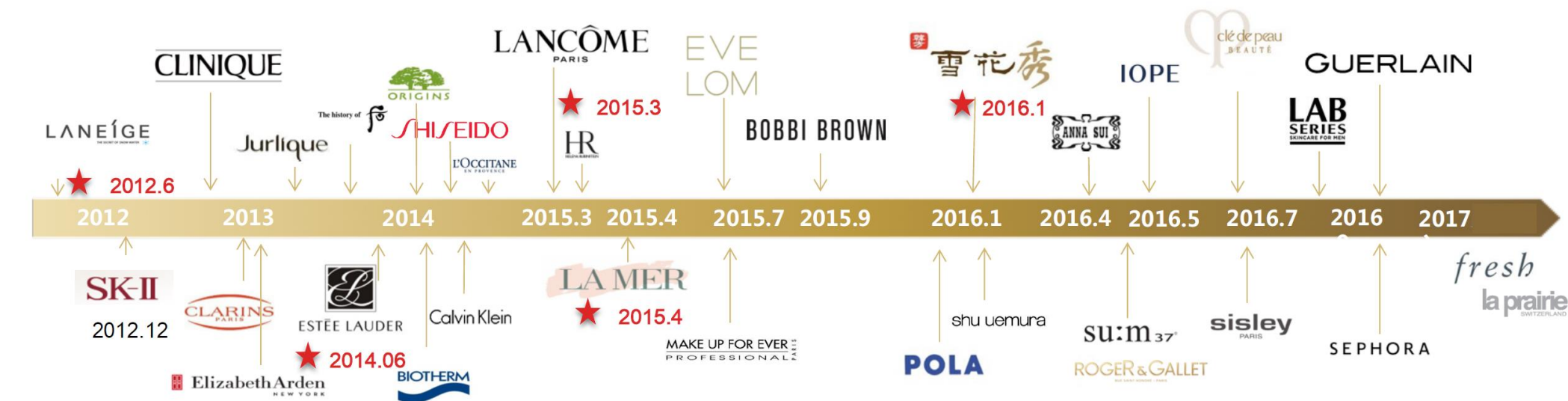




# 1.1 Growing Trend of Cosmetic Products

More than 3,000 beauty brands have entered Tmall

As of 2017, the world's nine major beauty care groups have launched 80% of their brands online.



sisley	LA MER	Sulwhasoo	ESTÉE LAUDER	雪肌精	Jurlique	HR	su:m 37	The history of f	Elizabeth Arden	Florihana	MISSHA	SOFINA	相宜本草	MAYBELLINE	CARSAN	freaxus	YUESAI	L'ORÉAL MEN EXPERT	Avène
My BEAUTY BOX	BOBBI BROWN	BIOTHERM	L'Occitane	SHISEIDO	IOPE	ROGER & GALLET	Dr. Sebagh	ATJOA	ORIGINS	ABA	AFT	Za	佰草集	Dr. Morita	SKINFOOD	LANOCHESPOSAY	L'ORÉAL PARIS	NATURE REPUBLIC	膜法世家
CLARINS	ANNA SUI	POLA	clé de peau	SK-II	LANCÔME	LANEIGE	IPSA	CLINIQUE	shu uemura	御泥坊	PAULA'S CHOICE	ETUDE	KANS	OSM	水密码	百雀羚	AUPRES	OLAY	HEVA
MAKE UP FOR EVER	EVE LOM	MS	蒂芙	NARUKO	韩后	MARUBI	美肤宝	CHANDO	THE FACE SHOP	Mamonde	曼秀雷敦	DHC	美加净	@ MENARD	CO-EE	MAX FACTOR	BIODERMA	banila.co	POND'S

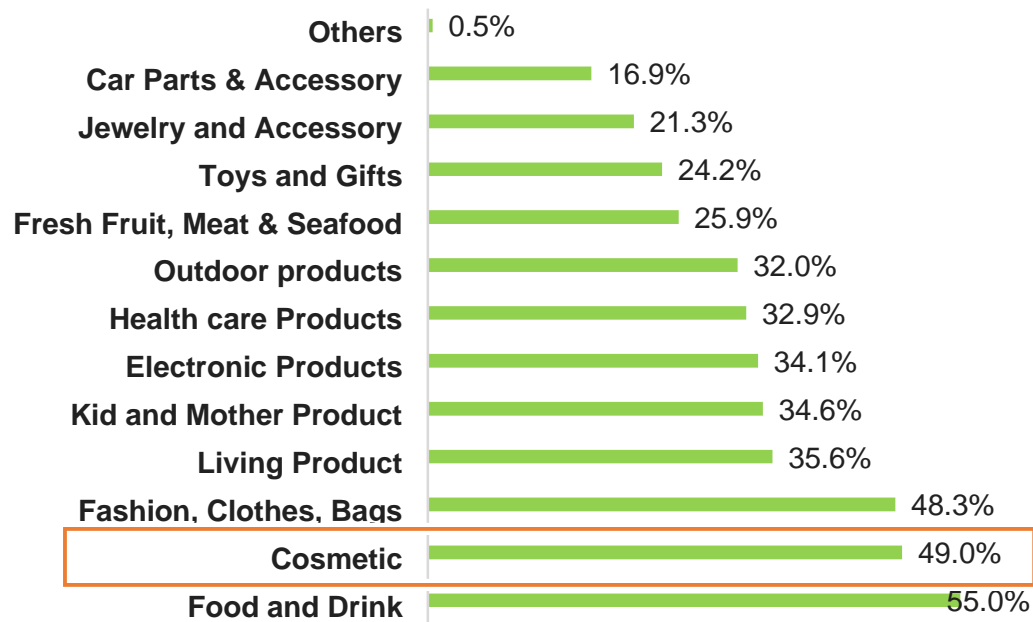


## 1.2 Growing Trend of CBEC Market

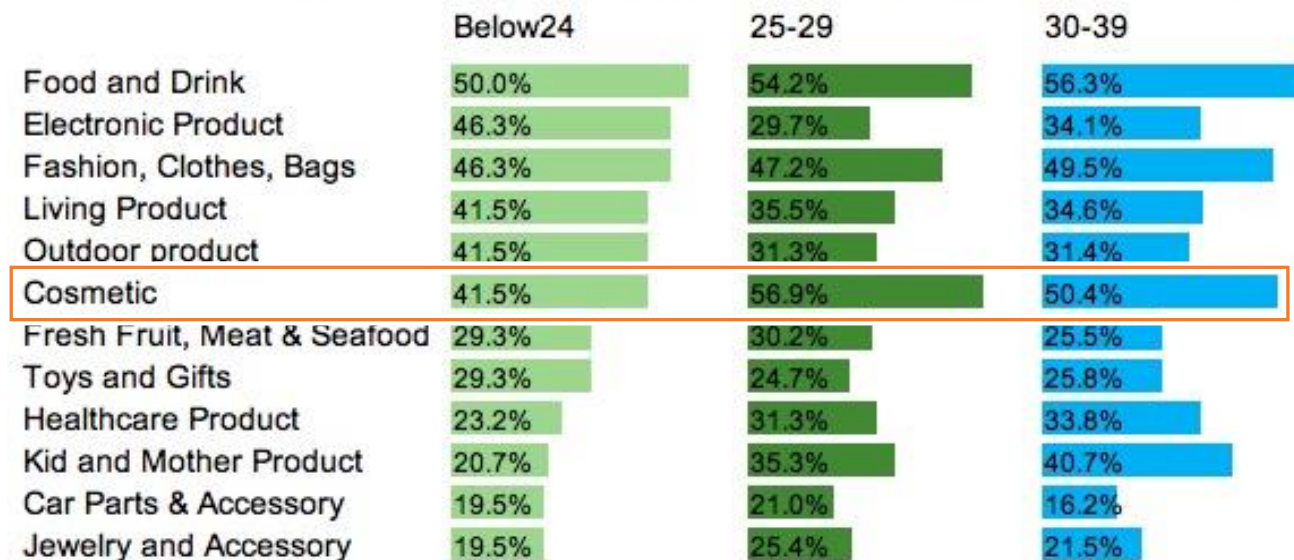
Based on survey and research, the most wanted products are Food and Drink, Fashion, **Cosmetic and Personal Care**, Kid & Mother and Living Product.

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



2018 - Most Wanted Imported Products by Different Age Group





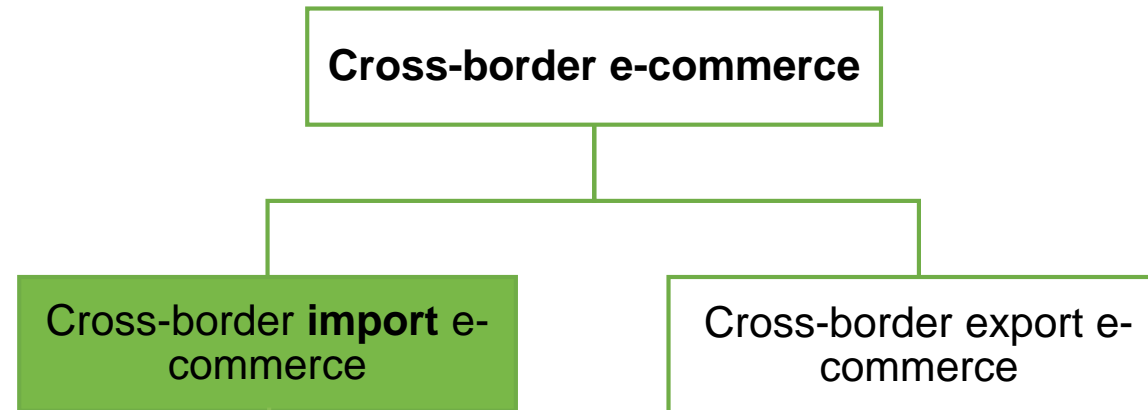
## **2. Deeply Decoding China CBEC Channel**



## 2.1 What is CBEC?

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

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.

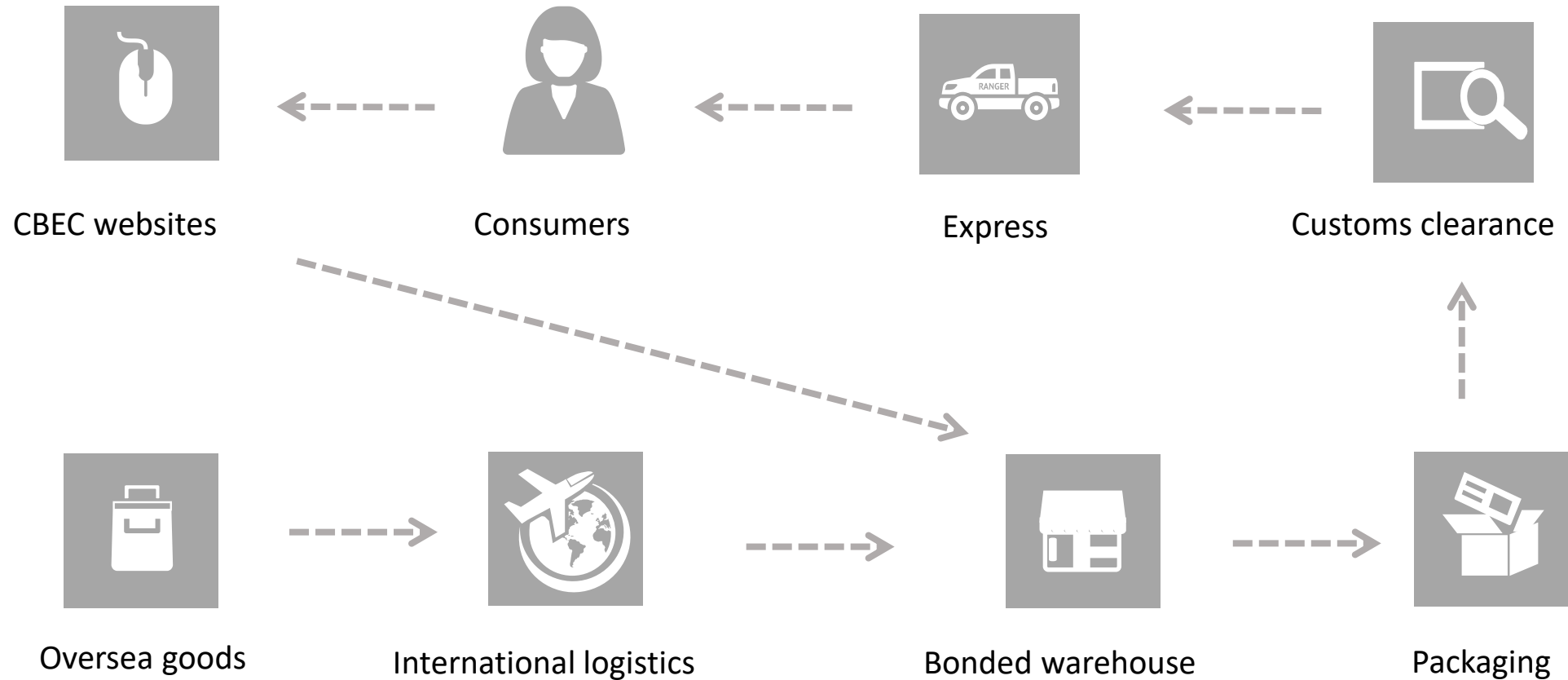


The purchase of a select list of goods that are imported from overseas countries via China government sanctioned third-party ecommerce platforms such as Tmall Global, Vipshop, Koala, JD, using the bonded warehouse mode or the direct mail mode.



## 2.2 Two Major Modes

### 1. Bonded Warehouse Mode





## 2.2 Two Major Modes

### 2. Direct Mail Model





## 2.3 Interpretation of 2018 CBEC policy

### Chronology of China cross-border e-commerce policies

#### The recall of 2016 CBEC policies:

Previously scheduled to be effective on April 8, 2016

- taxation
- positive list
- customs clearance



Two-year grace period → **Transitional Policy**: only applied in 15 pilot cities

- “temporarily” exempted the verification of customs clearance sheet;
- “temporarily” exempted pre-market approval for first imported cosmetics, infant formula, medical device, special foods (such as health food and food for special medical purposes) via CBEC channel.

The new tax scheme and positive lists were in effect in 2016.



## 2.3 Interpretation of 2018 CBEC policy

On Nov. 21, 2018, China determined to further extend the transitional policies of CBEC retails beyond **January 1st, 2019**.

Issuance Date	Notice	Main content	Enforcement date
Nov. 21	China Officially Extends Grace Period for CBEC Transition Policy	New Policy	Jan 1, 2019
Nov. 29	MOF Notice of Tax Policy	Tax	
Nov. 30	Measures on CBEC Retail Supervision	Retail Supervision	
Nov. 30	MOF Notice of CBEC Positive Commodity List	Positive List	
Dec. 12	GAC Releases Specific Implementation Methods for CBEC Supervision	Enforcement rules	Jan 1, 2019 (For domestic CBEC companies who signed sales contracts with abroad companies, their import business can be extended to 31 March 2019.)

Updates:

- ◆ Continuation of two exemptions;
- ◆ Increase in the number of CBEC pilot cities;
- ◆ Increase in the number of products types in the positive list;
- ◆ Increase in the transaction limits (single and annual transaction).



## 2.3.1 Supervision requirements / Customs clearance management

2016 policies	经国务院批准，2016年5月11日起，我国对跨境电商零售进口有关监管要求给予一年的过渡期，即继续按照试点模式进行监管，对天津、上海、杭州、宁波、郑州、广州、深圳、重庆、福州、平潭等10个试点城市经营的网购保税商品“一线”进区时暂不验通关单，暂不执行化妆品、婴幼儿配方奶粉、医疗器械、特殊食品（包括保健食品、特殊医学用途配方食品等）的首次进口许可批件、注册或备案要求；对所有地区的直购模式也暂不执行上述商品的首次进口许可批件、注册或备案要求。
2018 policies	长和新动能成长，增加消费和就业。会议决定，一是从明年1月1日起，延续实施跨境电商零售进口现行监管政策，对跨境电商零售进口商品不执行首次进口许可批件、注册或备案要求，而按个人自用进境物品监管。二是将政策适用范围从之前的杭州等15个城市，再扩大到北京、沈阳、南京、武汉、西安、厦门等22个新设跨境电商综合试验区的城市。非试点城市的直购进口业务可参照执行相关监管政策。三是在对跨境电商零售进口清单内商品实行限额内零关税、进口环节增值税和消费税按法定应纳

- As per the official circulars, commodities imported via CBEC channel will be regulated as **personal articles**, exempt from mandatory **administration license requirements, registration or filing requirements of first-imported cosmetics**, infant formula powder, medical device and special food (such as health food and food for special medical purposes).

*“temporarily”*

The policy is likely to remain stable for the foreseeable future.

- Loose regulatory status
- *Avoid animal testing*

- The number of pilot cities where the delayed/transitional policies apply has been increased to 37 from the previous 15, including Beijing, Shenyang, Nanjing, Wuhan, Xi'an and Xiamen.



## 2.3.2 Positive list

### 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.

- Two lists → one list
- The positive list of CBEC has been 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.

No.	Tax Code	Name	Note
421	33012999	Essential oil other than oranges fruit oils	Products in the inventory of dual-use items and technique import and export license management and list of imported and exported wild animals and plants are excluded
422	33013090	Other perfume creams	Products in the list of imported and exported wild animals and plants are
424	33019090	Fatty and containir producer or impr product essential essential distillate	429 33043000 Nail cosmetics
			430 33049100 Powder (compress and not compress)
			431 33049900 Other make-up, cosmetics and skin care products
			432 33051000 Shampoos
			433 33052000 Hair perm products
426	33030000		434 33053000 Hair styling products
427	33041000		435 33059000 Other hair care products
			436 33061010 Toothpastes
428	33042000		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
			451 34013000 Preparations used for cleansing skin



## 2.3.3 Taxation management

- Transaction limit of CBEC retail products eligible for preferential tax policy was raised from 2000 RMB to **5000 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.



## 2.3.3 Taxation management

- VAT (value-added tax) reduction → significant cut on CBEC comprehensive tax → stakeholders: lower cost

Category	VAT (%)	Updated VAT (%)	Consumption tax (%)	CBEC Previous Tax (%)	CBEC Updated Tax (%)
General Cosmetics (<10 RMB/mg or /ml, or <15 RMB/piece)	16	13	0	11.2	9.1
High-end Cosmetics (=>10 RMB/mg or /ml, or ≥15 RMB/piece)	16	13	15	25.5	23.05

- **Consumers** who order CBEC retail commodities must pay taxes. CBEC platform enterprises, logistics enterprises or declaration enterprises shall collect and remit the tax to GAC for consumers (in RMB).
- If products are not returned or the order is not revised or withdrawn, these enterprises shall inform GAC of all tax issues no sooner than 31 days after customs clearance and no later than 45 days.



## 2.3.4 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.
- \* For those enterprises that cannot meet supervision demands timely, they are given a grace period to rectify and the deadline is **Mar. 31, 2019**.



## 2.4 Comparison

### 2.4.1 Comparison between CBEC and General Trade

Items	General trade	CBEC
Supervision pattern	Cargo/Commodities	Personal goods
Pre-market application	Registration/Filing	Not required
Animal testing	Mandatory requirements	Not required
Labels	Require to have Chinese labels	Not required to have Chinese labels (Require to have e-labels on the website)
Commodity scope	All compliant commodities	Categories specified in the positive list
Tax Calculation	Import tariffs + VAT + consumption tax	$(\text{VAT rate} + \text{consumption tax rate}) \div (1 - \text{consumption tax rate}) \times 70\%$
...	...	...



## 2.4.2 Benefits of Entering Chinese Market via CBEC

- ◆ loose regulatory status
- ◆ low tax
- ◆ greatly facilitated market access
- ◆ expedited clearance times
- ◆ curtly-free
- ◆ policy support
- ◆ ...

As a completely separate official and state-sanctioned trade channel for imported goods, CBEC offers an excellent market access route for international cosmetic stakeholders who **intend to circumvent animal testing and mandatory general trade registration/filing requirements in consideration of ethical**, as well as provide **a fast track for overseas enterprises to try out the Chinese markets and assess the feasibility of more comprehensive entry.**



## 2.4.3 Comparison of the 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>



### **3. Winning Strategy for Chinese EC Market**



## 3.1 E-commerce Law

### 3.1.1 Main Contents of the E-commerce Law

On Aug 31, 2018, China passed its first E-commerce Law, which mainly covers the responsibilities and compliance requirements of e-commerce operators and online platforms, e-commerce dispute resolution, as well as IP protection for brands. The Law has been effective since Jan 1, 2019.

Three major entities: E-commerce operators; E-commerce platforms; Other online sellers

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第三章 电子商务合同的订立与履行

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Chapter 4: E-commerce Dispute Resolution

Chapter 5: General Provisions

Chapter 6: E-commerce Further Development

Chapter 7: Supplementary Provisions



### 3.1.2 Main regulations related to e-commerce operators

The biggest focus of the Law is that e-commerce operators shall register and obtain a business license and pay corporate income taxes, business taxes, etc.

◆ Important E-commerce Law articles impacting market access for operators:

Article 5: E-commerce operators shall abide by China's laws.

Article 10: E-commerce operators need to register as a legal business entity

Article 11: Pay taxes

Article 12: Abide by administrative license requirements

Article 13: The products need to comply with relevant laws, regulations, product standards etc.

Article 15: You need to display your business license to conduct e-commerce business activities

Article 18: The advertisements should comply with the Advertisement Law if the e-commerce operators send advertisements to consumers.

Article 26: E-commerce operators engaged in cross-border e-commerce shall abide by the laws, administrative regulations and relevant state regulations of import and export supervision and administration – controversy related to this one but rest at ease. 37 pilot zones are exempt from this requirement as per a State council ratified joint circular released on November 30<sup>th</sup> by MOFCOM, MOF, SAT, GAC, SAMR, NDRC.



### 3.1.2 Other regulations related to e-commerce operators

- E-commerce operators shall display the business license information and the administrative license information prominently on the front page of its website.
- E-commerce operators shall not delete consumers reviews.
- The country shall promote the development of cross-border ecommerce by developing an efficient management system governing declaration, taxation, inspection and quarantine of imports and exports, and payment, etc.
- 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.
- ...



## 3.1.3 Overall Impacts

- Standardize the industry and make it more systematic;

Eg: e-commerce traders' fictitious transactions to promote their ranking

- Challenges for small operators:
  - The new requirement to obtain a business license and pay taxes represents a significant financial burden;
  - Tax ---lost price advantage
  - Increasingly stringent customs inspections
- A significant blow to Daigou

Enterprises shall be ready for stronger compliance norms.



## 3.2 The Most Important Factors Of Online Shopping

**<sup>1</sup>2018 - 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.



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



## 4.1 Are You Ready to start EC 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:

#### *Product*

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.

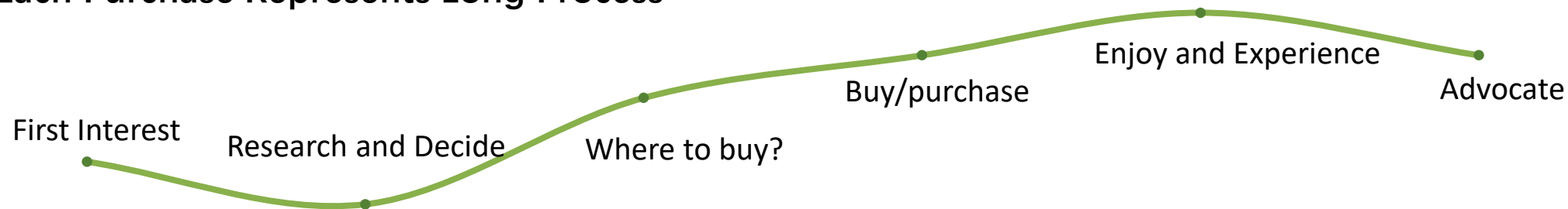
#### *Regulations and operations*

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.



## 4.2 Consumer's Journey and Preparation from Brand

Each Purchase Represents Long Process



Localization

Awareness

Sales Channels

Experience

Loyalty/Advocate



## 4.2.1 Digital Media Landscape for brand communication

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.





## 4.2.2 Digital Marketing Activities by Phases

### Brand Localization and Marketing Activities by Different Phases

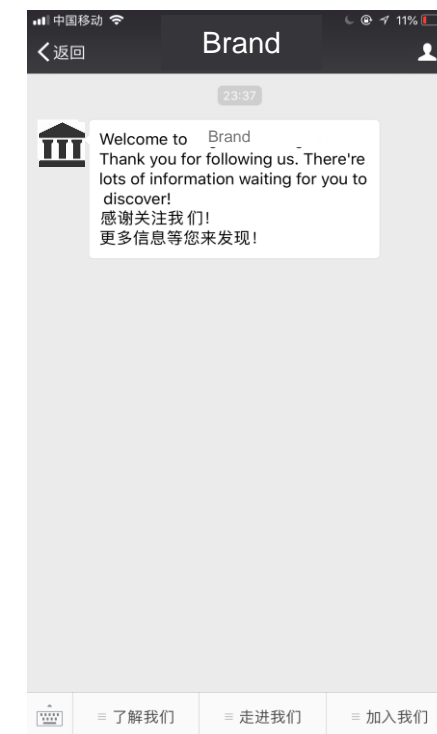
- Brand localization is the first step and fundamental for a brand to officially enter new market.
- After delivered localization support, Brand can plan and execute more aggressive marketing activities through Search, Social Media and KOLs.
- With increased brand reputation, Brand can enter selected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





## 4.2.3 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



## 4.2.3 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.



## 4.2.3 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 (Brand 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



## 4.2.4 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.



## 4.2.5 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)	Priority	Operation Model	Reasoning
<b>JD.com</b>	172.2	<b>1</b>	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 one of biggest nationwide online shopping campaign season. Strongly recommend to open a flagship store on JD.
<b>Tmall</b>	53.9	<b>1</b>	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>	24.2	<b>3</b>	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>	5.4	<b>2</b>	Open Store or B2B supply	Kaola platform is the main seller on the platform, well known as Genuin Product Guerantee. 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>	23.4	<b>2</b>	Open Store and KOL	China's largest social eCommerce platform, community & KOL concept brings consitant traffic. Should leverage WangHong (KOL) to increase Sales and brand awareness.
<b>Meitu Beauty</b>	0.3	<b>2</b>	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	<b>1</b>	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.



## 4.3 Summary - Strategy for Chinese EC Market

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

### Promotions and Campaigns

- Interact with EC Platform Category Team to attend big promotions on EC platforms
- Plan and execute marketing activities at external channels (e.g. shopping guide website, KOLs) to drive traffic to stores and key products.

Content preparation is critical.

- Localize brand name, brand story, company history and product description.
- Design clean and convincing product page and infographic for digital communication and EC platforms
- Design and develop a minisite for mobile users.

### Digital Marketing

- Social Media - create WeChat OA and Weibo account and manage contents and campaigns to gain followers.
- Search Engine - Baidu
  - ✓ Create Baidu Wikipedia page
  - ✓ Manage posts on Baidu Tieba, Baidu Zhidao to gain reputations and attention.
- KOL marketing

### EC Channel and Operation

- Choose right EC Platforms and approach with priorities winning strategy.
- Build EC operation process and fundamentals (store design, order fulfilment, customer service) to start sales on different EC channels.





# THANK YOU!



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## CONTACT US

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