Evolutions of logistics in cross-border e-commerce (B2C Import to China)

December 2017
Key Takeaways

**Observations:**
Evolutions of B2C cross-border e-commerce (import) and logistics go hand in hand

- More small-sized logistics companies seize opportunities in handling massive amount of small parcels in cross-border e-commerce (CBEC)
- Some large-scale logistics companies expand their footprints in the CBEC sector in multiple ways
- E-commerce giants also prepare for the global logistics battle
- More Chinese online shoppers look for high-valued goods and food items from overseas. Demand for corresponding logistics handling services is increasing
- More local logisticians get involved in worldwide mega online sale promotions and face huge challenges in IT operations
- Return logistics is a nightmare in CBEC business

**Future prospect:**
Market, Government, Technology

- Chinese online shoppers crave for imported goods from developed countries, e.g. the US, Europe, Japan, Korea, Australia, etc. They are now also interested in the goods from the countries along the Belt and Road
- The government has been very supportive toward the development of CBEC. Stakeholders should quickly respond to any policy updates by preparing optimized logistics plan(s)
- To better serve the discerning online shoppers, technology adoption and process improvement ensure operational excellence in logistics

Source: Compiled by Fung Business Intelligence Centre
Evolving shopping experience ...

**Pre-e-commerce era**
- China’s Department stores
- Very few choices in China’s stores
- Huge markups

**Cross-border e-commerce**
- Shop via authorized cross-border e-commerce (import) platforms
  - Authentic goods
  - Reasonable price 😊
  - After-sale services
  - Return guarantee

**HaiTao**
Shop via overseas e-commerce sites
- Don’t understand foreign language
- No international credit card

**Daigou**
Shop via agents, who provide overseas shipping and payment services in Chinese
- Fake goods??

Source: compiled by Fung Business Intelligence
Evolving logistics experience ...

Pre-e-commerce era
- Someone buys the bag from overseas and brings it to me
- Travel overseas
- Visit local stores

China’s Department stores
- Prices: ¥7599, ¥8500

Cross-border e-commerce
Shop via authorized cross-border e-commerce (import) platforms
- Able to track the delivery status via APP
- Quick delivery to my designated location
- Able to return goods

Focus in this report

HaiTao
Shop via overseas e-commerce sites
- How can I settle logistics, customs clearance and tax issues??

Daigou
Shop via agents, who provide overseas shipping and payment services in Chinese
- No logistics tracking info [Black box]
- Long delivery lead time

Chinese shopper

Source: compiled by Fung Business Intelligence
Fast fact: The latest development of cross-border e-commerce logistics in China
Rapid growth in China’s cross-border e-commerce

In 2016, Chinese tourists spent more than RMB 1800 billion overseas. They earnestly shopped from overseas retailers, due to:

- A shortage in high quality products sold in stores at home
- Counterfeit products and product safety issues of local goods

In recent years, B2C cross-border e-commerce (CBEC) platforms have surged in popularity. On top of the huge demand, two key drivers:

- The government has introduced a series of policy aiming at developing CBEC since 2012 (see also Box 1)
- More authorized CBEC platforms have started operation, and driving down the transaction costs (e.g. logistics, customs, online payment, etc.)

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (RMB)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017e</td>
<td>1,854 billion</td>
</tr>
<tr>
<td>2016</td>
<td>1,200 billion</td>
</tr>
<tr>
<td>2015</td>
<td>900 billion</td>
</tr>
<tr>
<td>2014</td>
<td>630 billion</td>
</tr>
<tr>
<td>2013</td>
<td>450 billion</td>
</tr>
<tr>
<td>2012</td>
<td>240 billion</td>
</tr>
</tbody>
</table>

Source: China’s E-commerce Research Centre, compiled by Fung Business Intelligence Centre
Box 1

CBEC e-commerce: government policy

Under the supervision of China customs, Chinese shoppers can buy goods from overseas via authorized CBEC platforms and have their orders shipped through the CBEC pilot zones/ cities*

Different tax policies

<table>
<thead>
<tr>
<th>General import (B2B)</th>
<th>Tariff + VAT*+ Consumption tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonded-area import/ Direct mail (Via authorized CBEC platform)</td>
<td>VAT<em>70% + Consumption tax</em>70% (Depends on the product categories)</td>
</tr>
<tr>
<td>Personal postal articles (Not via authorized CBEC platform)</td>
<td>Personal parcel tax (Depends on the product categories)</td>
</tr>
</tbody>
</table>

*VAT=Value-added Tax

Note: Functions and implementations of regulations on CBEC imports in CBEC pilot zones and cities are slightly different. Stakeholders should keep track with the government’s policy announcement.

Source: compiled by Fung Business Intelligence
Key CBEC players in China

Market share of B2C CBEC, 2017Q3

- **Others**
  - Market share in 2016: 33.6%
  - Number of overseas brands: >5,000
  - Goods are imported from over 80 countries/territories

- **TMALL Global**
  - Market share in 2016: 25.4%
  - Number of overseas brands: >14,000
  - Goods are imported from over 60 countries/territories
  - Overseas warehouses in France, Spain, Russia, etc.
  - Bonded warehouses in Guangzhou, Hangzhou, Zhengzhou, Ningbo, Chongqing, etc.

- **唯品国际**
  - Market share in 2016: 16.7%
  - Number of overseas warehouses: >110
  - Goods are imported from over 40 countries/territories
  - Bonded warehouses in Guangzhou, Hangzhou, etc.

- **网易考拉海购**
  - Market share in 2016: 16.1%
  - Number of overseas warehouses: 12
  - Number of bonded warehouses: 11
  - Goods are imported from over 10 countries/territories

- **京东全球购**
  - Market share in 2016: 15.3%
  - Number of overseas brands: >7,300
  - Number of overseas warehouses: >110
  - Goods are imported from over 40 countries/territories
  - Bonded warehouses in Guangzhou, Hangzhou, Zhengzhou, Ningbo, etc.

Icon source: Internet
Source: China’s E-commerce Research Centre, Analysys, Alibaba, compiled by Fung Business Intelligence Centre
Major CBEC platforms adopt two typical logistics models

1. Direct mail
   a. Upon receiving an order, the goods are directly shipped from brand owner’s warehouse to Chinese shoppers or;
   b. Upon receiving an order, the goods are consolidated at overseas warehouses and shipped to China as bulk cargo by air/ by sea

2. Bonded warehouse
   Before Chinese shoppers place their orders online, goods are stored in e-commerce player’s bonded warehouse in the pilot zones. After an order is placed, goods are directly shipped to shoppers from the bonded warehouse.

Icon source: Internet
Source: compiled by Fung Business Intelligence Centre
Why do the CBEC platforms adopt both models?

1. **Direct mail**
   - **Types of goods**: long tail, unique
   - **Pros**:
     - Lower inventory risk
     - Capable of consolidating and handling unique product items at overseas warehouses on behalf of the suppliers, who have no resources for developing international logistics services (apply to the model that the goods are consolidated at overseas warehouses and mailed to Chinese shoppers upon receiving an order)
   - **Cons**:
     - Longer delivery lead time (1-2 weeks)

2. **Bonded warehouse**
   - **Types of goods**: stable demand
   - **Pros**:
     - Shorter delivery lead time (next day to 5 days)
     - Better customer experience and capable of providing after-sale services
   - **Cons**:
     - Higher inventory risk (need to estimate demand in advance)

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<table>
<thead>
<tr>
<th>Models</th>
<th>Cost (RMB)*</th>
<th>Delivery lead time</th>
</tr>
</thead>
<tbody>
<tr>
<td>1a. Direct mail via international couriers</td>
<td>~300</td>
<td>2 – 5 days</td>
</tr>
<tr>
<td>1a. Direct mail via postal services</td>
<td>≤100</td>
<td>7 – 14 days</td>
</tr>
<tr>
<td>1b. Consolidation at overseas warehouse</td>
<td>30</td>
<td>5 – 7 days</td>
</tr>
<tr>
<td>2. Bonded warehouse in China</td>
<td>10 – 30</td>
<td>2 – 5 days</td>
</tr>
</tbody>
</table>

* Estimated cost based on shipping 1kg parcel from the US to China (between major cities)

Source: CITIC Securities, compiled by Fung Business Intelligence Centre
To minimize the inventory risk in the bonded warehouse model, some companies adopt a “hybrid” model of direct mail + “bonded” warehouse.

The model:
- Step 1: Overseas e-tailers ship their products to Hong Kong by sea or by air.
- Step 2: Upon receiving orders via CBEC platforms, the goods will be shipped from Hong Kong to the Mainland by truck.

The advantages of shipping CBEC goods via Hong Kong:
- Short travel time between Hong Kong and Southern China
  - Shorter delivery lead time, as compared with direct mail model
- Hong Kong is a free trade port allowing goods to be transshipped without any tariff
  - Lower inventory risk, as compared with bonded warehouse model
  - Easier to consolidate and handle returned goods from China
- Efficient logistics management in Hong Kong

Source: compiled by Fung Business Intelligence Centre
Box 2: Case - Fung Omni Services & LF Logistics
Logistics company and e-commerce solution company jointly assist overseas brands in entering China’s market via CBEC channels

<table>
<thead>
<tr>
<th>Overseas brands</th>
<th>Fung Omni Services</th>
<th>LF Logistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Macy’s</td>
<td>• Fung Omni Services (FOM) is an e-commerce and technology team under Li &amp; Fung</td>
<td>• LF Logistics, the logistics arm under Li &amp; Fung, offers e-commerce warehouse management, return processing and value-added services to the clients</td>
</tr>
<tr>
<td>Parfois</td>
<td>• FOM focuses on the e-commerce operation of branded Tmall flagship stores, providing a series of services to the clients, such as e-store management, customer services, product management and e-marketing</td>
<td>• LF Logistics picks and packs online orders at the fulfillment centres and dispatches to the distribution centres of express delivery companies for countrywide distribution</td>
</tr>
<tr>
<td>Carter’s</td>
<td>• The operation team is formed by a group of e-commerce experts with hands-on experience in launching Tmall stores and growing them into top-ranking stores with substantial turnovers</td>
<td>• LF Logistics has extensive partnerships with a range of regional express delivery companies with local knowhow</td>
</tr>
<tr>
<td>Gieves &amp; Hawkes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cerruti 1881</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&amp; other famous brands</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Fung Omni Services, compiled by Fung Business Intelligence Centre
Box 2: Case - Fung Omni Services & LF Logistics (cont’d)

Macy’s enters China’s market via CBEC platform with the e-commerce operating and logistics services provided by Fung Omni and LF Logistics, respectively.

Macy’s, one of the world’s largest fashion retailers and the largest U.S. department store chain by sales, has about 885 outlets. Macy’s is the first overseas department store operator to join Tmall Global.

Fast Facts (2017) ~ CBEC business

★ Serve Chinese customers in 31 provinces and 330 cities
★ Provide 10,000 SKU on Tmall Global and have nearly 800,000 followers
★ Have 76 million unique visitors to their multi-platforms targeted for Chinese customers

Logistics services:
• 33% of orders are shipped directly from overseas warehouse (the US)
• 67% of orders are consolidated in Hong Kong warehouse and direct shipped to China, upon order received

Source: Macy’s China, compiled by Fung Business Intelligence Centre
Observations:
Evolutions of CBEC and logistics go hand in hand
Observation 1

More small-sized logistics companies seize opportunities in handling massive amounts of small parcels in CBEC.

Note: 3PL = Third party logistics service providers
Source: compiled by Fung Business Intelligence
Observation 2
Some large-scale logistics companies expand their footprints in the CBEC sector in multiple ways

Case:

1. Establish Sfbuy.com selling overseas products to Chinese shoppers
2. Set up unmanned O2O convenience store in Chongqing selling overseas products
3. Form a joint venture with worldwide logistic market leader, UPS
4. Keep on buying new aircrafts
5. Build an airport in Hubei

Picture sources: China’s E-commerce Research Centre, SF Express, UPS
Source: Compiled by Fung Business Intelligence Centre
Observation 3

E-commerce giants also prepare for the global logistics battle

Case: Alibaba Group

Apart from signing a number of strategic agreements with overseas governments and e-commerce companies, Alibaba Group is expanding its global logistics footprint via acquisition in the past few years.

Note: This figure includes part of the business units and invested companies of Alibaba Group. Icon source: Internet. Source: compiled by Fung Business Intelligence.
Observation 4

More Chinese online shoppers look for high-value goods and food items from overseas. Demand for corresponding logistics services is increasing

- China’s consumer market is transforming into the “new consumption era”. More and more middle class shoppers are willing to buy high quality/high-value products from overseas via online platforms.
- Shoppers concerned about the buying experience and the product, for example, the freshness of food items along transshipment, the security of high-value goods, etc.
- The logistics services providers handling imported fresh food items should be equipped with proper temperature- and moisture-controlled facilities and be capable of providing real-time product updates upon request.
- Logisticians need to be capable of delivering high-value orders in a timely manner and offering global parcel insurance packages and real-time global tracking services.

Top 10 best sellers of CBEC in 2016

- Cosmetics & skin care
- Accessories and bags
- Apparel and shoes
- 3C products
- Mother and baby care products
- Food
- Health supplement
- Home products
- Watches
- Toy

Survey: Concerns of Post-80s/-90s online shoppers on imported food and health supplement*

- Fake goods 32%
- Food safety 30%
- Damaged food during delivery 24%
- Discrepancy between actual goods and online description 24%
- Fluctuation in product quality 24%
- No after-sale guarantee 23%
- Long delivery lead time 23%
- Short product shelf life 20%
- Not familiar with oversea food brands 20%

- Freshness 50%
- With proper food safety certification 50%
- Good food hygiene 48%
- Good delivery hygiene 38%
- Professional e-platform management 32%
- Poison prevention packaging 31%
- Traceable food origin 30%

*Note: N = 1259
Source: iResearch, 2017
Observation 5

More local logisticians get involved in worldwide mega online sale promotions and face huge challenges in IT operations

- Many e-commerce platforms run mega online sale promotions to boost the sale value throughout the year. Product scopes of certain local-oriented sale campaigns, e.g. JD’s 6.18 and Alibaba’s 11.11, are now extending to imported goods. Also, some CBEC platforms start participating in worldwide mega sale programs (e.g. Black Friday, Cyber Monday)
- Mega sale campaigns caused sudden influx of B2C order information to the system, which often led to system crash. Sophisticated IT support is important to ensure smooth logistics operation during mega sale campaigns. Local logisticians need to invest on IT back-end upgrade and hire IT experts with e-commerce business background

### Singles’ Day 2017
- Sale value of Netease Kaola increased by 400% on Singles’ Day 2017, as compared with Singles’ Day 2016
- The first purchase on Netease Kaola was delivered in 32 minutes after midnight on Singles’ Day
- The first purchase on Tmall Global was delivered in 33.15 minutes
- Top 5 imported countries of Tmall Global: Japan, the US, Australia, Germany and S Korea

### Black Friday 2017
- Sale value of Netease Kaola increased by 550% on Black Friday 2017, as compared with Black Friday 2016. Sale values of both Tmall Global and JD worldwide were 200% higher
- Top 5 provinces buying imported goods via Tmall Global: Shanghai, Beijing, Guangzhou, Hangzhou and Shenzhen
- According to JD Worldwide, sale value of infant formula was 300% higher on Black Friday 2017, diapers 280%, mask 680%, health supplement 200%, 3C products 550%

Source: Compiled by Fung Business Intelligence Centre
Return logistics is a nightmare in CBEC business

Observation 6

Not all CBEC players in China accept unconditional returns from customers within seven days of the sale. Under certain conditions, some CBEC players accept returned goods and refund to the shoppers for good consumer reviews.

However, CBEC players may not return the goods to the origins with several considerations:

• Customs bottlenecks and charges
• Complex return handling processes
• Expensive cost of handling returns

How do the CBEC players handle the returns, then?

• Write off
• Staff “benefit” or public charity
• Sell the items via other channels

Source: Compiled by Fung Business Intelligence Centre
Future prospect:
Market, Government, Technology
Prospect 1

Chinese online shoppers crave for imported goods from developed countries, e.g. the US, Europe, Japan, Korea, Australia, etc. They are now also interested in the goods originated from the countries along the Belt and Road.

To ensure a stable delivery experience of the imported goods from the countries along the Belt and Road, building long-term partnership between e-tailers, experienced Chinese logistics operators and reliable local logisticians is crucial.

According to Tmall Global, top 5 exporters to China along the Belt and Road in 2016 were Thailand, Singapore, Malaysia, Israel and the Czech Republic.

According to JD Worldwide, top 5 exporters to China along the Belt and Road with the fastest growth rate in 2016 were Lithuania, Montenegro, Bangladesh, Oman, Tahitian.

This Black Friday, Chinese shoppers ordered a lot more from the countries along the Belt and Road, as compared with Black Friday in 2016. For instance, sale value of bird’s nest sourced from Malaysia and Thailand sold via Tmall Global increased by 1450%.

Source: Alibaba, JD.com, compiled by the Fung Business Intelligence
The government has been very supportive toward the development of CBEC. Stakeholders should quickly respond to any policy updates by preparing optimized logistics plans.

Prospect 2

The government has been very supportive toward the development of CBEC. Stakeholders should quickly respond to any policy updates by preparing optimized logistics plans.

Aug 2012

- Approval of 5 Pilot Cities (Zhengzhou, Chongqing, Hangzhou, Ningbo and Shanghai) for CBEC

Sep 2013

- Approval of Guangzhou as the 6th Pilot City for CBEC

Feb 2014

- A notice re-emphasizes the restrictions on individual customers’ overseas shopping value and volume, tax levies and other details, which are mentioned in GAC Announcement No. 43, 2010.

Mar 2014

- GAC Announcement No. 12 states that “9610” customs supervision code is applicable to individual customers or e-commerce companies who would like to realize transactions through CBEC platforms

Jul 2014

- Approval of Shenzhen as the 7th Pilot City for CBEC

Aug 2014

- GAC Announcement No. 56 states that customs supervision is applicable to both companies and personal cross-border transactions through an ecommerce transaction platform. Ecommerce enterprises should process an ecommerce business filing with Customs for imported goods. Enterprises or individuals engaging in CBEC business should submit orders, payments, and logistics information to Customs before declaring goods to enter or exit China.

Mar 2015

- Approval of Hangzhou as the first CBEC Comprehensive Pilot Zone

Oct 2015

- Approval of Tianjin as the 8th Pilot City for CBEC

Jan 2016

- Approval of Fuzhou and Pingtan as the 9th and 10th Pilot City for CBEC

- Approval of new CBEC Comprehensive Pilot Zones in 12 cities including Tianjin, Shanghai, Chongqing, Hefei, Zhengzhou, Guangzhou, Chengdu, Dalian, Ningbo, Qingdao, Shenzhen, and Suzhou.

Notes: CIA refers China Inspection and Quarantine (CIQ); GAC refers to The General Administration of Customs of PRC; MOF refers to Ministry of Finance; MOFCOM refers to Ministry of Commerce.

Prospect 2

The government has been very supportive toward the development of CBEC. Stakeholders should quickly respond to any policy updates by preparing optimized logistics plans (Cont’d)

Notes: CIA refers China Inspection and Quarantine (CIQ); GAC refers to The General Administration of Customs of PRC; MOF refers to Ministry of Finance; MOFCOM refers to Ministry of Commerce

Prospect 3

To better serve the discerning online shoppers, technology adoption and process improvement ensure operational excellence in logistics

1. Stable information flow
   - Real-time global tracking service is important in CBEC business. The visibility of shipment status affects the shoppers’ experience and logistics reviews of the brands.
   - Sophisticated IT support is important to ensure smooth information flow, especially during mega sale campaigns. More CBEC platforms join worldwide mega sale campaigns, which easily cause sudden influx of order information to the system, which often led to system crash.
   - Logisticians should also align the information systems with the changes of CBEC platforms in a timely manner

Source: Compiled by Fung Business Intelligence Centre
Prospect 3

To better serve the discerning online shoppers, technology adoption and process improvement ensure operation excellence in logistics *(cont’d)*

2. Automation in logistics

To boost the efficiency in warehouse and delivery, stakeholders may consider investing in logistics technology, e.g. robotic, wearable tech, driverless trucks, smart warehouse, Internet of things, automatic guided vehicles, etc.

3. Big data analytics

By capturing all the data along the logistics flows, stakeholders can retrieve valuable information through big data analytics and optimize their operations, e.g. order demand forecasting, solutions to process bottlenecks, warehouse location optimization, delivery route planning, evaluation of third-party logistics providers, etc.

![Automatic guided vehicles](http://mp.weixin.qq.com/s/HR4QzSdUvqbszTo3-U0WnQ)

Source: compiled by Fung Business Intelligence
Report series: Business model innovation in China’s logistics market

Previous reports

- Last mile delivery: A pain point of online shopping
- E-commerce reshaping line haul delivery

This report

- Evolutions of logistics in cross-border e-commerce (B2C Import to China)

Coming soon

- Logistics: An important differentiator of cross-border e-commerce (B2C Export from China)

Special Report
Singles’ Day Report: Key messages from warehouse operators
Contact

Management Theories and Business Models

Winnie Lo
Senior Research Manager
Tel: (852) 2300 2488
Email: winnielowl@fung1937.com

Chung Cheng
Designer

Fung Business Intelligence

10/F, LiFung Tower,
888 Cheung Sha Wan Road,
Kowloon, Hong Kong

Tel: (852) 2300 2470
Fax: (852) 2635 1598
Email: fbicgroup@fung1937.com
http://www.fbicgroup.com/

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