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

March 2018
## Key takeaway:
### Cross-border logistics – An important differentiator of export e-commerce

<table>
<thead>
<tr>
<th>Icon</th>
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<tbody>
<tr>
<td>🌍</td>
<td>Chinese e-tailers, selling their goods to the world, are not only competing with domestics rivals in China, but also global e-tailers on numerous international e-commerce platforms. B2B e-tailers play a dominant role in China’s export e-commerce, while B2C business is expanding. This report provides a deep-dive on the logistics development of B2C export e-commerce.</td>
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<td>To boost online sale, it is important for e-tailers to establish a reputable brand, providing quality products with reasonable price. Apart from product quality, delivery experience is also a crucial factor for the shoppers’ buying decisions. A quick, secure and traceable delivery service with reasonable shipping cost (zero cost is the best!) is most welcome by the shoppers.</td>
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<td>🔄</td>
<td>Indeed, cross-border logistics involves a chain of complex processes, e.g. line-haul delivery services in China, cross-border delivery between the Mainland China and countries abroad, warehouse operations, customs clearance and last-mile delivery in the destination country. Certain international couriers can provide door-to-door delivery services with stable service quality, normally at higher service charges. Other logistics solutions are available for the considerations of export e-tailers, including postal services, charters, overseas warehouses, local/ regional couriers, etc.</td>
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<td>For business development in longer term, stakeholders in B2C export e-commerce should pay attention to the competitive market landscape, cross-sector development of e-commerce and logistics, potential logistics demand in emerging markets and expectation of tech-savvy shoppers.</td>
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</table>

Source: Fung Business Intelligence
More Chinese traders/suppliers are selling their goods to overseas markets via online platforms

Total sale value of China’s cross-border e-commerce (Import + Export, RMB Trillion)

Export e-commerce value was RMB 5.5 Trillion in 2016 (accounted for 8.9% of total export trade value in China)

Export: 5.5

Traditional export trade is slowing down; on the contrary, export e-commerce market is booming. Many traditional trading companies have transformed their business models and become export e-tailers.

Source: China E-commerce Research Centre, China E-commerce Association, Soochow Securities, compiled by Fung Business Intelligence
More overseas shoppers buy China’s exported goods via B2C online platforms

Best sellers of China’s export e-commerce, 2016

- 3C products
- Apparel and shoes
- Outdoor products
- Health supplement & beauty products
- Jewelry
- Gardening
- Accessories and bags
- Mother and baby care products

Export e-commerce value was RMB 5.5 Trillion in 2016 (accounted for 8.9% of total export trade value in China)

B2B e-tailers play a dominant role in China’s export e-commerce, while B2C business is expanding. The estimated percentage share of B2C business in China’s total export e-commerce value in 2016 was 17%, up from 11% in 2011.

Source: China E-commerce Research Centre, China E-commerce Association, Soochow Securities, compiled by Fung Business Intelligence
Evolving export channels

Traditional trading

Mainland Manufacturers → Mainland Exporters → Customs → Overseas Distributor 1 → Overseas Distributor N → Overseas Retailers → Overseas Shoppers

B2B export e-commerce

New intermediary: E-commerce operators

Functions:
- Marketing and sale
- Customs clearance
- Logistics
- Payment

Mainland Manufacturers → Overseas Retailers → Overseas Shoppers

B2C export e-commerce

New intermediary: E-commerce operators

Functions:
- Marketing and sale
- Customs clearance
- Logistics
- Payment
- B2C data analytics

Mainland Manufacturers → Overseas Shoppers

Source: Fung Business Intelligence
Major export e-commerce players

**B2B**

**Marketplaces**

- Alibaba.com
- Made-in-China.com
- global Sources
- OSell
- DHgate.com

**B2C**

**Marketplaces**

- Overseas e-commerce platforms: Amazon, eBay
- Chinese e-commerce platforms: AliExpress, SHEIN, GearBest

**Vertical e-commerce platforms**

- Fashion: ZAFUL
- Electronics: AlfaWire, Fe Smart Watch

Chinese e-tailers selling self-owned brands via 3rd-party marketplaces

Source: Internet, compiled by Fung Business Intelligence
Complexity of logistics involved in B2C export e-commerce from China
Cross-border delivery**

Line-haul delivery*

Suppliers of Chinese Export E-tailers

Warehouses in China

Chinese Customs

Slides 13 - 14

Slide 12

Last-mile delivery

Foreign Customs

Overseas Warehouses

Overseas Shoppers

Slides 13 - 14

Slide 12

Slide 15


** Since cross-border delivery of B2B export e-commerce is similar to the flow of traditional general cargo, this report focuses on the new development of B2C export e-commerce logistics.

Source: Fung Business Intelligence
In the early stage, most of the B2C export orders were small parcels and delivered by postal service.

Merits of using postal service:
- Comprehensive global network coverage
- Low delivery costs of posting low-value, small-size and light-weight parcels from China to overseas
- No huge investment in building and operating warehouses
- No extra service charge for any logistics intermediary

Source: Fung Business Intelligence
Pain points of using postal services

- Parcel loss
- Long delivery lead time
- Parcel damage
- Expensive cost for goods return
- Difficult to trace the delivery status

Source: Fung Business Intelligence
To resolve the pain points of postal services, more logistics solutions for B2C export e-commerce are ready in the market

<table>
<thead>
<tr>
<th>Models</th>
<th>Transport cost (RMB)</th>
<th>Global coverage</th>
<th>Delivery lead time</th>
<th>Risk of parcel loss</th>
<th>Goods return service</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Direct mail</td>
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<td>a. via postal services</td>
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<td>b. via international couriers</td>
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<td>3 – 7 days</td>
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<td>c. via local/ regional couriers</td>
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<td>5 – 12 days</td>
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<td>d. via charter services</td>
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<td>7 – 13 days</td>
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<tr>
<td>2. Traditional freight forwarders + overseas warehouses</td>
<td>Depends on local couriers’ charges</td>
<td>Depends on local couriers’ network</td>
<td>1 – 7 days</td>
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Notes:
* Excellent coverage to developed European countries and the US
Source: Interview, Internet, compiled by Fung Business Intelligence
Customs and tariff

- In the past, many export e-commerce operators delivered their goods to overseas clients by post. Since postal parcels are generally classified as personal items (subject to regulations of different countries), they can easily pass through customs without inspection, i.e. no tariff or other taxes will be imposed.
- Today, many customs departments have started to refine the tariff and value-added tax policies on e-commerce and requests official documents from e-tailers.
- E-tailers have to study the customs and tariff requirements of the destination countries, since the requirements of each country/ customs territory are different.

Source: Fung Business Intelligence
Where should B2C export e-tailers store the stock?

### Warehouses in China

**Pros**
- Lower inventory risk
- Lower warehouse labour cost
- Workers are more willing to work over-time

**Cons**
- Longer delivery lead time
- Expensive for returning goods to China after sending the goods abroad

### Overseas Warehouses

*(developed countries)*

**Pros**
- Shorter delivery lead time
- More value-added services can be provided in on-shore warehouses
- The warehouse can serve as a returned goods collection point, which can generate a higher trust level of the overseas shoppers toward the online e-tailer
- Lower cost of handling return goods, relatively

**Cons**
- Higher inventory risk
- Higher warehouse labour cost
- Stringent labour regulations
- Salary paid in foreign currency, with higher risk of exchange rate fluctuation
- Higher cultural and management risks

### Additional considerations

- For standardized products with stable demand forecast, Chinese e-tailers may consider to store the goods at overseas warehouse
- The service standard of local warehouse operators and local regulations in various destined countries maybe different. Pay attention on the selection and management of local partners, e.g. daily warehouse operations, inventory management, etc.
- Overseas shoppers enjoy gifting during major festivals in the 2nd half of the year, e.g. Thanksgiving, Christmas, Black Friday, Singles’ Day, etc.

In general, the sale value of the 2nd half of the year doubled that of the 1st half of the year.

B2C export e-tailers and logistics service providers shall prepare for the fluctuation of seasonal demand with a holistic plan on warehouse locations, capacity and inventory management.

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Source: Fung Business Intelligence
Warehouses in Hong Kong – One of the best alternative solutions

The model:

• Step 1: Chinese e-tailers ship their products to Hong Kong by truck
• Step 2: Upon receiving orders via online platforms, the logisticians will ship the goods from Hong Kong to the world by air

The advantages of shipping export e-commerce goods via Hong Kong:

• Strategic location:
  – Situated in East Asia, with half the world’s population within a 5-hour flying time
  – Short trucking time between Hong Kong and Southern China
• Simple tax system:
  – Free trade port
  – No general sales tax
• Logistics capability:
  – Efficient logistics management and customs clearance in Hong Kong
  – Able to consolidate returned goods from all over the world, inspect, repack and re-export the goods
  – Lower inventory risk, as the transshipment cost is much lower

Source: Fung Business Intelligence
Last-mile delivery

- To provide last-mile delivery services, an experienced logistics team shall be able to communicate with Chinese e-tailers, local shoppers and other stakeholders, possess cross-border e-commerce knowhow and understand local culture. Obviously, it is costly for export e-tailers to set up a self-operated logistics team in every export destination.
- Thus, the selection of a reputable local partner is important in handling last mile delivery. Selection criteria includes:

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<th>Competitive services charge</th>
<th>Local network coverage</th>
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<td>Sophisticated information system</td>
<td>Safety, security and insurance coverage</td>
<td>Capability in handling money collection and transmission</td>
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</table>

Major payment methods in cross-border e-commerce includes credit card, bank transfer, cash on delivery, e-payment, etc. For cash on delivery, e-tailers and logistics service providers shall partner with reliable local courier companies, who are capable for handling cross-border money transmission. Also, Chinese stakeholders shall pay attention to the foreign exchange control, exchange rate risk, local tax system, etc.

Source: Fung Business Intelligence
Development trends
Cross-sector development of e-commerce and logistics

Logistics companies try to tap into export e-commerce market

Case:

1. Establish intmall.com selling Chinese products to Russian shoppers
2. Form a joint venture with worldwide logistic market leader, UPS
3. Keep on buying new aircrafts
4. Build an airport in Hubei

Picture sources: SF Express, UPS
Source: Compiled by Fung Business Intelligence Centre
Cross-sector development of e-commerce and logistics (*cont’d*)

China’s e-commerce companies are moving fast in logistics investment

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<th>Emerging markets</th>
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Source: Internet, compiled by Fung Business Intelligence
Opportunities for local logistics service providers

Apart from the international logistics services providers (LSP), more and more local/ regional logistics players seize opportunities in the cross-border e-commerce logistics business.
Potential of emerging markets

Chinese goods are well-accepted by global online shoppers. Growth in demand from the emerging markets is even faster than that of the mature markets. Selection and management of regional/local logistics partners are crucial to ensure a stable delivery experience.

Major B2C e-commerce platforms in emerging markets

South America
- Mercado Libre
- Lojas Americanas

Africa
- Jumia
- Kilimall

Middle East
- Souq
- Jollychic

India
- Flipcart
- Snapdeal

SE Asia
- Lazada
- Local platforms

Russia
- Aliexpress
- Yandex

Source: Internet, compiled by Fung Business Intelligence
Online shoppers along the Belt and Road crave for Chinese goods. Rail service is an alternative delivery solution of air/sea transport.
Expectation of tech-savvy shoppers
Transparent global tracking services and real-time inventory management system are important in export e-commerce

- The tech-savvy shoppers have gotten used to tracing the delivery status by using mobile APPs or via webpage. Their online logistics reviews will affect buying decisions of other shoppers from all over the world.
- A global, traceable delivery service is crucial to enhance the visibility of shipment status and reduce the risk of order cancelation. Sophisticated IT support is important to ensure smooth logistics information flow among stakeholders.
- Also, a real-time inventory management system can assist e-tailers to better monitor worldwide orders, quickly respond to changes in different markets and make accurate replenishment decisions and demand forecast.

Source: 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

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

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

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