Overview of the innovative B2B business models in China

August 2020
Key takeaways

Unlike the winner-takes-all B2C market, B2B market is fragmented and distinctly characterized. Digitization and innovation in B2B businesses in China are in progress, with different paces in various supply chains, verticals and support services. No single service provider can dominate all market segments for the time being. Huge growth in China’s B2B market is expected.

Key drivers of innovation in China’s B2B business:

01. Changes in consumer expectation drive B2B business transformation
02. The government supports B2B business innovation and acceleration of industrial upgrading
03. Internet giants eye on the next blue ocean market, B2B business
04. Technological advance leads to digital transformation

Zoom in: A lot of B2B business innovations aim at solving the pain-points facing supply chains and streamlining the four flows in supply chain

Process flow
Map 1: Distribution in FMCG
Map 2: Apparel supply chain

Information flow
Map 3: Supply chain visibility
Map 4: Enterprise digitization

Logistics flow
Map 5: Innovations in B2B logistics

Cash flow
Map 6: Digitization in financial sector

What’s next: Some buzzwords are frequently mentioned by China’s B2B business guru in the midst of the Covid-19 outbreak, e.g. digitization, supply chain resilience, B2B (export) e-commerce, branding, mergers and acquisitions, etc.
B2C business innovations emerged at the “consumer”, “product” and “channel” levels*. B2B business operators have to satisfy the changed consumer demand by reforming product and channel management, with the aid of various support services and technology.

* For detail of innovative B2C business models, view also Fung Business Intelligence’s Report, Jan 2020: “Overview of the innovative B2C business models in China”

Source: Fung Business Intelligence
Digitization and innovation in B2B businesses in China are in progress, with different paces in various supply chains, verticals and support services. Unlike the winner-takes-all B2C market, no single B2B service provider can dominate all market segments. China’s B2B market has huge potential.

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<tbody>
<tr>
<td>Smart Manufacturing</td>
<td>Integrated marketplaces</td>
<td>Enterprises services</td>
<td>Technology</td>
</tr>
<tr>
<td>(including automation, robots, machine tool, IOT, manufacturing software, etc.)</td>
<td>(including BOM, MRO &amp; distribution)</td>
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</tbody>
</table>

* IOT = Internet Of Things; BOM = Bill Of Materials; MRO = Maintenance, Repair and Operations
* Selected innovative companies in China’s B2B market
* Icon source: Internet

Source: Fung Business Intelligence
Innovation in China’s B2B business
Key drivers of innovation in China’s B2B business:


Chinese consumers today are empowered by mobile technology and have different lifestyles and consumption practices from those of their previous generations. To differentiate from the competitors, many B2C operators are exploring various ways to enhance their supply chain capabilities. Some of them engage in upstream B2B business. Some seek assistance from innovative “to B” solution providers.

*MOQ = minimum order quantity
Source: Fung Business Intelligence

<table>
<thead>
<tr>
<th>Past</th>
<th>Supply driven</th>
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<tbody>
<tr>
<td>Upstream</td>
<td>• Mass production</td>
</tr>
<tr>
<td>Downstream</td>
<td>• Accept large-size orders with certain MOQ* requirement</td>
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<tr>
<td>Downstream</td>
<td>• Long production lead time</td>
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<table>
<thead>
<tr>
<th>Now &amp; Future</th>
<th>Demand driven</th>
</tr>
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<tbody>
<tr>
<td>Upstream</td>
<td>• Demand for diversified, customized goods/services</td>
</tr>
<tr>
<td>Downstream</td>
<td>• Demand for short production and delivery lead time</td>
</tr>
<tr>
<td>Downstream</td>
<td>• Accept small quantity, rapid replenishment orders</td>
</tr>
</tbody>
</table>

*MOQ = minimum order quantity
Source: Fung Business Intelligence
Box 1. Different buying behaviours of B2B and B2C customers

**B2B business**
- **Product price:** Lower unit price (wholesale price)
- **Product quantity:** Higher, meet with suppliers’ MOQ
- **Buying decision:** Complex, tendering for high value order is needed
- **Transaction risk:** Higher for bulk order
- **Buying expectation:** Good quality, specialized services and efficiency
- **Buyer’s loyalty:** Higher, stick to trusted supplier base

**B2C business**
- **Product price:** Higher unit price (retail price)
- **Product quantity:** Lower, as low as single unit
- **Buying decision:** Instant, straight forward
- **Transaction risk:** Lower for buying single unit
- **Buying expectation:** Good quality and services experience, quick response
- **Buyer’s loyalty:** Lower, relatively price sensitive

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Source: Fung Business Intelligence
Key drivers of innovation in China’s B2B business:

2. The government supports B2B business innovation and acceleration of industrial upgrading

A number of regulations promulgated in the recent years are conducive to the development of B2B business in China

Pain points facing the traditional B2B business in China:
- Aging labour force and increasing production costs
- Provision of low value-added services along the global value chain without owning the core technologies, earning a very thin margin
- Homogeneous competition in local market
- Severe international competition in the globalized era

To climb from the bottom of the global value chain, B2B business operators have to explore innovative models and transform from being OEM to become ODM or OBM

*OEM = original equipment manufacturers; ODM = original design manufacturers; OBM = original brand manufacturers
Source: Fung Business Intelligence
Key drivers of innovation in China’s B2B business:

3. Internet giants in China have become more conservative about investing in B2C startups since 2018. They eye on the next blue ocean market, i.e. B2B business

In 2019, 8 internet giants newly invested in over 400 startups in China and overseas

<table>
<thead>
<tr>
<th></th>
<th>Enterprise services</th>
<th>Information technology</th>
<th>Media &amp; entertainment</th>
<th>Finance</th>
<th>Lifestyle services</th>
<th>Transport</th>
<th>B2B/ B2C e-commerce</th>
<th>Medical &amp; health</th>
<th>Education</th>
<th>Gaming</th>
<th>Logistics</th>
<th>Property service</th>
<th>Social network</th>
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<td>3</td>
<td>4</td>
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</table>
Key drivers of innovation in China’s B2B business:

4. Technological advance leads to digital transformation

**Consumers**
- **Mobile technology**
  - Anytime (24 hours x 7 days); Anywhere (shop, restaurant, home, office, on the road, etc.)
  - • Product research
  - • Product reviews
  - • Order placement
  - • Consumer financing

**Product development and design**
- • Virtual Design
- • 3D scanning
- • 3D printing

**Manufacturing and Quality Control**
- • Internet of Things
- • Augmented Reality/ Virtual Reality
- • Robotics
- • Automation

**Sourcing/ Distribution**
- • Online marketplace
- • Supply chain finance platform
- • Sale/ Inventory management system

**Logistics**
- • Automation
- • Robotics
- • Augment Reality/ Virtual Reality
- • Internet of Things
- • Unmanned vehicles
- • Sharing platform

**Software as a Service (SaaS)**
- • Customer relationship management
- • Human resources management
- • Enterprise resources management
- • Supply chain management
- • (Remote) Office assistance
- • Financial management
- • Logistics management
- • E-contract

Source: Fung Business Intelligence
Zoom in: B2B Business Innovation in terms of the 4 Flows of Supply Chain
A lot of B2B business innovations aim at solving the pain-points facing supply chains and streamlining the four flows in supply chain.

* A supply chain manages four flows, including process flow, logistics flow, information flow and capital flow. Source: Fung Business Intelligence
1. B2B innovation in process flow

Map 1: E-commerce giants tried to reform distribution processes in China by becoming one-stop-shop intermediates and replacing existing traditional multi-tier intermediates. Many FMCG distribution e-platforms have emerged, linking brand owners and retail stores in cities and villages. It takes time for the downstream users to become familiar with the new tools and compare the quotes from new intermediates and the grandfather pricing offered by traditional distribution partners.

### FMCG e-platforms

<table>
<thead>
<tr>
<th>Platform</th>
<th>Year Launched</th>
<th>Parent Company</th>
<th>Funding Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lingshoutong</td>
<td>2016</td>
<td>Alibaba</td>
<td></td>
</tr>
<tr>
<td>Yijiupi</td>
<td>Established in 2014</td>
<td>Tencent &amp; VCs</td>
<td></td>
</tr>
<tr>
<td>Huitongda</td>
<td>Launched in 2010</td>
<td>FiveStar Holdings</td>
<td></td>
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<tr>
<td>Xintonglu</td>
<td>Launched in 2015</td>
<td>Alibaba</td>
<td></td>
</tr>
<tr>
<td>Huimin</td>
<td>Established in 2013</td>
<td>Tencent &amp; VCs</td>
<td></td>
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</tbody>
</table>

**One-stop-shop services:**
- Transparent information sharing
- Order management
- Consumer relationship management
- Retail data analytics
- Logistics management

**Source:** iResearch, compiled by Fung Business Intelligence
Map 2: China’s apparel sector is highly fragmented and consists of millions of small-size operators. Some innovative fabric/apparel B2B models have emerged to tackle pain points facing the industry.

Pain points facing the traditional apparel stakeholders in the non-digitized era:

- Mismatch of demand & supply of fabric & accessories
- Long production lead-time of fabric
- No guarantee on product quality & delivery lead-time
- High level of safety stock and slow cash flow return
- Intellectual property issues in fashion design
- Long lead-time spent on obtaining design and sample approval
- Discrepancy between design and samples
- Customers always expect for new design
- Resistance on digital/automated changes by factory supervisors & workers
- Low digitization level of supply chain (esp. small-sized factories)
- High cost incurred in product personalization
- Small orders & rapid replenishment requested by downstream operators
- Small orders & rapid replenishment requested by downstream operators
- Multi-tier small-sized distributors incurred high transaction costs
- Non-standardized products with short shelf-life
- Keen competition as low entry of barrier
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Levels of digitization of the various sectors along apparel supply chain are different. For the time being, no single third-party service provider dominates the market and controls the entire supply chain.
2. B2B innovation in information flow

Map 3: Internet giants offer digitized solutions enhancing supply chain visibility of small- and medium-sized factories.

For instance, Alibaba set up 1688.com, aiming at bridging factories and downstream sellers. The B2B platform is empowered by data analytics services with data sourced from its B2C marketplaces, logistics and financial platforms.

<table>
<thead>
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<th>Manufacturers and buyers matching platform</th>
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<tr>
<td><strong>Different functions under 1688.com</strong></td>
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<tr>
<td><strong>Taofactory</strong></td>
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<tr>
<td>Match Taobao sellers and factories, able to offer rapid replenishment with production capacity reserved</td>
</tr>
<tr>
<td>Offer factory inspection services</td>
</tr>
<tr>
<td>Pilot run of factory transformation in 2018</td>
</tr>
</tbody>
</table>

Source: Fung Business Intelligence
2. B2B innovation in information flow

Map 4: Apart from supply chain visibility, many companies seek new solutions to enhance their operational excellence and flexibility. A lot of SaaS startups emerged in China.

CRM SaaS* accounted for around 20% of the entire vertical SaaS market in 2018, followed by customer services and call centre (~15%), ERP (~11%) and enterprise communication (~11%).

* SaaS = Software as a Service. According to Microsoft, SaaS allows users to connect to and use cloud-based apps over the Internet. The service provider manages the hardware and software, and with the appropriate service agreement, will ensure the availability and the security of the app and data as well.
** CRM = Consumer relationship management, ERP = Enterprise resources planning

Source: iResearch, compiled by Fung Business Intelligence
3. B2B innovation in logistics flow

Map 5: With the aid of data analytics tools, AI, IoT, robotics and other advanced technologies, innovations in various B2B logistics segments have developed

### Pain points
- Low efficiency of manual operations
- Capacity and labour shortage during peak period
- No real-time information sharing between stakeholders
- Error incurred and inefficiency of data double handling

### Innovation in warehouse operations and management

**Robotics & automation**

- Geek+ Robotics
- MEGVII
- Quicktron
- Siasun
- Mech Mind
- AIChao

**Warehouse solutions**

- Whalehouse
- Jd Logistics
- JD Instant Technology Logistics
- Suning
- CAI NIAO

### Pain points
- Low level of cargo tracking and tracing
- Mismatch of consigners/ consignees and truckers
- Imbalance in inbound/ outbound traffic flow
- High operation costs

### Innovation in transportation

**AI/ IoT solutions**

- Westwell
- G7
- Fabu

**Truck matching platforms**

- Westwell
- Simple
- EHD

**Unmanned vehicles (drones, trucks, etc.)**

*AI= Artificial Intelligence; IoT = Internet of Things
Source: Fung Business Intelligence
### 4. B2B innovation in cash flow

Map 6: Digitization in China’s financial sector enhanced transparency and efficiency of supply chains and reduced risk and cost of B2B financial operations

<table>
<thead>
<tr>
<th>Pain point 1</th>
<th>Pain point 2</th>
<th>Pain point 3</th>
<th>Pain point 4</th>
<th>Pain point 5</th>
<th>Pain point 6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Difficult for SMEs without sufficient collateral to obtain bank loan</td>
<td>Difficult for banks to control supply chain risk by simply examining the financial statements of loan applicants</td>
<td>High financial risk if any supply chain partners with low financial credibility run out of cash</td>
<td>Complex inter-companies financial processes, especially no data synchronization among different systems</td>
<td>Inefficient financial operations, as manual and double handling are common</td>
<td>Stakeholders worry about data security and information leakage</td>
</tr>
</tbody>
</table>

#### Financial challenges facing the stakeholders in the non-digitized era

- **Third-party financial service providers**
  - JDD
  - FIT
  - FIT

- **Integrated solutions**
  - Ant Financial
  - FEN

- **Technology companies**
  - AI
  - Blockchain

- **Innovative financial companies supporting B2B business**
  - Ant Family
  - Tencent
  - Baidu

- **Loan solutions**
  - PingAn Easy Money
  - CreditEase

- **Payment solutions**
  - Tenpay
  - ALIPAY

Source: Fung Business Intelligence
What’s next?
Here are the main buzzwords in China’s B2B business in the midst of the Covid-19 outbreak

*API = Application programming interface
Source: Fung Business Intelligence
Lockdowns have accelerated **technology adoption** and **digitization** of companies. Many companies strive for balance between their business transformation plans and ROI of technological projects.

More B2B customers expect not only sustainable and quality products, but also excellent producer services. In return, more B2B companies **invest in product design** and **brand building**, with ultimate goals of climbing the value chain and earning higher margin.

Internet giants keep on enlarging their **B2B ecosystem through acquisition**, and eye on certain startups of various verticals.

Companies make efforts on **increasing supply chain resiliency and visibility**. More stakeholders are willing to **collaborate with each other** and **act fast**, so as to survive in the volatile business environment, and respond quick to the changes in consumer demand and regulatory shifts.

There has been a shift from traditional sales to **digital sales** by B2B companies. On top of domestic B2B e-commerce, the **growth of B2B export e-commerce** was remarkable. More resources and favourable policy supports in B2B e-commerce and export e-commerce are expected.

*ROI = Return on investment
Source: Fung Business Intelligence*