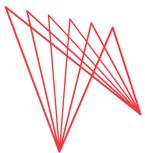


SUCCESSING IN CHINA'S \$9.4 T E-COMMERCE MARKET

| WHY CULTURE AND CONTEXT MATTERS



ASIA PACIFIC
FOUNDATION
OF CANADA

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- **EXECUTIVE
SUMMARY**

CHINA'S CROSS-BORDER E-COMMERCE has been growing in recent years in terms of both volume and value. Mobile e-commerce platforms are critical in this growth. This report is intended to provide Canadian firms with an understanding of the culture and landscape in the Chinese e-commerce market. E-commerce first emerged in the 1990s and experienced rapid growth after 2008. Chinese consumers now demonstrate increased purchasing power, increased Internet usage, and growing familiarity with online shopping. Today up to 40 per cent of local online consumers purchase goods from abroad. The size and growth of the market is leading to significant investments in infrastructure. Domestic Internet firms, such as Alibaba, Baidu, and Tencent have driven the availability of a diverse ecosystem of Internet services. Today the Chinese government is taking strides toward using advanced technologies in a range of different ways. Government policies on investment, infrastructure, and taxation favour the development of e-commerce, related logistics, and services. To keep up with increasing demand from smaller urban and rural areas, online retailers are seeking to expand logistics infrastructure and services.

Consumers' demands are rapidly changing, especially with regard to quality, price sensitivity, and the online shopping experience. Chinese consumers seek to actively interact with brands and each other via online platforms, especially through their smartphones. China is a leader in the mobile evolution in e-commerce. Mobile phone use encompasses the entire shopping journey, from initial product research, through purchase and payment, to post-purchase feedback and review. Chinese consumers prefer to use domestic e-commerce platforms. The Chinese social media landscape is dominated by a wide field of domestic providers such as Tencent and Sina Weibo. In this environment, higher trust is placed in opinions and comments on social media platforms than in those from official company websites. Customers are very likely to make purchase decisions based on what they have learned through social media. There are many options for online payment mechanisms, and consumers in China have high confidence in the security of third-party payment systems. Customers are interested in brand stories they can connect to, and want to receive personalized communication. There is convergence of the online and offline worlds, and firms need to focus on both online and offline platforms.

Key challenges when entering the Chinese market include language considerations (and in fact most challenges are exacerbated by language issues); competition (the consumer market in China is extremely competitive); import and logistics (import requirements, taxes and duties, transport costs, and other charges); and technology (access and use) challenges.

This document is intended for Canadian firms contemplating expansion into e-commerce in China. In addition to providing an overview and statistics, as well as primary data insights into key challenges and considerations, the report also offers two case studies to provide further insights.



■ METHODOLOGY

THIS REPORT has been created with the practitioner in mind, to satisfy the objective of providing firms with an understanding of e-commerce in China.

The research has been conducted with a view to provide practical and accessible insights. The study draws on multiple sources of data, including secondary data, literature reviews, data analysis and statistics, and case studies.

The researchers have analyzed literature on consumption behaviour, patterns, trends, and consumer tastes and preferences. Statistical analysis has been conducted using data that was professionally collected by a large market research organization as part of their annual research program in 2014. The sample panel includes 1,000 individuals from Canada and 1,001 individuals from China. The Canadian sample aimed to be as representative as possible. However, due to electronic survey access requirements, the Chinese sample is slightly skewed toward more educated, younger men.

Additionally, the researchers have identified two case studies for the market. These have been crafted using first-hand interviews and secondary data to provide the readers of the report with examples of what has happened in real cases in the recent past.



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ABOUT THE ASIA PACIFIC FOUNDATION OF CANADA

THE ASIA PACIFIC FOUNDATION OF CANADA is dedicated to strengthening ties between Canada and Asia with a focus on expanding economic relations through trade, investment, and innovation; promoting Canada’s expertise in offering solutions to Asia’s climate change, energy, food security, and natural resource management challenges; building Asia skills and competencies among Canadians, including young Canadians; and improving Canadians’ general understanding of Asia and its growing global influence.

The Foundation is well known for its annual national opinion polls of Canadian attitudes regarding relations with Asia, including Asian foreign investment in Canada and Canada’s trade with Asia. The Foundation places an emphasis on China, India, Japan, and South Korea while also developing expertise in emerging markets in the region, particularly economies within ASEAN.

Visit APF Canada at <http://www.asiapacific.ca>.



INTRODUCTION

THE PEOPLE'S REPUBLIC OF CHINA (PRC), is the world's most populous country, with a population rapidly nearing 1.4 billion. China's cross-border e-commerce has been growing in recent years in terms of both volume and value. Mobile e-commerce platforms are critical in this growth. At the end of 2015, China had over 700 million Internet users, 92 per cent of whom were connecting via mobile phones. In China, online retail infrastructure is quickly becoming superior to physical stores, and numerous companies have been shifting from offline to online trade. However, both still have a prominent place and offer unique value propositions to their customers. With increasingly sophisticated customers who have rapidly evolving expectations, China is expected to become the world's largest e-commerce market by 2020, with e-commerce transactions expected to reach almost 50 trillion yuan (approximately C\$9.4 trillion). China is an important trade partner for Canada, with Canada's current annual export merchandise trade with China being worth over C\$20 billion.

This report was commissioned through the Asia Pacific Foundation of Canada's Grants Program with the objective of supplementing the literature available on e-commerce service providers, as well as establishing a robust analysis of the consumer cultures driving different e-commerce platforms in China.

Our hope is that this report will help Canadian companies understand not only the huge opportunities available in Asia, but also assist them in entering the Chinese market with eyes wide open to the challenges. APF Canada would like to acknowledge the support of those involved in producing this report. Thank you to our authors, Theresa Eriksson, Leyland Pitt, and Kirk Plangger for their tireless efforts in conducting the research and writing the report; APF Canada research staff, Eva Busza, Vice-President, Research and Programs, Yaa-Hemaa Obiri-Yeboah, Senior Policy Advisor, and Justin Elavathil, Program Manager, Trade, Investment and Innovation, for their management of the project and contributions to the report's content; and, APF Canada's communications team Michael Roberts, Communications Manager, and Anna Djerfi, Graphic Designer, for editing and designing the final publication.

THE CHINESE E-COMMERCE CONTEXT

China's cross-border e-commerce has been growing rapidly in recent years in both volume and value. China has now become the second-largest importing country in the world. When Internet use initially started in China, the retail sector itself was in a relatively poor state. However, the industry has expanded significantly. E-commerce first emerged in the 1990s and experienced rapid growth after 2008. Imports to China using cross-border e-commerce started to grow significantly in 2011, driven by the country's steady GDP growth rate, as well as by Chinese consumers' increased purchasing power, increased Internet use, and growing familiarity with online shopping.

China has over 700 million Internet users, over 90 per cent of whom connect via mobile phones. The country is now the second-largest importing country in the world, and it is well on its way to becoming the world's largest cross-border e-commerce market by 2020. Despite the global financial crisis and the consequent decreased growth in international trade, China's cross-border e-commerce has maintained a steady annual growth rate of about 30 per cent since 2011. Now up to 40 per cent of local online consumers purchase goods from abroad.

The size and growth of the market is leading to significant investments in infrastructure. Domestic Internet firms, such as Alibaba, Baidu, and Tencent have driven the availability of a diverse ecosystem of Internet services. Today the Chinese government is taking strides toward using advanced technologies in a range of different ways, such as tackling the country's growing air pollution problem by deploying advanced analytics, and providing online open data government portals to encourage people to develop and submit new apps.

Government policies on investment, infrastructure, and taxation favour the development of e-commerce, related logistics, and services. To keep up with increasing demand from smaller urban and rural areas, online retailers are seeking to expand logistics infrastructure and services. In 2014, the General Administration of Customs issued a State Council Notice that recognizes the importance of cross-border e-commerce and imports through e-commerce. The government also approved the establishment of cross-border e-commerce comprehensive “pilot” cities. As of 2016 there are 13 such cities: Hangzhou, Tianjin, Shanghai, Chongqing, Hefei, Zhengzhou, Guangzhou, Chengdu, Dalian, Ningbo, Qingdao, Shenzhen, and Suzhou.

CUSTOMER CONTEXT

Sophisticated Customers with Evolving Expectations

The purchasing power of the average Chinese consumer has increased substantially over the past 10 years; however, consumers remain price conscious. Chinese consumers are familiar with online shopping, and the market is maturing, with customers priding themselves on making informed purchasing decisions. Consumers’ demands are rapidly increasing. These consumers expect quality, reasonable prices, and a better online shopping experience, including efficient delivery. They are increasingly aware of foreign brands and are demanding foreign products. They seek online items that are too expensive or scarce in domestic offline stores.

The Connected Customer

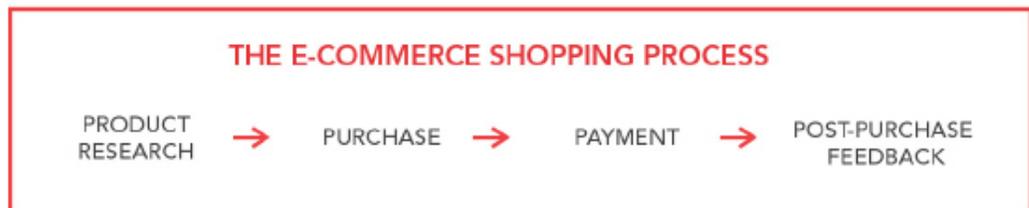
Chinese consumers are very active online. A study (see Appendix) using participants in China and Canada showed that over 90 per cent Chinese respondents use the Internet “almost every day” or more often. Access using mobile phones is rapidly increasing, and mobile phone ownership is overall more prevalent among Chinese respondents than Canadian ones, with the Chinese study participants reporting that they own multiple devices, totalling a sum of 118.1 per cent across the three categories of mobile phone ownership.

Further, more Chinese users than Canadians seek to actively interact with both brands and each other on the Internet, using channels such as WeChat and Sina Weibo. Specifically, they value the ability to communicate with and about brands to enhance the feeling of being personally connected with the brand. Chinese consumers consider pricing, the ability to select from a variety of products, convenience, enhanced delivery, and return options as very important factors when shopping online. They engage with online platforms, especially through their smartphones, and are likely to place higher trust in opinions and comments on social media platforms than in those from official company websites.

Chinese customers are very likely to make purchase decisions based on what they have learned on social media. Social media is an essential tool for companies to find new customers as well as to educate consumers on their products and services. Customers in China are interested in brand stories they can connect to, and want to receive personalized communication, including information about news, offers, events, and discounts. The KPMG report “China’s Connected Consumers 2016” provides further evidence of the ongoing mobile evolution and how Chinese consumers increasingly value communications that are targeted directly to them.¹

The E-commerce Shopping Process

A typical customer’s active online engagement process is illustrated in the figure below. It can be broken down into various phases:



Product Research

Chinese consumers pride themselves on making educated and informed purchase decisions. They seek to educate themselves and want to obtain as much information about the offering as possible before deciding whether to buy. They connect over different types of social media, as well as websites, to review and comment on offerings and experiences. Over 70 per cent of consumers search online for reviews and recommendations prior to making a purchase decision. This forms a key avenue to acquiring new customers and retaining existing ones.

Purchase

In this phase, customers seek both trustworthiness and convenience. Online purchasing is growing rapidly, and in a recent study half of the Chinese respondents reported having purchased a product online at least two to three times a month in the past year. In addition to using online platforms, Chinese consumers still visit real, physical stores, and almost 70 per cent of respondents reported having looked up a product online while in a physical store. This reflects the convergence of the online and offline worlds and underscores the need for firms to focus on both online and offline platforms.²

¹ For full details please see: <https://assets.kpmg.com/content/dam/kpmg/cn/pdf/en/2016/11/china-s-connected-consumer-2016.pdf>

² For details on delivery/logistics and customs, please see “Market and Customer Challenges” on page 26.

Payment

The available payment options play an important role for consumers when deciding where to shop online. There are many options for online payment mechanisms, and consumers in China have high confidence in the security of third-party payment systems, such as Alipay and WeChat Pay. The use of cash is declining rapidly, and bank credit cards and third-party payment systems are becoming the preferred method of payment. Over 30 per cent of Chinese consumers already use third-party payment providers, and payment facilities by messaging platforms continue to grow in popularity. It is expected that the total volume of mobile payments in China will reach US\$6.3T (C\$7.8T) by 2020.

Post-purchase — Reviews and Feedback

Consumers very regularly provide product and service feedback on websites, and especially using social media channels. Social media platforms form an essential tool for firms to keep in touch with and understand their consumers.

Chinese Consumers Want Product Information

Customers want to have as much information about offerings as possible before making a purchase, and also like to review their purchases and provide feedback. The typical Chinese consumer expects retailers to provide detailed and transparent information about their products, as well as real-time information on their stock levels and expected deliveries.

Chinese Consumers Want Convenience

Convenience is a key driver for Chinese customers choosing to shop online. The convenience lies in being able to shop at any chosen time and not having to travel to a physical store, as well as having the ability to compare prices and secure the best possible deal. The convenience of e-commerce is especially important for consumers outside large urban centers, where access to physical stores may be limited.

Products and Brands

The key motivators for consumers to try new brands or products are: value for money, positive online reviews and referrals, and unique or innovative products.

- » **PRODUCT CATEGORIES:** The most popular items to buy online are groceries and women's apparel (both at 56.7 per cent), followed by electronics and computers (51.2 per cent), and sporting goods and equipment (26.0 per cent), according to the recent KPMG "China's Connected Consumers 2016" report.³

³ For full details, please see: <https://assets.kpmg.com/content/dam/kpmg/cn/pdf/en/2016/11/china-s-connected-consumer-2016.pdf>

- » **BRAND CONSCIOUSNESS:** The notions of “face” and social status are of high importance in this culture, driving strong brand consciousness.
- » **BRAND ADVOCACY:** Young Chinese consumers are likely to advocate for the brands they support, both personally and online. Brand image is a key factor driving customer loyalty. Trends shift very quickly in China, and this means that customer loyalty can be difficult to retain over long periods of time.
- » **LUXURY CONSUMPTION:** Luxury goods represent the pursuit of quality and style as well as purchasing power and social status. When they are able to, customers choose to spend their money on high-quality products and services and trusted brands. While there has been some movement away from luxury goods, and the high-end consumer goods market growth has slowed somewhat — with some international luxury brands having closed their stores in China — there is still a key focus on high-quality branded items, and the luxury product purchase rate online is still growing. Around one-third of consumers in 2015 purchased luxury goods online. This rate is expected to increase to 50 per cent by 2020.
- » **VARIETY AND UNIQUENESS:** In addition to the demand for high-quality branded items, there is an interest in purchasing foreign products if the quality is better than domestic, if there is a wider variety of choice, or where there is significant product innovativeness and uniqueness. There is also a potential opportunity for unbranded products of unique design and high quality, especially in the categories of furniture, jewelry, and decoration items.

ONLINE BEHAVIOUR

Online activity is pervasive in both China and Canada,⁴ with over 90 per cent using the Internet almost daily in both countries. Further, survey participants in both China and Canada reported relatively similar overall social media use patterns, with respondents from China, however, displaying a higher per centage of overall social media use than the Canadian individuals. Surveyed individuals from both countries report that technology has become a part of their daily lives. Chinese individuals reported almost twice as many of their conversations being held online. Additionally, over 90 per cent of the Chinese users agreed that technology facilitates exchange of information and that technology made them feel more knowledgeable.

⁴ Detailed graphs can be found in Appendix

Mobile Evolution

China has more Internet users than any other country. The country is a leader in the mobile evolution in e-commerce, with a rapidly increasing number of online purchases being made using mobile phones. Mobile phone use encompasses the entire shopping journey, from initial product research, through purchase and payment, to post-purchase feedback and review.

Preference for Domestic Platforms

Chinese consumers prefer to use domestic e-commerce platforms. The most popular shopping avenues are domestic sites, online shopping catalogues, independent online stores, and social media sites. Today there is a wide range of domestic e-commerce offerings such as Tmall, Taobao, and JD.com. Customers also, albeit to a lesser extent, use international e-commerce platforms such as Amazon.

Social Media

China is today the world's largest social network market, although the main players are very different from North America. The platform demographics are mainly driven by the Chinese government's Internet censorship policies, which officially block many leading international social media players (including Facebook, Twitter, Instagram, and YouTube). The Chinese social media landscape is instead dominated by a wide field of domestic providers, such as Tencent and Sina Weibo. Survey information on how people use social media shows slightly different behaviour for Chinese respondents, who listed news (41.7 per cent) and entertainment (42.1 per cent) as top reasons for using social media. In contrast, Canadian users named "keeping in touch" as the most important area of use for social media.

Instant Messaging

Instant messaging services have a very high penetration rate in the Chinese market. Users are actively using apps such as Tencent QQ and WeChat.

Weibo/Microblogging

The Chinese word "weibo" means "microblog." Like Twitter, this approach allows for up to 140 Chinese characters to be used in one post. However, it is worth noting that a Chinese character communicates more content than a single English character; therefore, a weibo allows for more depth than an English mobile text or Twitter message. Microblogging is used for social news and entertainment and is a common vehicle for by key opinion leaders (KOLs) to get their messages out to a broad user base. Top Chinese companies have their own microblog accounts on services such as Sina Weibo or Tencent Weibo.

Online-to-Offline

The rapid acceptance of Internet use in China highlights the importance of digital media and online platforms. It is especially important to be actively engaged in the mobile evolution. Consumers expect their experience to be connected and integrated all the way, in product research, purchase, and payment and for post-purchase activities.

Microstores

Microstores are becoming prevalent, and are very similar to “pop-up” stores in the physical environment. This means that mobile microstores are literary “small shops online,” which can be set up quickly using a mobile phone at no or relatively low cost. These stores form mini shopping sites hosted by existing online platforms. The microstores are intended to be quick and convenient and are directly linked to online payment services. For example, there are apps such as Weidian where users can set up a microstore for free, this is one of multiple microstore apps that connect to WeChat (e.g., stores from JD.com and Youzan). The WeChat microstore setup option is open to official WeChat users. It allows the users to set up their own online micro-storefronts. They then become “store owners” and can use the apps to create and manage inventory items and orders. The WeChat microstore can be connected to WeChat Pay functionality and also offers a purchase protection program that can be used for filing and settling complaints.

SHOPPING EVENTS/TIMING

When it comes to the Chinese market, it is important to pay attention to the Chinese calendar. In addition to events celebrated in North America, such as Valentine’s Day and Christmas, other important events in China are Chinese New Year and Singles’ Day:

The Chinese New Year/Spring Festival

The Chinese New Year, often referred to as the Spring Festival, takes place to celebrate the new year of the Chinese calendar. It is celebrated for two weeks, starting on the evening before the new moon between January 21 and February 20. It is one of the most celebrated festivals in the world. This is a period of high shopping activity in the Chinese market, especially using mobile phones to access e-commerce platforms. Many people have additional money to spend, as during this time red envelopes, generally containing money, are given as gifts to unmarried young people and children by elderly and married people. Adding to this, gifts are often exchanged between families and friends to celebrate the New Year. Online shopping platforms offer New Year’s deals and tailor their website marketing to this period. Apart from shopping, another example of online activity related to the New Year is the popular WeChat Red Envelope initiative. People can use the program to send “red envelope” money directly online to friends and family.

Singles' Day

Singles' Day has been called the world's largest online shopping day of the year. In 2016, shoppers spent US\$17.8B in the first 24 hours of Singles' Day. Purchases were mainly made using mobile phones. Singles' Day started as an "anti-Valentine's" celebration for single people in China in the 1990s, and celebrates the many millions of unattached people in the country. It takes place on November 11 every year ("11.11"); there is a symbolic relevance of the 1's facing each other. It is now a day when people, single or not, buy themselves gifts. Singles' Day is trademarked by Alibaba. Tmall started offering deals on the day in 2009 with a small number of retailers. It has since grown to an international event involving thousands of vendors.

SECTION 2

MAIN STAKEHOLDERS

E-COMMERCE PLATFORMS

Alibaba Group Holdings

Founded by Jack Ma in 1999, Alibaba Group is the major stakeholder in the Chinese e-commerce market. Originally created as a site for buying and selling goods online, it has grown to become one of the world's largest retailers. The group actively supports the establishment of an Electronic World Trade Platform (eWTP). This is intended to support the growth of the global digital economy and inclusive worldwide trade, foster wider development of subject matter expertise, and serve as an incubator for international e-trade rules. Alibaba Group offers a wide range of e-commerce platforms and support services. These include Taobao, the domestic shopping website for small and medium businesses; Tmall, a brand and large business retailer; Alipay, an online payment tool; Aliexpress, for third-party trading and cross-border online trading services; and Cainiao for logistics. These are summarized below.

Alibaba's several e-commerce platforms for third-party consumers and businesses to buy and sell products operate similarly to eBay. The platforms operate on a platform use fee, with additional advertising fees, as well as sales commissions and order fulfillment service charges. The group offers marketing facilitation, such as customer data analytics and advice on customer segmentation. Interested firms can use the Alibaba.com website to learn more about the different services and pricing models, and to set up accounts to proceed. It is worth noting that using the services will require some investment and therefore may suit established small businesses with investment capabilities better than cash-strapped startups.

TABLE 1: MAJOR SERVICES OFFERED BY ALIBABA

ALIPAY	This online payment service provides the lion's share of online payment services in China. It is an escrow-based online payment platform. It is the preferred payment solution for transactions on Tmall. The Alipay Wallet stores e-coupons and loyalty cards. Alipay is increasingly targeting offline payments with the Alipay Wallet app; these can be made by scanning QR codes. QR codes are much more popular in China than in Canada. Alipay Wallet also uses sound waves to connect with vending machines (such as train ticketing machines) even when the devices are offline.
ALIEXPRESS	A cross-border online trading services and a third-party trading marketplace for microenterprises and small enterprises for trading outside of China. To some extent, it is intended to compete with platforms such as eBay. This marketplace allows mainland China-based vendors to sell internationally; however, it restricts purchases in China.
CAINAIO (LOGISTICS)	Manages a network of distribution partners for domestic and cross-border movement of goods.
ONE TOUCH BUSINESS SERVICES	Based on what used to be called the Foreign Trade Integrated Service Platform, OneTouch is an import and export outsourcing service platform. It provides customs clearance, logistics, tax rebating, foreign exchange, financing, and import/export services.
TAOBAO	This is one of the world's largest online retail platforms for small businesses. It facilitates the establishment of online stores for consumers in Chinese-speaking regions. It offers fixed-price and auction sales services.
TMALL	A marketplace for well-known brands and large retailers from Taobao Mall. Using the domestic Tmall platform requires business registration and a Chinese partner.
TMALL GLOBAL	This platform allows a company to open their own controlled storefront and sell directly to the consumer using bonded warehouses. It also offers "Country Pavilions," with dedicated landing pages for overseas sellers and products.
TMALL INTERNATIONAL	A platform for international brands to sell products directly to Chinese consumers online.

JD.com

What is now called JD.com was founded by Liu Qiangdong as Jingdong Mall in 1998. It has gone through a few name changes, from Jingdong Mall to 360buy.com (2007) and then to JD.com (2013). It is the second-largest e-commerce retailer online and a major competitor of Alibaba's Tmall. It has over 236.5 million active customer accounts. Its specific focus is on selling consumer electronics, which account for 85 per cent of JD.com's revenues. The focus on consumer electronics also partly explains JD.com's relatively low gross margins, which hover around 10 per cent. In 2014 Tencent bought a 15 per cent stake in JD.com and incorporated its e-commerce businesses Paipai, QQ Wanggou, and part of Yixun to JD.com. The key focus of this merger was to build a stronger competitor to Alibaba. Similarly to Alibaba, JD.com offers a suite of e-commerce platform services, including Marketplace, Direct Sales, and Worldwide. These are summarized in Table 2 below.

JD.com operates on a model similar to Amazon's, selling merchandise direct to consumers from warehouses across China. Interested companies can access the JD.com website to learn more about the different services and pricing models and to set up accounts to proceed.

TABLE 2: MAJOR SERVICES OFFERED BY JD.COM

JD.COM DIRECT SALES	The direct sales model involves JD.com sourcing products directly from brands and suppliers, then selling directly to customers through their website and mobile channels. This model is open to brands and suppliers operating in China.
JD.COM MARKETPLACE	The marketplace platform provides third-party sellers the ability to sell products directly to customers via their website and mobile channels. Approved sellers can also use value-added services such as marketing, the JD.com fulfillment infrastructure, and financing.
JD.COM WORLDWIDE	JD Worldwide is a cross-border e-commerce platform. This offers Chinese customers the convenience of purchasing products from other countries and at the same time provides international merchants with access to the Chinese market without a physical presence in China. JD Worldwide is available to brands, franchisees, retailers, and traders legally registered outside China selling products that originate from outside China. The model provides access to bonded warehouses to facilitate the customs process, as well as access to JD.com's existing proprietary nationwide logistics network and the JD.com partnerships with international logistics companies such as DHL, Australia Post, and Yamato. The latter gives access to global shipping and warehousing solutions to deliver products from regions around the world to Chinese customers.

TABLE 3: MAJOR SERVICES OFFERED BY TENCENT

WECHAT	Tencent launched WeChat in 2011. It is a very important social networking app in China and the single largest stand-alone messaging app. In addition to chatting and making video calls, it offers a wide range of other uses, including playing games, sending money, ordering food, reading the news, and booking a doctor's appointment. In 2017 WeChat claimed to be reaching over 938 million active users. Users are reported to spend over 90 minutes a day on the app. It has a wide range of users of differing ages and socio-economic backgrounds. WeChat's advertising is used widely in China to drive digital marketing strategies, as well as to share information and generally boost brands. WeChat also offers features such as customer service. Many key opinion leaders (KOLs) are active on WeChat, and companies have also partnered with WeChat to create their own WeChat apps. Many companies use WeChat to provide live updates from events.
TENPAY	This is an online payment system supporting business and peer-to-peer payments. It can be used for offline payments (the company sends employees to collect customer money in person), as well as credit card payments. Tenpay is reported to work similarly to PayPal, and users have to use a real bank account to add credits and conduct transactions via the app. Tencent has recently been reported to be working with China's Central Bank to develop a more regulated centralized payment platform for online payments.
WECHAT PAY PAYMENT SERVICES	WeChat offers Tenpay payment services under the name WeChat Pay. It is a digital wallet service incorporated into WeChat, allowing users to perform mobile payments. The WeChat Pay umbrella offers mobile and web cross-border payments to mobile apps and WeChat official accounts. Customers can scan the QR codes on their mobile phone with WeChat, and then make a payment to a vendor website, or from within their apps. WeChat Pay is popular for both business and peer-to-peer payments, making it a strong competitor to Alipay. In 2017 Alipay ranked first, with 50.4 per cent market share, and WeChat Pay followed at 38.1 per cent.
TENCENT QQ (MOBILE) AND QQ.COM (WEB)	Tencent QQ is a popular instant messaging app with around 900 million users. It boasts a world record of having had over 200 million simultaneous online users. It provides group and voice chat and also online social games, music, shopping, microblogging (weibo), and movies. QQ users communicate with each other through text, video, pictures, and stickers. QQ allows users to decorate their personalized avatars and to use chat bubbles and profile photo widgets. QQ.com is one of the largest web portals. It has been updated to work similarly to an operating system, offering a desktop on which web applications can be added. There are a range of Q-Gen stores selling QQ branded merchandise and toy penguins based on the QQ logo.
QZONE	Qzone is a social media platform offering personalized social services. Users can share photos, leave messages, and blog. In 2016 it reported over 632 million active monthly user accounts. As a major social media platform, Qzone is an avenue for marketing and brand championship. The average Qzone user is often younger than users of other social media products (such as weibos).
QQ WALLET	QQ Wallet is a mobile payment service where users can use payment methods such as bank cards and QR code payments.

SOCIAL MEDIA PLAYERS

Sina Weibo

Launched in 2009 by Sina Corporation, and often described as combining the functionality of Facebook and Twitter, Sina Weibo is a very popular Chinese microblogging website. It is one of the most popular Chinese websites, with over 100 million daily users. In 2013 Alibaba invested over US\$500M in Sina Weibo and launched Weibo-Taobao, to allow users to link Sina Weibo and Taobao accounts. In alignment with Internet censorship, there are strict controls over the posts on the Sina Weibo site, and services and posts may be deleted after manual checking. URLs are checked, and certain keywords are not allowed. There are also regulations preventing the use of aliases to create accounts. Many users have also shifted to the competitor WeChat.

Sina has partnered up with Alipay to launch a new payment platform called Weibo Payment, replacing a previous Sina Weibo payment platform. This was launched to compete directly with WeChat's payment services. The new platform gives access to a number of payment features, including offline payments, and allows merchants to accept payment and manage marketing campaigns, e-coupons, and loyalty programs.

Tencent Holdings Limited

Tencent is a large Internet and gaming company founded in 1998. Its focus is on domestic Internet value-added services in China. The offering spans wide to include services in social networking, web portals, e-commerce, mobile and online games, shopping, microblogging, media and digital content services, entertainment, Internet and telecommunications services, and payment systems. It owns the country's two most popular instant messaging services, WeChat and QQ. The company is actively expanding through ongoing investments across multiple industries. Tencent's portfolio is summarized in Table 3 above.

SEARCH ENGINES

Baidu

Baidu, founded in 2000, is one of the world's largest web services companies. It offers a range of services, including a domestic search engine for websites, audio files, and images; an online encyclopedia; online maps and news; a searchable, keyword-based discussion forum; and an online music service. The search engine is sometimes called “the Chinese Google” and is the most used Internet search engine in China. Users can search for information, products and services using Chinese-language search terms. Baidu also offers Baidu Tuiguang, an advertising platform offering pay-per-click ads on Baidu search results pages and websites that are part of Baidu Union.

Advertising products are sold via a network of resellers. Services may only be used by advertisers with a registered business address in China or within a limited list of other East Asian countries.

While the Baidu administrative tools are in Chinese, efforts by third-party companies are under way to develop an English-language interface for Baidu advertising management.

The Baidu TrustRank

The Baidu TrustRank consists of a five-star ranking system expressing level of trust for Baidu's verified advertising clients. The higher the trust, the more stars an ad client gets. The trust ranking is based on adherence to Baidu's guidelines and the continuous maintenance of an ad campaign over time. Upon obtaining verified status as an advertising client an advertiser will receive a trust rank within 48 hours. The trust ranking has associated privileges with regard to Baidu products, services and advertising policies. As having a higher score increases the possibility of appearing high on the list of Baidu search engine results, it is in companies' interest to increase their scores so they can end up high on the search lists. Some tips on how to do this are listed below.

- » Strive to make your website Baidu Verified — Verified companies will have a “V” next to their URL in Baidu search results and generally show up above non-verified URLs. Registered users access the Baidu Webmaster Toolset to verify a site. Verification indicates that the Baidu search engine has verified that the information provided by the site owner is accurate, and users can access detailed company information. Using the Webmaster Toolset, there are a few different ways to verify the site, such as downloading a text file from Baidu and adding it to the root directory of the site or adding an HTML tag provided by Baidu to the site code.

- » Quality links can help increase the Baidu TrustRank — Baidu measures link relevance and quality, so using recognized links increases the TrustRank of a website.
- » Web page must load quickly — Slow loading content is judged negatively by Baidu and can even be sanctioned if the issue is not addressed.
- » Create a clear website layout with high quality and relevance for users — Analyze the intended customer base to understand what they find useful and what level of language they expect/are comfortable with.
- » Create Chinese-language content — Customers will search in Chinese, and Baidu favours sites with Mandarin-language content.
- » Host your site in China — Sites hosted in China are more likely to be trusted by search engines and customers alike. Having a cn country code is a bonus.
- » Regularly update — Regular updates improve website rankings on Baidu.
- » Aim to get linked to from sites with a high TrustRank — Links to your website from one with a high TrustRank will increase the search engine's perceived value of your website.

WhatsApp

WhatsApp is available in China; however, the user base is limited. This is believed to be due to the vast popularity of WeChat and other domestic communications services.

PayPal

PayPal is available for online payment; however, it is not as popular as domestic online payment options.

SECTION 3

TECHNOLOGY AND INFRASTRUCTURE LANDSCAPE

INFRASTRUCTURE

China has the largest number of Internet users in the world, and mobile Internet plays a very key role. According to the 2016 UN E-government Survey, China is ranked 63, up 7 spots from its previous ranking in 2014. The world E-participation Index reflects citizens' access to information, public services, and participation in consultation and public decision-making. On this index China is among the world's top 25 performers, partially because they have moved to using online public consultations. The rise of social media has accelerated the move toward e-consultation. China has also recently put in place government policies on crowdfunding. The government keeps driving the connectivity growth and a "Broadband China" strategy has been put in place, upgrading infrastructure through the deployment of new-generation high-speed fibre optics, ubiquitous wireless networks, and other next-generation Internet technologies.

Internet Censorship

Internet censorship is very prevalent in China. Internet access is controlled by a range of laws, policies, and administrative regulations, sometimes called the "Great Firewall of China." There are national Internet regulations controlled by the government of China, and adherence to the regulations is not negotiable. These regulations block website content and monitor the Internet access of individuals. The policy prevents users in mainland China from accessing certain websites, and officially many popular North American and western sites are blocked by the Chinese authorities. These include Facebook, Twitter, YouTube, and Instagram. Different rules apply to Hong Kong and Macau.

Intellectual Property

While patenting activity has increased significantly in recent years, it is still relatively low compared to that of most developed economies.

Crowdfunding

Crowdfunding provides non-traditional funding mechanisms. A World Bank report estimates that by far the largest crowdfunding potential in the developing world lies in China. There are a number of crowdfunding websites available in China; however, many initiatives are mainly open to domestic organizations. The Chinese government has begun to put in place policies on crowdfunding, and in 2017 a further call for regulatory measures to enhance investor protection has been raised.

Personal Information

Survey evidence (see Appendix) shows that individuals in China and Canada are concerned with personal information collection practices firms have; however, the Chinese respondents report a higher likelihood (50 per cent) of sharing personal information with companies they like than Canadian respondents (36 per cent) do.

It is important for firms entering the market to strive for transparency in their personal information collection practices, as well as generally what data they use and how they collect it. Over two-thirds of surveyed individuals in China and Canada report concern that corporations access their social media posts, as well as that they are unsure of the information companies hold about them. Furthermore, few Canadians (19 per cent) and Chinese (32 per cent) want corporations to access their location and online history data.

Over 70 per cent of surveyed respondents in both countries want to know what third-party organizations bought their personal information and would like access to the data that companies hold on them so they can make better decisions.

SECTION 4

KEY CHALLENGES AND UNIQUE ATTRIBUTES OF THE CHINESE E-COMMERCE MARKET

The business environment in China can be challenging for foreign businesses to enter. China requires long and complex processes to set up a new business from abroad. The government is working on implementing a reform program to streamline business procedures across the country.

MARKET AND CUSTOMER CHALLENGES

Language Considerations

UNDERSTAND WHAT LANGUAGE IS SPOKEN IN THE REGION YOU ARE TARGETING AND WORK WITH THAT

A number of languages are spoken in China, and the languages spoken are often broken down further into dialects, which are sometimes vastly different. The form of Mandarin that is the official national standard spoken language for the mainland is called Putonghua (Guoyu in Taiwan). Over 70 per cent of the population speaks Mandarin as their first language. There are autonomous regions which have additional official languages (such as Tibetan in the Tibet Autonomous Region, and Mongolian in Inner Mongolia). Language laws of China do not apply to Hong Kong or Macau, where the official languages differ from the mainland (Cantonese, English, and Portuguese). Most challenges and hurdles are exacerbated by language issues.

THERE IS A LOT OF COMPETITION

It is worth noting that the consumer market in China is extremely competitive. Domestic companies enjoy cultural and language advantages, high-quality products, quick turnaround times, and well-developed distribution channels. Companies need to develop a unique value proposition, create a brand customers find attractive and trust, personalize communication, foster innovation, provide excellent customer support, and offer exclusive promotions to loyal customers. This means that entering firms need to decide between establishing a domestic organization, or simply acquiring third-party services.

UNDERSTANDING AND MANAGING IMPORTS AND LOGISTICS

Information needs to be gathered and regularly updated on import requirements, taxes, and duties so that goods can be presented for import at a known door-to-door price, including transport costs and any other charges. Below is a description of some key considerations. Note that there is a wide range of third-party services, such as those provided by Alibaba and JD.com, which include imports and logistics in their service offerings. Any firm using such services needs to consult the service provider about what their customized processes encompass (e.g., import filing, use of bonded warehouses, access to proprietary logistics infrastructure).

Import Authorization

With regard to importing products, China has many inspection and quarantine requirements. Suppliers importing products go through a process of authorization, registration, filing, examination, and approval. Import certifications and licenses vary for different types of products. Many products, including cosmetics, must be registered via the Administration of Food and Medicine. Products that are compliant with Chinese regulations can be pre-registered for import with the China Import and Export Inspection and Quarantine Bureau.

Taxes and Duties

Taxes, duties, and other import regulations in China are rapidly changing and at times very complex. A detailed understanding of the current regulations is essential for successful importing. Listed below are some key types of taxes that apply to goods imported into China:

1. Customs duties — Duties vary depending on the product. China has a number of free trade agreements, and no charge is applied to the products imported via the approved bonded warehouses for cross-border e-commerce.
2. Value added tax (VAT) — The Chinese VAT rate is currently 17 per cent. A discounted rate may be applied to products that have been imported via approved bonded warehouses.

3. Consumption tax — This is applied to specific products. Rates vary, and they can be up to 50 per cent. A discounted rate may be applied to products that have been imported via approved bonded warehouses. For products imported by post or courier, a personal postal tax is charged.

Product Import Logistics

Today most of the foreign products on offer in China are distributed by China-based companies or sellers. To import and distribute goods from abroad, there are additional options:

1. Using postal/courier services — Companies may choose to ship goods directly from the country of origin to the customer via postal or courier networks. This approach is not standardized or highly predictable, as additional taxes/duties may be assessed, the time required for customs clearance may vary, and additional factors may slow down the delivery.
2. Using bonded warehouses — Using a government-approved cross-border bonded warehouse for e-commerce entails using warehouses located within zones that eliminate import taxes. Under this approach, inventory is sent to these warehouses ahead of time and provided to the Chinese customer upon order. This makes each transaction effective and cost-efficient; however, it requires an upfront investment in setting up the inventory ahead of time. There is a list of accepted products for import into China, which all products must be compliant with. Imports are registered with the authorities.
3. Using neighbouring countries — This approach entails incorporating in a neighbouring country to China and importing products via that country. There is no additional duty assessed on products stored in bonded warehouses outside China. These products can be shipped directly to customers in China.

Access to Local Knowledge

Recognizing the vast size of the country and the diversity of the different subregions, local knowledge is key to succeeding in the different parts of the local market. This ranges from managing relationships to understanding import requirements, taxes and duties, logistics, local product demand, and how to market products. The e-commerce platforms and payment solutions used by domestic merchants may pose some challenges for foreign companies. Therefore, a key strategy may be to strike partnerships, or use agents or third-party service providers.

There are a number of specialized and integrated third-party service providers of interest to Canadian companies:

- » Integrated service providers — These often offer end-to-end services, such as tax processing and customs clearance, insurance, financing, foreign exchange collection, and logistics services. Example: Alibaba OneTouch.
- » Logistics service providers — Logistics providers aim to make deliveries smooth and predictable. They have information systems that can connect directly with e-commerce platforms. They provide delivery services and allow customers to track their status.
- » Warehousing service providers — There are many types of warehouse services, which assist in managing international delivery of products.
- » Online marketing service providers — There are two types of Internet marketing service providers: integrated marketing service providers and traffic marketing service providers. The former provide an integrated marketing communication service that includes all aspects of website design, content management, purchasing options and communication with customers and potential customers. The latter specialize in traffic management, including identifying sources of flow to the website, maximizing and optimizing this flow, and minimizing the impact of invalid traffic as well as detecting fraudulent traffic.
- » Research and consulting service providers — These support local governments and companies in the effective use of cross-border e-commerce. Example: the China International Electronic Commerce Center under the Ministry of Commerce.

Logistics Infrastructure

China is a very large country with some areas that have poorly developed logistics networks. Entering firms need to map out what different potential delivery areas look like and align with local providers where necessary.

Expensive Startup Costs

The startup fees for domestic e-commerce platforms may be very high for small firms interested in selling through them. Certain platforms require deposits by foreign sellers. For example, Tmall requires \$25,000 as a guarantee. Store maintenance fees are often high, and in addition there are marketing and content adaptation costs. Any company wanting to use these needs to analyze the fee structures and costs ahead of time.

Managing Customer Relationships

Customer relationships have multi-faceted aspects throughout the full procurement process. This includes managing expectations, enquiries and claims, managing last mile deliveries, and supporting a returned goods process. There are a number of third party services to help foreign businesses with this in China.

TECHNOLOGY

Making Use of Online Platforms

The marketplaces and payment solutions used so successfully by merchants in China are not as open and available to foreign enterprises. Key here is to draw on collectively owned solutions: access to technologies, supporting services, and commercial promotions that can enhance the potential for small firms to work together and share the costs and benefits of better access to international marketplaces and payment solutions. Partners, especially those with a presence in China, should be included in the collective solution developed for facilitating e-commerce.

Identity Verification

Many platforms require a validation by means of a Chinese national identification card or the completion of a lengthy foreign identity document verification process. It may prove especially difficult to validate domestic payment accounts, particularly if communication is needed between a compliance office and foreign users.

Requirement for Chinese Registration

Many platforms require sellers to have a locally registered company and bank account. To be able to use these, foreign companies need to take the required steps to set up a business in China.

SECTION 5

MARKETING STRATEGY CONSIDERATIONS

Must Establish Effective Online-to-Offline Strategies

Firms need an online and offline e-commerce strategy for the digital-first, customer-centric business. This requires online platforms that are mobile friendly, as well as the ability to interact offline, such as:

- » Making payment options available when offline, for example by using QR codes.
- » Pairing a presence online with a well-developed physical presence. Providing stores where buyers can touch, feel, and experience products. This can be achieved via pop-up shops in malls, setting up the company's own stores, or partnering with existing stores.
- » Introducing new brands and educating customers on why they are trustworthy.
- » Protecting customer data and information.

Use Key Opinion Leader (KOL) Collaboration

KOL (key opinion leader) engagement is an effective strategy for interacting with Chinese customers. Key opinion leaders are people or organizations that have such a strong social status that their recommendations and opinions are listened to when making important decisions. Good examples of key opinion leaders are political figures, columnists and social media celebrities. Nowadays, KOLs are also prominent in technology markets and in the bio-tech industry, where their opinions on new products and developments are highly sought after by potential buyers seeking unbiased information. It is important to highlight how a firm's brand and products are different, and to educate the KOL on product strengths.

The KOL can promote products on social media and in person. One common avenue for this is using weibo (microblogging). Following any advice a firm receives from its KOL about products and brands is highly recommended. Chinese consumers are likely to place higher trust in the KOL than in a brand or product. This approach can go well beyond social media to aligning with brand ambassadors and working to achieve celebrity endorsements. Key to identifying a KOL is for the firm to map out what the promotion needs are. It is also important to identify who is influential in the intended industry; for example, retail KOLs are quite different from pharmaceutical KOLs. There are platforms which offer to find/pair KOLs, such as WeMedia, Newrank.cn, and weizhishu.com. Sometimes this may lead to transactional KOLs rather than a long-term relationship. Alternatives are to reach out directly to intended KOLs, for example through social media. Important for the KOL relationship is to agree up front on what both parties want to achieve and set out a strategy and goals based on that.

Use Big Data

Make use of big data analytics to better understand patterns and predict trends and future consumer behaviour. Use the data insights to create personalized customer experiences. To predict the return on investment, contemporary data analytics methods can track the online traffic that advertising and KOL activities generate, and can relate this to sales.

Social Media Strategy — Use Social Media and Be Responsive

Social media use offers significant potential; however, this requires the company to establish a deep and wide social media presence. A company needs to be intimately familiar with and involved in the online communities. This requires analyzing and understanding social media patterns and trends. Companies need to respond rapidly to consumer feedback and be accurate in responding to questions. Companies need to set up a structure to engage with, and continually educate, existing and potential customers on products and services. Firms have to go beyond merely establishing a social media presence, and instead embed themselves within online communities.

Tailoring Website Content

There is a need to tailor website content to local markets. Some important tips to take into account include:

- » There is a strong preference to seeing images and links on e-commerce websites. It is important to limit the amount of text on a web page.
- » The user interface needs to provide information that is professional, relevant, and unique.
- » Customers need to trust the company, the brand, and the e-commerce platform in order to buy. One avenue to explore is the Baidu TrustRank.
- » Website/e-commerce platforms must be hosted in China and follow current Chinese governmental policies.

Any web content must at a minimum be available in simplified Chinese. Bear in mind that there are special language considerations for Hong Kong, Macau, and Taiwan.

- » Highlight things that customers are interested in and that will make them come back: offers/deals; key ways to educate themselves, read, and provide feedback; access to chat or hotline platforms.
- » Provide a good space for feedback. Highlight positive reviews. Address/follow up on negative reviews immediately.
- » Remember that customers often count on product information being released on social media in addition to official corporate websites.
- » The quality/price ratio is very important in China. While consumers might have more money to spend as incomes increase, they are still on the lookout for good deals.

SECTION 6

A FUTURE LOOK AT E-COMMERCE DEVELOPMENT IN CHINA

Expectations for the Near Future

There is a continued strategic focus in China, supported by the government, on growing domestic consumption. This includes updated government policies on investment, infrastructure and taxation. Beijing's most recent Five-Year Plan is one vehicle to continue boosting the country's e-commerce. The plan includes reforms to stimulate the services sector, provide better goods, and support online shopping. Both local and domestic companies are setting very high growth targets for e-commerce. Investment related to Internet services is an area of high focus for venture capital in China. Recent research has identified focus areas expected to profoundly reshape China's economy and consumer market over the next five years:

- » 81 per cent of consumption growth is expected to come from households belonging to the upper middle class and affluent households (income above US\$24,000). Many of these are located beyond China's biggest metropolitan areas. This will expand the reach of brands and drive the need for increased distribution and logistics abilities.
- » Consumers under 35 are expected to drive 65 per cent of the consumption increase.
- » E-commerce is expected to be responsible for 42 per cent of the total consumption growth and 90 per cent of that will come from mobile e-commerce.

- » Robust online-to-offline strategies will be of high importance for firms to be able to gain from increased consumption.
- » Services are expected to overtake goods as the major consumption driver (they will represent 51 per cent of growth over the next five years).
- » Consumers' already high expectations on customization and requirements of a personally tailored shopping experience will continue to grow.
- » Demand for goods and services that enhance a personal sense of well-being (e.g., healthy foods, education, and travel) will increase.

CASE STUDIES

The following case studies illustrate real-life examples of firms attempting to enter the Chinese market with an e-commerce platform as the major component of their strategy. The cases are not intended to demonstrate correct or incorrect approaches to participating in the Chinese market. Rather, they serve to provide illustrations of how firms recognize opportunities, embark on an initiative, encounter positive and negative trends, and in so doing attempt to profit from the Chinese market. Ideally, the reader should be able to place themselves in the shoes of the protagonist in the case and question whether they would have embarked on the same strategies or have chosen to do things differently.

CASE STUDY I: CAMBRIDGE MASK COMPANY — ENTERING THE CHINESE MARKET

Background

When Christopher Dobbing went to Beijing, China, to both teach English and learn Mandarin, in 2012, he was immediately struck by the amount of pollution in the air. Thousands of poorly maintained cars, buses, and trucks spewed vast amounts of gasoline and diesel fumes into the air, with daily levels of pollutants often reaching many times the danger levels suggested by health authorities. Scores of unregulated factories also released thousands of tons of noxious emissions that exacerbated the awful state of the air quality. Frequent sandstorms added to the particle count, as did the very high smoking rates among the local population. The geography of Beijing meant that polluted air often stagnated for days at a time over the city of almost 22 million inhabitants. Average wind speeds on many days were low to minimal, and coupled with hot weather in the summer, this made breathing difficult and unpleasant. Greenpeace had recently released figures showing that Chinese people take 141 million sick days a year because of pollution-related health issues. While the Chinese government has pledged to spend RMB11.55B (C\$ 2.22B) on environmental improvements, China will not feel the benefits for many years.

Dobbing experienced shortness of breath, watering eyes, and constant coughing caused by the pollution. He also observed the effects that it had on his students and their ability to learn.

The Opportunity

Dobbing became obsessed with finding a solution to the problem of air pollution and its immediate effects on human health, particularly in the giant cities in emerging markets, such as those in China, India, and Brazil. He realized that if he could offer a really effective breathing mask that would filter most of the particles and noxious gases out of the air at a reasonable price, there would be a significant business opportunity. He began to do some research and discovered that the UK Ministry of Defence had developed a similar product that might suit his requirements. It was originally designed for use in chemical, biological, and nuclear warfare protection. Cambridge Mask's inner filtration layer is made from a 100 per cent pure activated carbon cloth. This meant that it could filter out nearly 100 per cent of gas and particle-based air pollution, with the additional benefit of killing most bacteria and viruses.

Dobbing was able to fund his startup due to the investment of a number of wealthy venture capitalists in Beijing. Along with an investment from his parents, Dobbing was able to maintain his position as the majority shareholder.

Operations

Dobbing established a factory near Cambridge, England, and registered a business called the Cambridge Mask Co. He was able to source all the technology and most of the raw materials for the manufacture of the mask in the UK. However, some requirements, including processes such as plastic injection moulding and simple components such as nose clips were either prohibitively expensive or unavailable in the UK. He also quickly realized that nose clips needed to be adapted to the requirements of the Chinese market, due to the difference in shape between the average Chinese and average European nose. Dobbing found suppliers in China, which meant that some of the components were exported from China and then reimported as finished products! Cambridge Mask Co. therefore started its life as both an importer from, and an exporter to, China. In order to find Chinese suppliers, of whom there were many, Dobbing relied on extensive Internet-based research and e-commerce platforms to get his business started.

Dobbing also quickly learned that doing business in China was not always easy. The sending back and forth of products required him to deal with much bureaucracy, complicated by language differences, and he found he had a pressing need to understand all manner of policies, duties, and taxes. However, he also found that by conducting good online research, many of these hurdles could be explained and overcome.

The Market and E-commerce

Dobbing soon recognized that business operated at both micro and macro levels in China. At the micro level, building personal relationships with suppliers and distributors was of paramount importance. Obviously, to succeed in the Chinese market, a foreign firm

needs to have a local presence. Finding, negotiating with, and then developing strong relationships with local suppliers, agents, and logistics partners was essential for success. Dobbing immediately appreciated that personal experience and the personal touch were far more valuable than book or Internet research. He also realized the benefits of having some local language skills. These language skills did not need to be perfect; a minimum level of proficiency demonstrated a willingness to learn and understand local culture and improved understanding of what was going on during meetings.

At the macro level, Dobbing also learned early on that to be successful he would need to have a very strong e-commerce presence. Dobbing set up two websites: one was in Mandarin, targeted at the Chinese market (cambridgemask.com/zh-hans), and other was in English and was targeted at the rest of the world (cambridgemask.com).

Although Dobbing set up his own website, from which Chinese consumers could purchase masks, he soon grasped how important it was to understand how his potential customers would shop online. He discovered that Chinese consumers in general prefer to use third-party websites for their purchases. He attributed this to the fact that these consumers probably trusted well-known third-party websites more than they would the website of an individual company, especially one from outside China. He therefore modified his e-commerce strategy, so that while the majority of his sales to consumers went through third-party channels, his back-end system was still the best way for his distributors to place orders.

The target market for the Cambridge Mask Co. in China consists of urban residents, cyclists, allergy sufferers, and anyone wanting to breathe cleaner air. Schools, hospitals, retailers, embassies, and individuals are all potential customers for the masks. Somewhat to Dobbing's surprise, foreign embassies in Beijing, including the German and Swiss embassies, and the European Union's Mission to China, also became enthusiastic purchasers of his products. Masks came in five different sizes and were suitable for both adults and children. Rather than simply market the mask in plain white, Cambridge Mask Co. offered a range of brightly coloured alternatives, so that the mask could be as much fashionable as it is functional.

Some Aspects of Dobbing's Marketing Strategy

While an e-commerce platform represented the most critical part of Dobbing's marketing strategy for the Cambridge Mask Co., he also realized that the company needed an integrated marketing approach that included getting the branding right, communicating the message as effectively as possible, ensuring that pricing strategies were optimal, and using a wide range of public relations tools. Rather than attempting to position the masks as Chinese, Dobbing decided to exploit their "Britishness" as a marketing tool. Various mask models were given quintessential British names,

rather than Chinese ones. For example, there are masks named Churchill, Austen, and Sherlock. Dobbing observed that more than 160 million people in China had watched the last series of the television soap opera *Downton Abbey*. He believed that Chinese consumers associate British brands with quality, and worked to exploit that. The masks were not inexpensive — the average model sold for RMB215 (C\$39). Dobbing also used major retailers in Beijing as distribution channels, mainly to be able to show potential customers the product and have them touch it and try it on, and has also made the masks available through some hospitals. However, he was convinced that the great bulk of his sales will come through online channels.

Christopher Dobbing's story illustrates effectively that the Chinese market, despite its enormous challenges, represents a substantial business opportunity to the alert entrepreneur. By making considerable effort to understand the market, and to identify a unique need and opportunity, and by being willing to expend time and resources, Dobbing was able to create a substantial business. There is probably no more attractive market in the world than China for Dobbing's offering, and e-commerce provided Dobbing with the ideal platform on which to establish and grow his business. It is mainly through patience and persistence that Dobbing succeeded.

Key Takeaways

- » Build strong relationships, as they are a key contributor to a company's success in China. This includes relationships with suppliers in both the home and the host country, and local partners and advisors to provide trustworthy advice.

- » Tailor your local e-commerce presence to the local culture and buyers' preferences. Chinese consumers in general prefer to use third-party websites for their purchases, rather than a foreign firm's own website. Proactively identify and create avenues for your company to align with these.

- » Personal, local experience is invaluable. Visit and spend time in the countries you are doing business in to truly understand the unique aspects of the markets. Invest in learning the language, as this demonstrates commitment and brings a broader understanding of the local culture.

- » Spend time identifying what could become key challenges and set out strategies to tackle these. Challenges can be wide ranging, from overwhelming administrative bureaucracy (such as cross-border policies, duties, and taxes), product packaging and distribution considerations, local customs administration, and logistics and supply chain challenges. Check and adjust these strategies with your local advisors.

CASE STUDY II — MANGOWALK: ANTENNAS ACROSS THE PACIFIC

Background

Born in Hong Kong, Kennedy Bo moved to Vancouver, Canada, with his parents and sister when he was a young adult. While in Vancouver, he remained in contact with a close friend still living in Asia named William Ang. In conversations, the two friends began to notice the huge differences between the prices of crafts and novelties in the kiosks and markets of Hong Kong and the same items sold in Canada, if they could be found at all. Bo and Ang capitalized on their shared innate ability to spot and act on potential opportunities; their exceptional talent for understanding technology; and their personal drive to create MangoWalk in 2003, a company that would begin to buy items in China and sell them in Canada.

The Opportunity

Bo and Ang knew that an arbitrage opportunity for these products would potentially be time limited, and they had no means to gauge the extent of demand in the online market. Rather than assuming they could expect a long-term, stable business environment in which to launch a costly venture, they opted instead to begin with a “hit-and-run” strategy. By this approach, they would only invest what was necessary to construct a virtual storefront on the newly launched eBay marketplace (easily within their existing skill sets), register their company name, and then acquire and sell items batch by batch. The seed capital was a simple C\$1,000 contribution from each partner. It was Ang’s role to scan the markets in Shenzhen, just across the Chinese border from Hong Kong, for small, lightweight items that could be purchased in bulk for the rough equivalent of C\$2 per unit and that had a reasonable chance of selling for C\$10 or more in North America. This immense markup was their target for two reasons: to cover the approximately C\$2 per unit shipping costs from Hong Kong to Vancouver, including import duties and to justify their time effort of acquisition, export/import, warehousing, and ultimate packaging and shipping to customers.

The first MangoWalk product was a mechanical wooden puzzle about the size of a person’s fist. Ang bought a crate of 400 units for about C\$500. He packed 300 of these into a fixed-price shipping container and freighted them to Canada by FedEx for another C\$500. Two days later, Bo collected the order, photographed a sample, and posted the advertisement with each puzzle priced at \$10 plus shipping (shipping cost varying with destination) on the MangoWalk.com website.

Unfortunately, not much happened. Only after two days did a single order arrive, and to date, about half of the original stock remains in the warehouse. This appears to be a perfect example of a “swing and a miss” in baseball parlance.

From Zero to Hero

Bo and Ang considered their experience to be a very successful, low-cost exercise in data collection. While it is common in stories of entrepreneurship to retroactively justify failed endeavours as “learning experiences,” the difference here was that Bo and Ang knew beforehand that they were unable to predict how many units they could sell at the required C\$10 per unit price. They had spent less money on the ultimately unsold stock than they would have spent on even the most rudimentary of marketing research reports, the results of which might still have been inaccurate and unreliable. This was simply “marketing research by doing.” Moreover, had the results been positive, they would have gained this valuable information in addition to immediate profits. As that had not been the case, it was simply time to perform the next market test.

While both partners were native Cantonese speakers who were also fluent in English, they knew that the industrial manufacturing heart of mainland China operated in the Mandarin language, which neither spoke. To access this unprecedented population of low-cost suppliers, they invited an energetic native-Mandarin-speaking friend of Ang, Edmond On, to join the enterprise. The plan was for the three to operate as a company, but shortly after recruiting On, Ang’s personal life required his full-time attention, and he opted to resign and leave MangoWalk a partnership between Bo and On.

Upon joining, On also invested C\$1,000. He took this cash on an eight-hour train ride, along with an empty suitcase, to Hangzhou, China. This might seem a reckless mission, as it well might be for anyone without a grounding in the language, customs, available services, and legal nuances of the Chinese business environment. On had that grounding, and chose to visit the city of Hangzhou because he had contacts there who could refer him to reputable people for the services he would require.

The business environment in Hangzhou allowed commerce to be performed through either of two channels: official or unofficial. Official transactions provided receipts, semblances of warranties, and allowed for the use of cheques and other banking services. Unofficial transactions were in cash, unit base prices were much lower, and no taxes were involved. The norm for commerce on all but large transactions was unofficial.

Among the many factory showrooms On explored was one that displayed a range of interchangeable car radio antennas. At the time, in 2004, car radios typically had externally mounted antennas that were easily broken or stolen, and the stock models on most cars had limited design esthetics. Asian middle-class youth culture put a fashion value on customizing and accessorizing automotive accessories, so there was a potential demand for aftermarket replacement antennas that was not well met by North American auto parts suppliers.

For the sake of investigating the potential of these products, On took photographs of fifteen car-mounted radio antennas and emailed them back to Bo in Vancouver. Overnight, Bo explored the market for similar items and researched their pricing on the online US market using recent sales data provided by eBay. As the results of this search seemed promising, the partners settled on a specific model whose key characteristic was that its mount was metric, and thus was universally compatible with imported cars in Canada and the US. At the “suitcase scale,” these could be purchased for the equivalent of C\$5.50 each, with shipping and duty costs estimated to be an additional C\$2.00. The working assumption was that these would sell in North America for C\$15 each. On filled his suitcase with 100 antennas and returned to Hong Kong, from where he shipped them to Canada. Being careful to ensure that the web site would not take orders in excess of available stock, Bo posted the antennas for sale at C\$15 plus freight. He was happy to see that all 100 antennas were sold within three days. While Bo packaged, addressed, and shipped each unit individually, he began imagining ways of scaling up the operation.

Operating a Business

Bo sent the C\$2,000 in revenue back to On, who returned to mainland China and purchased between 10 and 20 units each in 10 different styles of antenna. MangoWalk was now building a substantial client base and breadth of products, with all styles of antenna ultimately clearing from inventory at impressive markups, if at varying rates. Within six months, this venture had evolved into a routine operation, with On placing advance orders for larger and larger quantities of antennas before making his biweekly trips into China. The process for each trip was very similar. On would visit the factories, inspect the pre-ordered merchandise (a critical step, as innocent mistakes relating to model, colour, and quantity were commonplace) and when all was correct, pay for the goods in cash. He would then pay a local van owner recommended by a trusted friend to bring the order back to Hong Kong, again for cash. In Hong Kong, the goods would be delivered to a mini storage unit from which they would then be shipped by FedEx to Canada. Once the goods arrived in Canada, Bo, who was now dedicating two to three days per week to the business himself, managed the website (updating photos, tech specs, pricing, and availability) as well as the inventorying and shipping/receiving of the goods.

After about a year, the team hired a half-time shipper/receiver to operate from a rented warehouse space in Vancouver just to keep up with demand. The business operated very profitably at this scale for the next four years, while both Bo and On were also employed full-time in their respective careers.

The Window Slowly Closes

After the fourth year, three factors slowly began to affect the venture. First, the low barriers to entry led to ever-increasing price competition that eroded markups. Other importers in North America realized how easily arbitrage was facilitated by the information that the Internet provided, and simultaneously, how it lowered the costs for other entrants. Thus, selling price became the main mechanism for competition. Second, the exchange rate between the US dollar, the Canadian dollar, and the Chinese yuan gradually but steadily became less favourable. Third, the market for decorative antennas and related car accessories began to shrink as fashions changed and technological advances made some classes of product obsolete. Over time, Bo and On continued to experiment by adding new products such as cell phone cases and chargers to their online catalog. While generally profitable, the net profits from the business gradually declined for the next three years.

This downturn was disappointing to the partners of course, but not painful because they had never taken a loan, employed a full-time staff, committed to a long-term lease, or made any business decisions that could result in fixed costs exceeding revenues. When the time finally came a year later that the average proceeds from the business did not warrant the time and energy that the partners needed to apply to keep the business operating, they simply stopped buying new stock, sold what they could of the remaining modest inventory through the web site, and then closed down.

Over their 10 years in business, they had achieved C\$1.3M total sales from 3,000 product SKUs to 151,000 buyers, through 170,000 orders, for a total of 187,000 items sold. The firm had employed 14 hired staff over the life of the company, who collectively provided 137,000 temporary staff hours. To this day, the partners are still on the lookout for possible new opportunities to flip the MangoWalk lights back on again.

Key Takeaways

- » When seeking arbitrage opportunities in a highly dynamic business environment with multiple unpredictable salient factors, avoid debt or other commitments that would leave you burdened with expenses when revenues cease to be available.
- » Norms for business activities in China and many other developing economies include much more “off the books” commercial activity than we see in North America. If you are planning to benefit from the dramatic cost advantages of black markets, your legal recourses range from non-existent to perilous. Only those who are highly experienced in the local language, culture, and customs, and who are well connected with networks of local people they can trust can even entertain following this path.

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The least expensive, quickest, and most accurate means of measuring the profit potential for importing a product from an overseas source such as China for online sale in North America is to use free or low-cost market data supplied by market facilitator firms like eBay's Marketplace, and nowadays in China, Alibaba. These services are offered because it is in their interest for entrepreneurs to discover market opportunities on their site.

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An alternate, low-cost option for exploring market opportunities is low-volume experimentation. In these situations, the risked resources are minimal, and the resulting information shows quickly.

APPENDIX

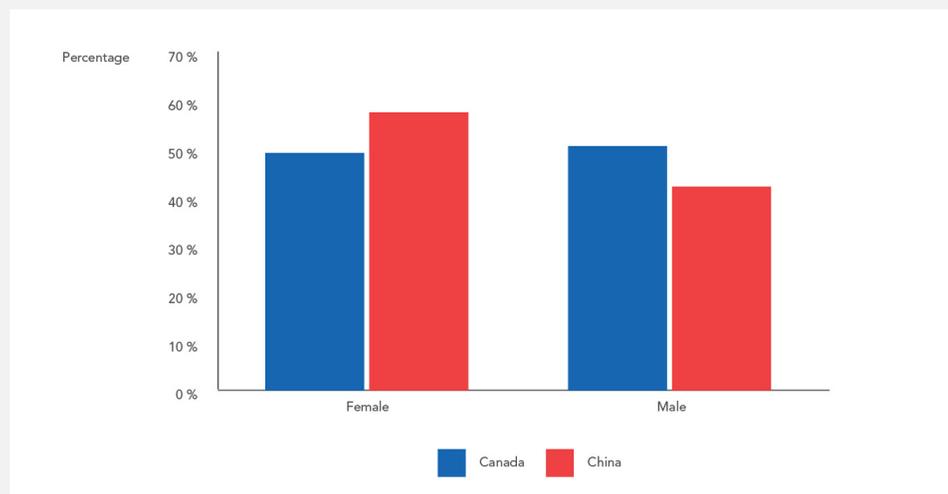
DIGITAL TECHNOLOGY IN CHINA AND CANADA — A COMPARISON OF DIGITAL DEVICE OWNERSHIP, DIGITAL MEDIA CONSUMPTION, AND DIGITAL BEHAVIOUR.

SAMPLE PANEL STATISTICS

This data was professionally collected by a large market research organization as part of their annual research program in 2014. The sample panel includes 1,000 individuals from Canada and 1,001 individuals from China. The Canadian sample aimed to be as representative as possible. However, due to electronic survey access requirements, the Chinese sample is slightly skewed toward more educated, younger men.

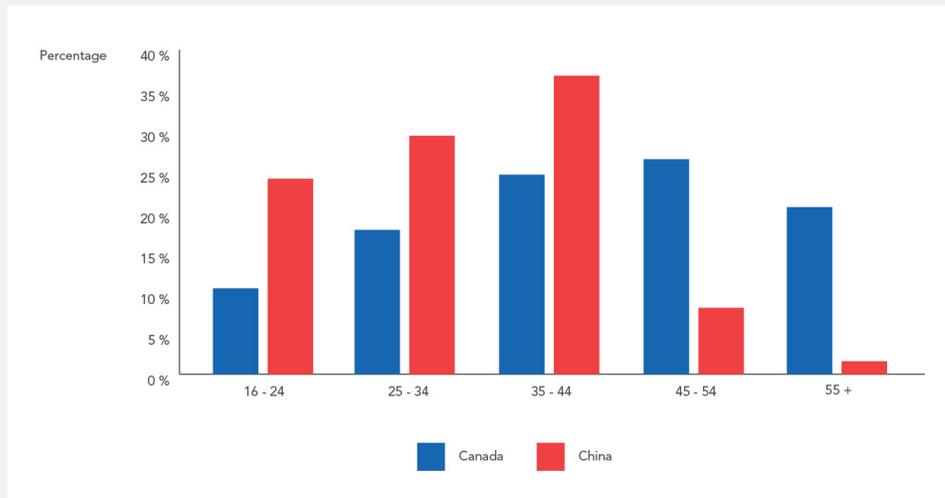
The Canadian sample is gender balanced, with 49.3 per cent women and 50.7 per cent men (see Figure 1.1). The Chinese sample had fewer women, with 42.3 per cent women and 57.7 per cent men.

Figure 1.1: Gender Mix (Per cent)



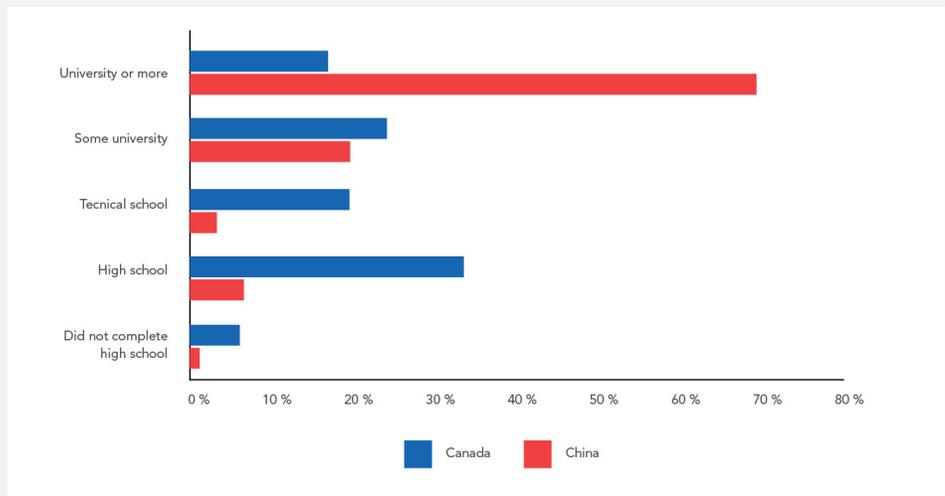
The average age of the sample was older in Canada, at 42.9 years, than in China, with 32.9 (see Figure 1.2). The Canadian sample was fairly evenly distributed around the average age, but the Chinese sample was younger, with only 1.6 per cent of the sample being older than 55 compared to 20.6 per cent in the Canadian sample.

Figure 1.2: Age Distribution (Per cent)

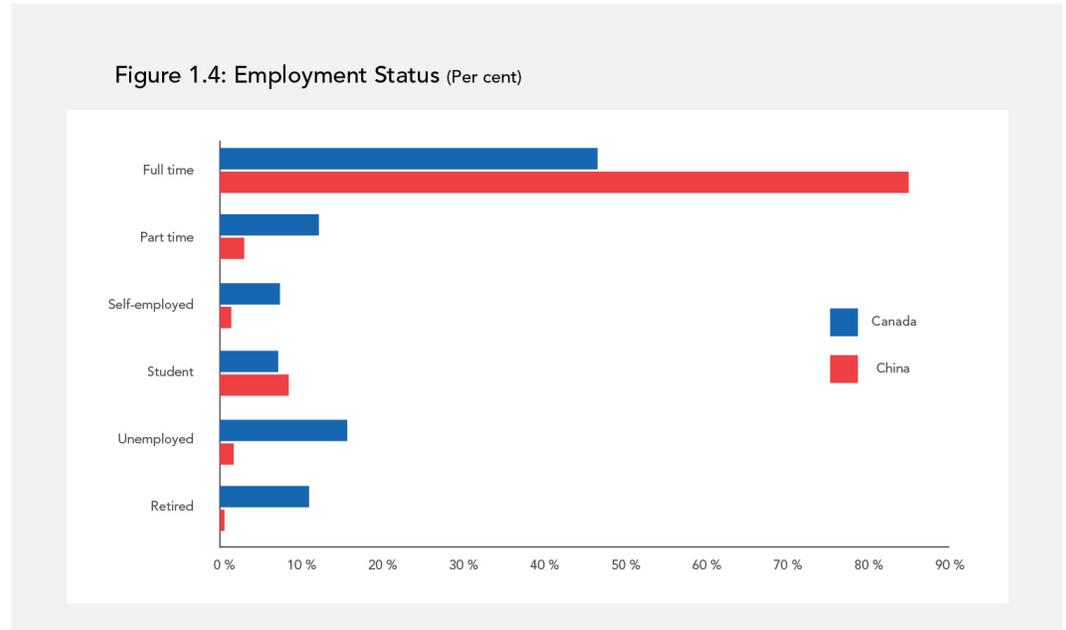


In terms of education completed, the Chinese sample had more education, with 69.3 per cent graduating university versus only 16.9 per cent in Canada (See Figure 1.3). Similarly, only 1.2 per cent of the Chinese sample did not complete high school compared to 6.1 per cent in the Canadian sample.

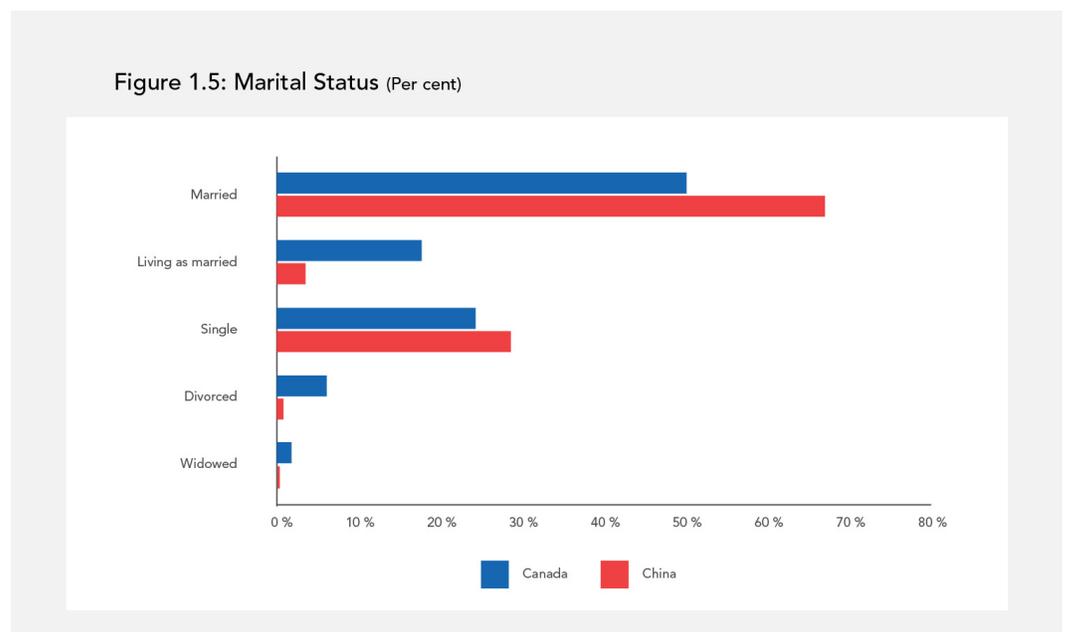
Figure 1.3: Education Distribution (Per cent)



In terms of employment status, the largest group of individuals were employed full time with 85 per cent in the Chinese sample and 46.6 per cent in the Canadian sample (see Figure 1.4).

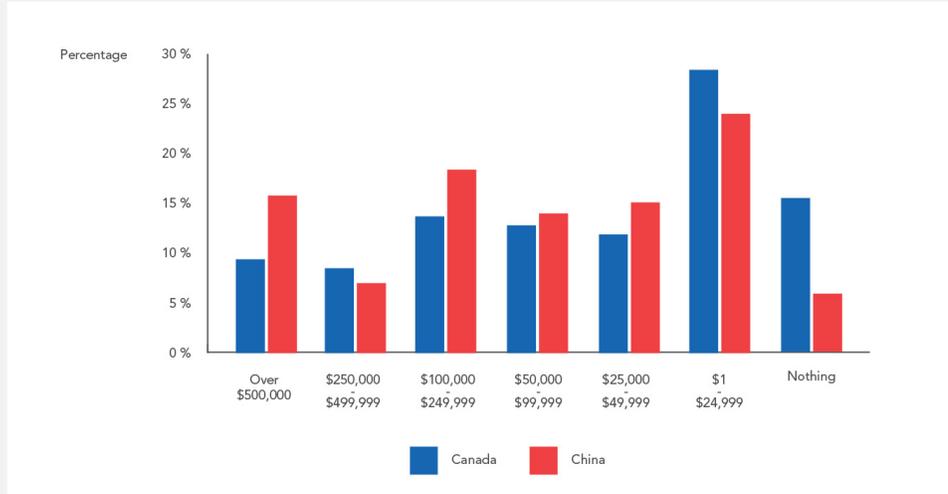


In terms of marital status, most people in both countries were married, with 67.0 per cent in the Chinese sample and 50.1 per cent in the Canadian sample. Also, many respondents in both countries stated they were single, with 28.6 per cent in China and 24.3 per cent in Canada.



In terms of household investable assets, Chinese respondents on average reported that they hold slightly more than individuals in the Canadian sample, with the largest group in both countries being the C\$1-C\$24,000 category (see Figure 1.6).

Figure 1.6: Investable Household Assets (Per cent)

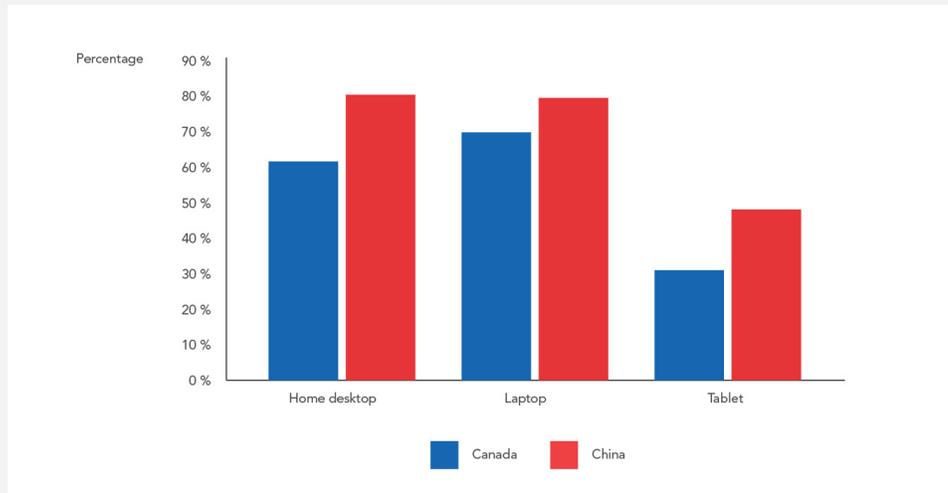


DIGITAL DEVICE OWNERSHIP

Before investigating the extent to which digital technology has penetrated the daily lives of individuals in China and Canada, it is important to assess their access to or ownership of basic digital technology.

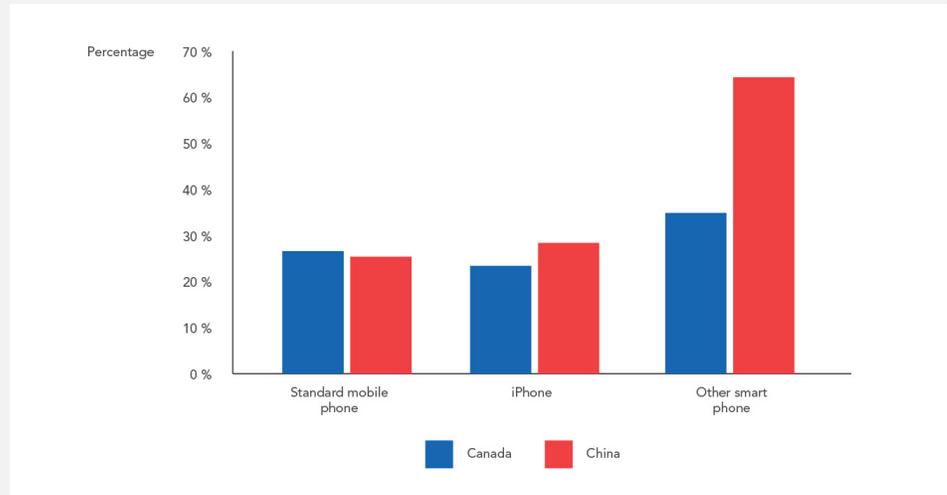
Most individuals in both countries seemed to have access to at least one personal computer at home, with some having access to more than one computing device (see Figure 1.7). The picture changes slightly when examining mobile phone ownership (see Figure 1.8).

Figure 1.7: Computer Ownership (Per cent)



With the Canadian sample, 15.1 per cent reported not owning a mobile phone. However, the opposite is true in the Chinese sample, with a sum of 118.1 per cent across the three categories of mobile phones.

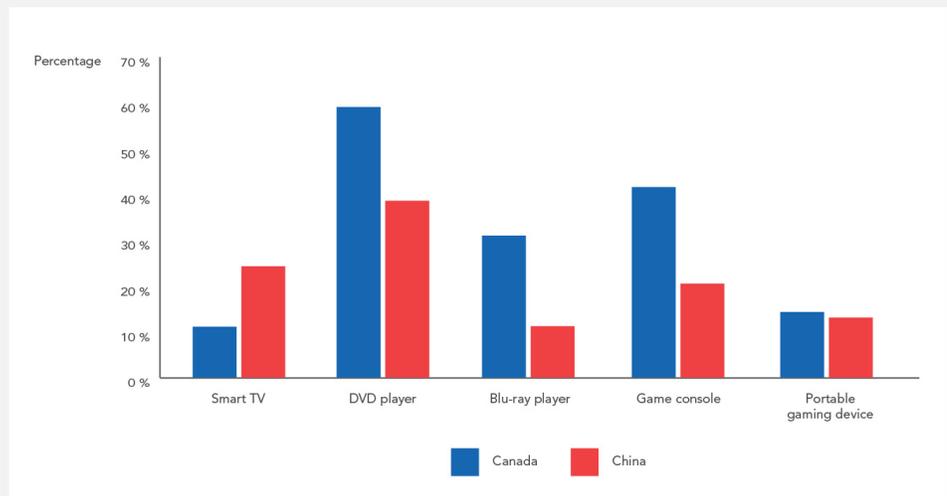
Figure 1.8: Mobile Phone Ownership (Per cent)



In terms of home electronic devices, the Canadian sample reported higher percentages of ownership of DVD players, Blu-ray players, and game consoles (see Figure 1.9). Smart TVs are relatively more popular with the Chinese sample (24.3 per cent) than the Canadian sample (11.1 per cent).

In short, although there are some differences in device ownership, digital technologies are pervasive in both China and Canada, with many individuals responding that they own digital devices.

Figure 1.9: Home Electronics Device Ownership (Per cent)

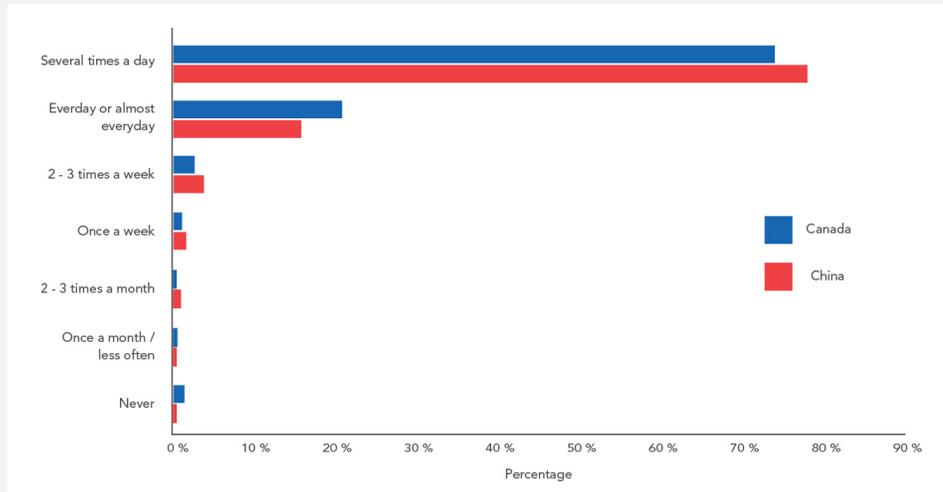


DIGITAL MEDIA CONSUMPTION

Understanding media consumption helps a company tailor the market strategy, i.e., determining the best avenues to run ad campaigns or provide consumer education. Media consumption has been changing with widespread access to the Internet and the adoption of associated web and networking technologies. First, individuals reported their overall Internet usage, then questions extended further to understand how people consume media in offline and online contexts. Finally, the survey explored the extent to which people used social media and the reasons for that use.

As expected, Internet usage was pervasive among individual in both countries (see Figure 1.10). 94.5 per cent of the Canadian sample reported using the Internet at least everyday or almost everyday. This was echoed by the Chinese sample where 93.5 per cent reported using the Internet at least every day or almost every day.

Figure 1.10: Internet Use (Per cent)



Television (TV) habits have been largely offline in Canada, with 77.3 per cent (versus 57 per cent in China) of the panel reporting they watch conventional TV at least once a day, which contrasts sharply with the Chinese panel where 42.4 per cent (versus 14.9 per cent in Canada) report watching online TV (see Figures 1.11 and 1.12). Conventional TV seems widely adopted in both countries, with only a small per centage in each country reporting they do not watch it (China: 2.4 per cent; Canada: 4.9 per cent). Furthermore, the spread of online TV media has been pervasive in China among the sample, with only 5.7 per cent reporting they never use online TV. This is strongly contrasted by the Canadian sample, which 44.8 per cent report never using online TV.

Figure 1.11: Conventional TV Use (Per cent)

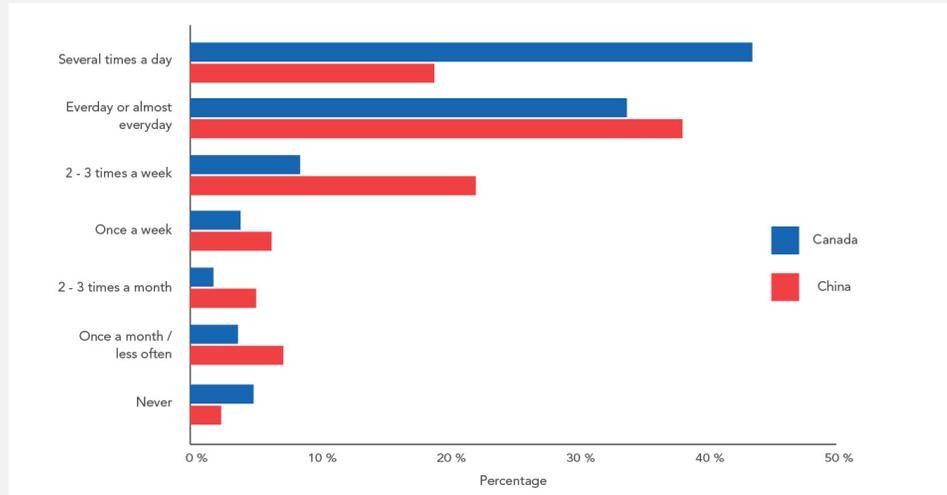
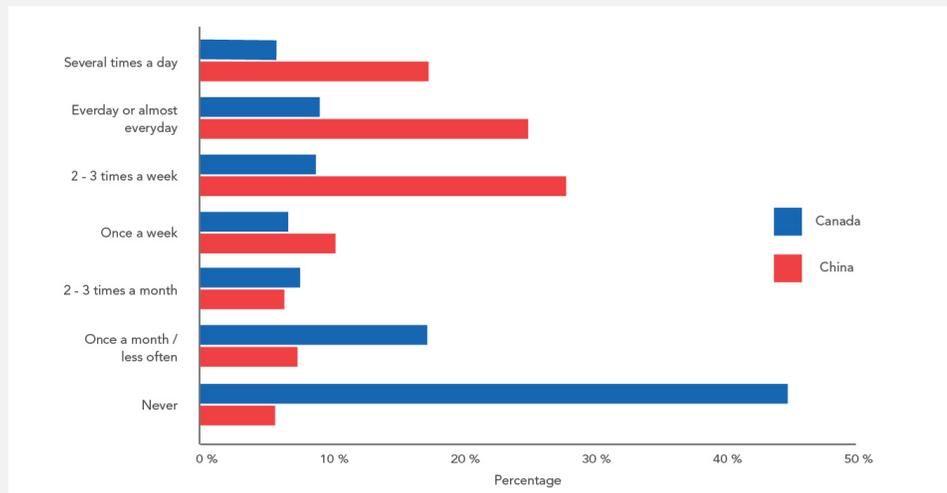


Figure 1.12: Online TV Use (Per cent)



In terms of how people access news, Chinese respondents seemed to rely more on both print (39.2 per cent) and digital (67.4 per cent) newspapers at least once a day (see Figures 1.13 and 1.14). However, the Canadian sample reported much less frequent use, relying at least once a day on both the print (23.5 per cent) and digital (33.1 per cent) newspapers.

Figure 1.13: Print Newspaper Use (Per cent)

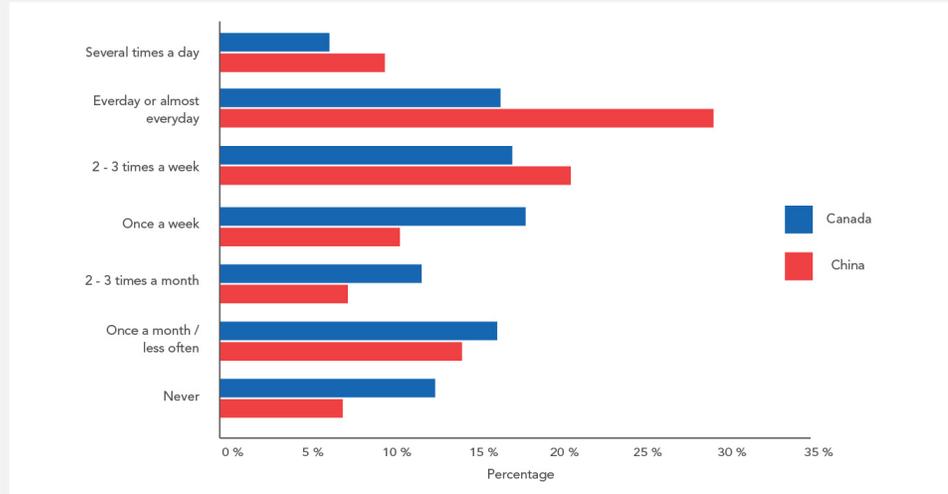
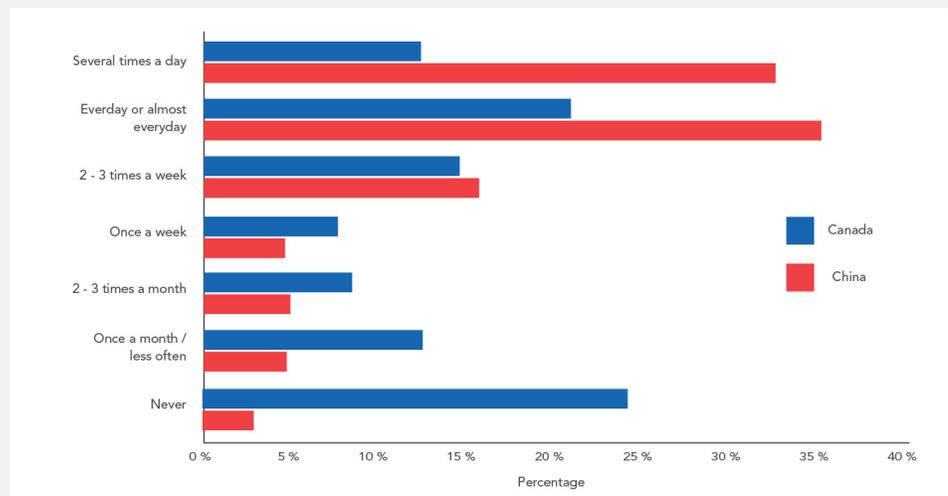


Figure 1.14: Digital Newspaper Use (Per cent)



Whereas newspapers were not as widely used in Canada compared to China in the study, 55.8 per cent of the Canadian sample used conventional radio compared to only 25.0 per cent of the Chinese sample (see Figures 1.15 and 1.16). However, this pattern does not carry over to digital radio media, as many individuals in both countries report not using or rarely using radio on the Internet.

Figure 1.15: Conventional Radio Use (Per cent)

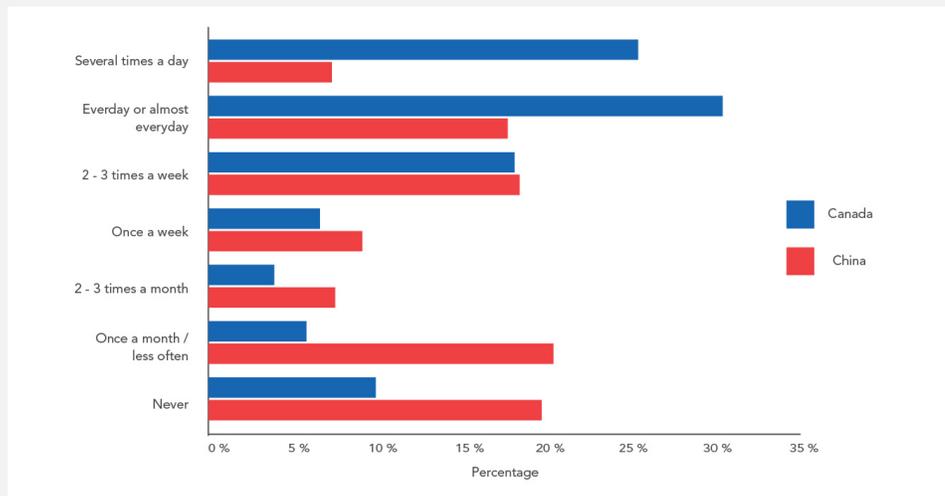
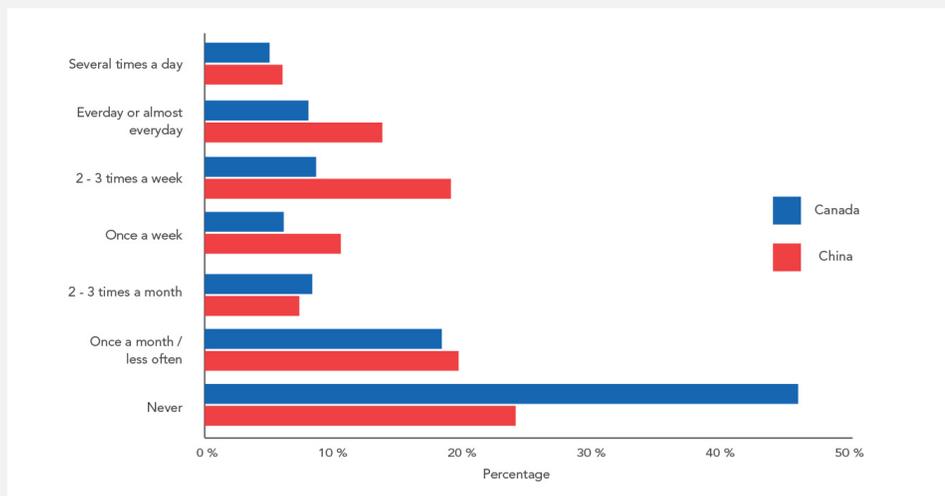


Figure 1.16: Digital Radio Use (Per cent)



Canadian respondents reported less use of magazines in both print and digital formats than Chinese respondents (see Figures 1.17 and 1.18). Digital magazines were relatively unpopular among the Canadian sample with 51.1 per cent reporting never using this medium, whereas only 10.6 per cent of the Chinese sample responded the same way.

Figure 1.17: Print Magazine Use (Per cent)

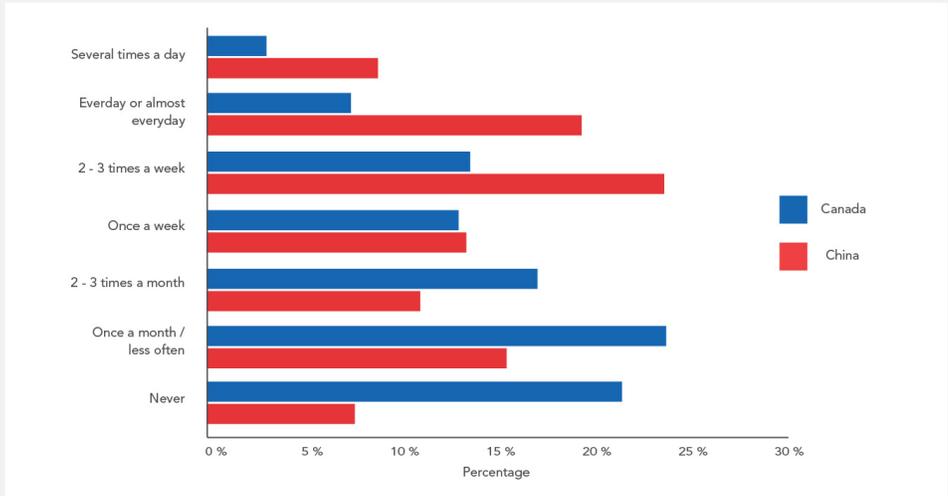
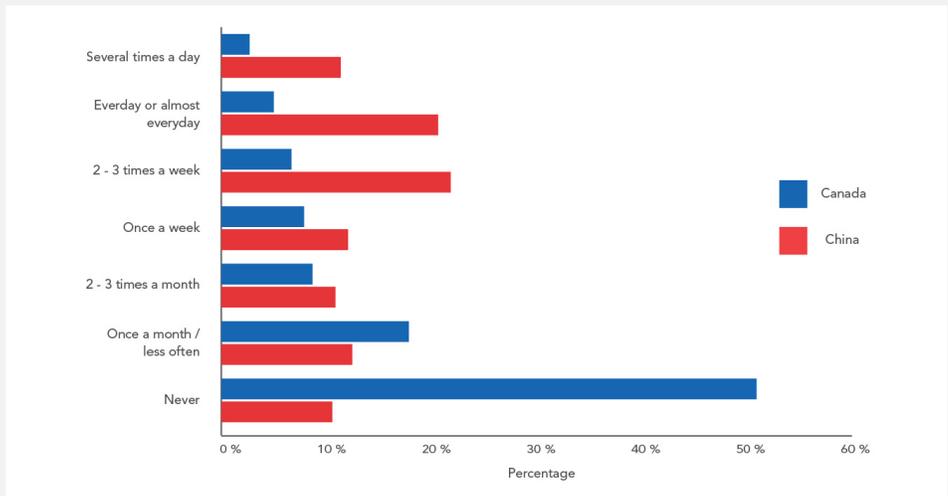
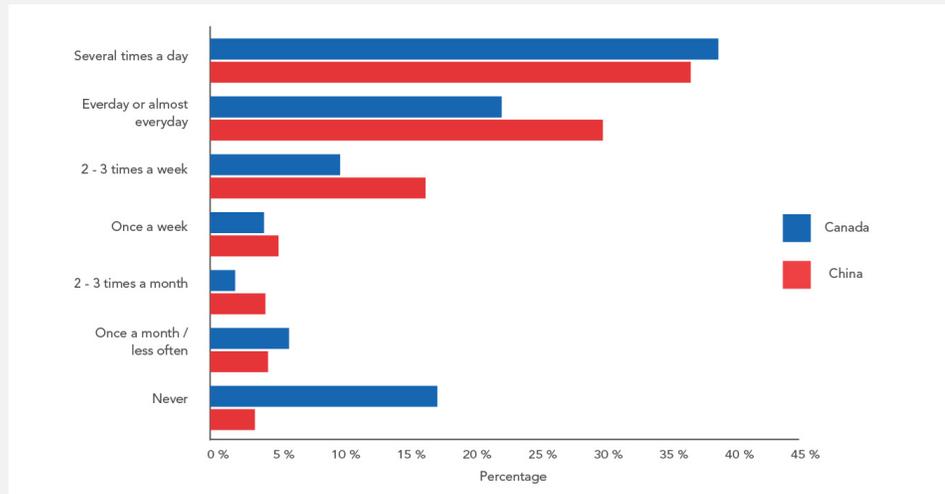


Figure 1.18: Online Magazine Use (Per cent)



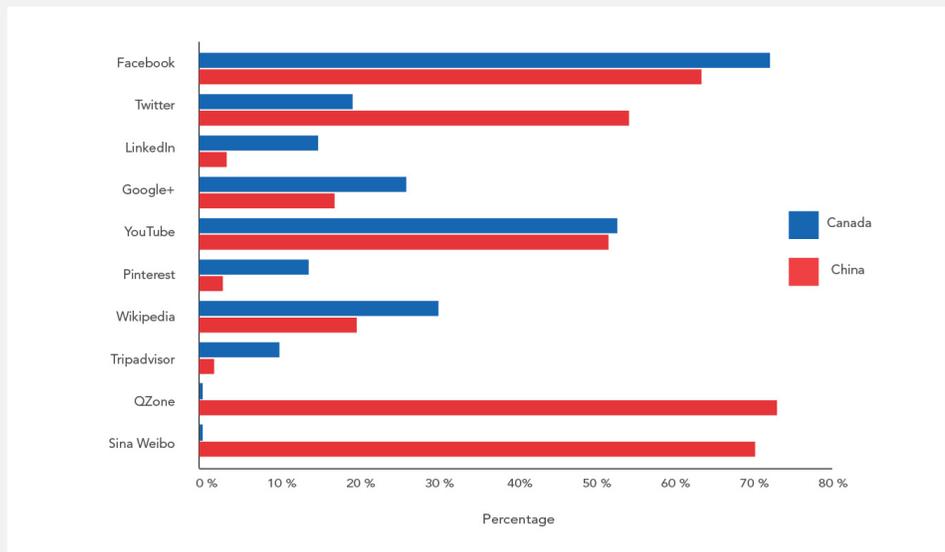
Surveyed respondents in both countries reported similar overall social media use patterns (see Figure 1.19), except for those who never use social media, with Canadian respondents reporting 17.3 per cent compared to 3.4 per cent of the Chinese sample.

Figure 1.19: Social Media Use (Per cent)



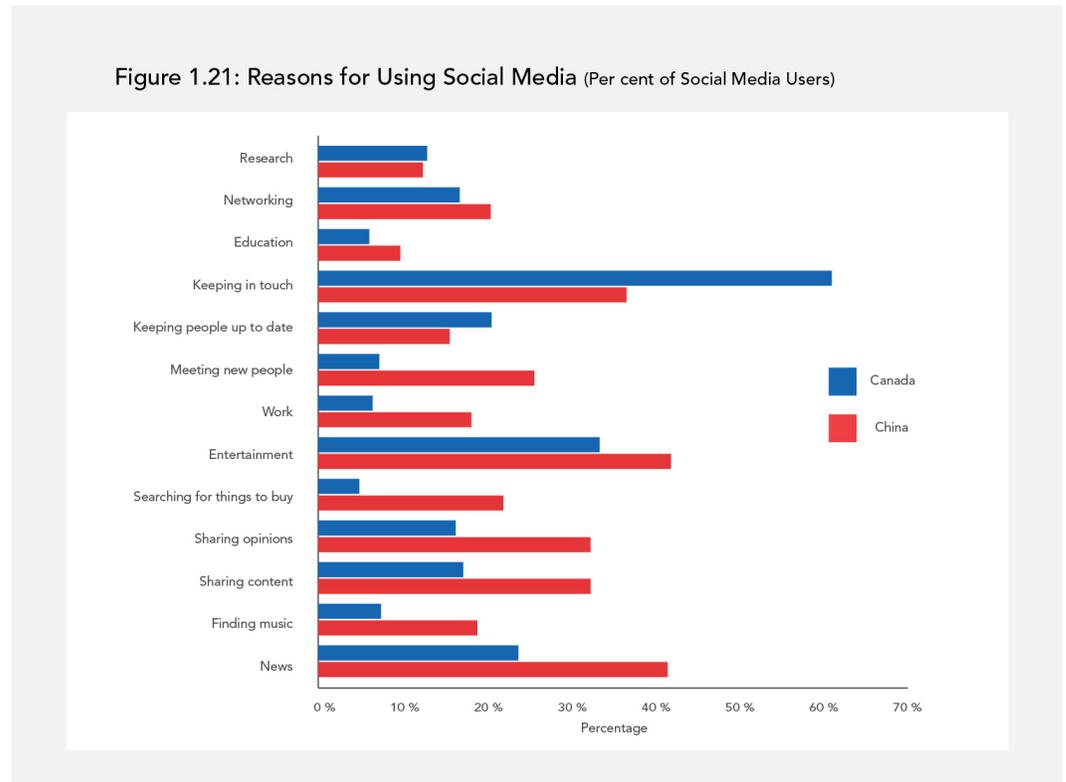
Some platforms were popular with individuals in both countries, such as Facebook and YouTube (even though blocked in China), but others were specific to China, such as Qzone and Sina Weibo (see Figure 1.20). Twitter was more popular with Chinese social media users (54.6 per cent) than with Canadian social media users (19.5 per cent).

Figure 1.20: Platform Access within the Last Month (Per cent of Social Media Users)*



* Reporting only where use was above 10 per cent in at least one country

Social media users reported similar reasons for using social media (see Figure 1.21). Chinese social media users listed news (41.7 per cent) and entertainment (42.1 per cent) as top reasons for using social media, whereas 61.3 per cent of Canadian users reported that keeping in touch was an important reason for their social media use.

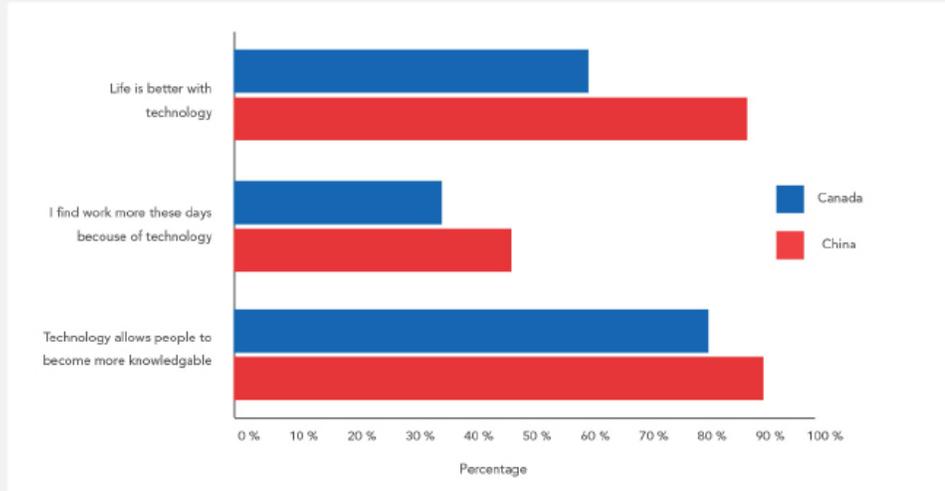


DIGITAL ATTITUDES & BEHAVIOUR

Attitudes toward technology serve as an indicator in planning a firm's market strategy. Surveyed individuals in China were generally more positive about technology in their lives than surveyed Canadian individuals (see Figure 1.22). Specifically, 88.0 per cent of Chinese individuals felt that life was better with technology compared to only 60.8 per cent of Canadians surveyed. Furthermore, 47.5 per cent of Chinese and 35.8 per cent of Canadians studied felt that they work more today due to technology.

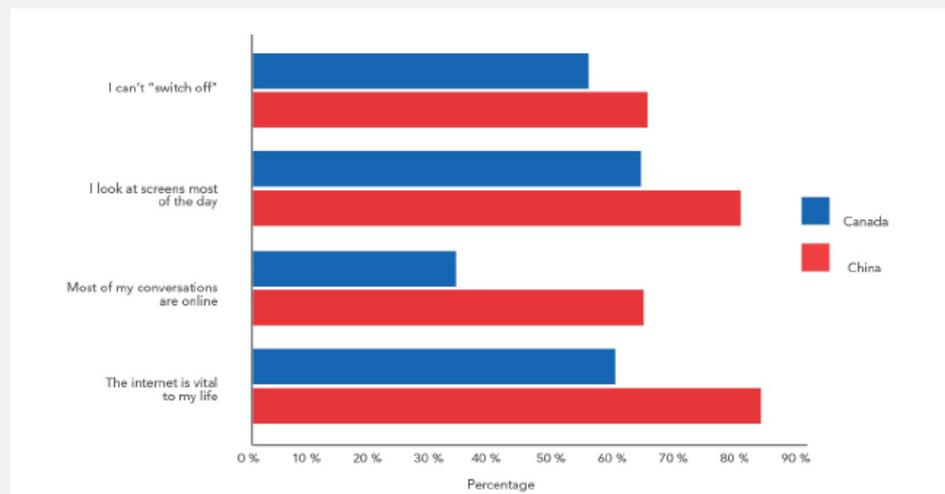
Finally, the vast majority of participants in both countries—China: 90.8 per cent and Canada: 81.3 per cent—agreed that technology facilitates the exchange of information and they felt more knowledgeable with technology.

Figure 1.22: Attitudes toward Technology (Per cent Agree with Statement)

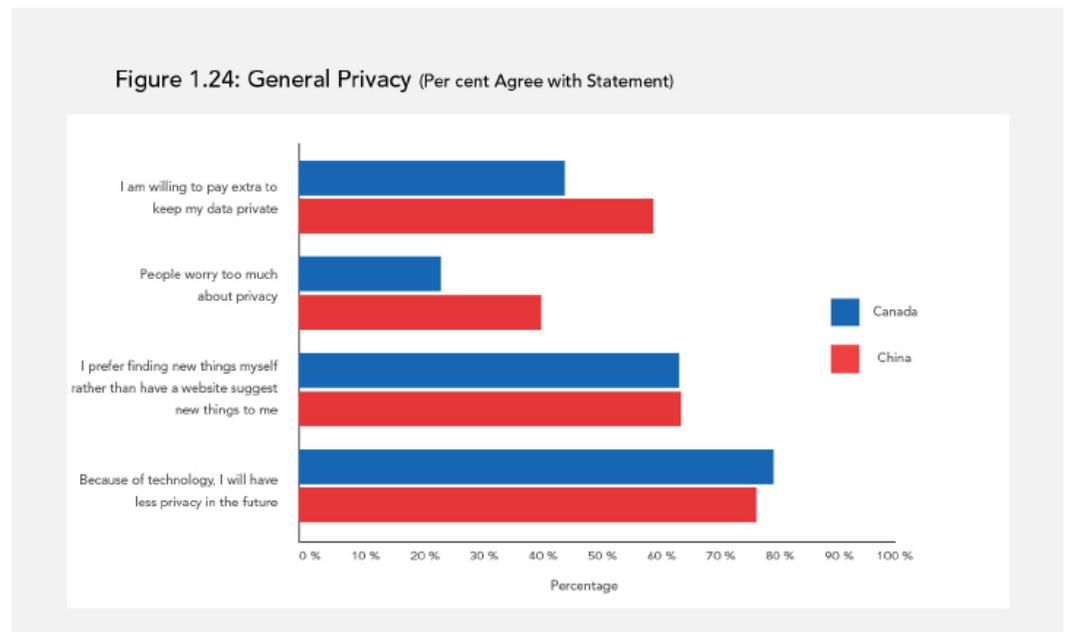


Surveyed individuals in both countries felt that technology was part of their daily lives (see Figure 1.23). A majority of respondents in both countries felt the inability to just relax or “switch off” due to digital technologies’ impact on their life (China: 64.4 per cent and Canada: 54.8 per cent). Chinese individuals reported more interactions with technology than Canadians in terms of their conversations being online (China: 63.8 per cent and Canada: 33.1 per cent) and looking at screens (China: 79.6 per cent and Canada: 63.3 per cent). Furthermore, 82.9 per cent of Chinese individuals claimed that the Internet is vital to their daily lives compared to 59.1 per cent of Canadian individuals.

Figure 1.23: Effects of Technology on Daily Life (Per cent Agree with Statement)

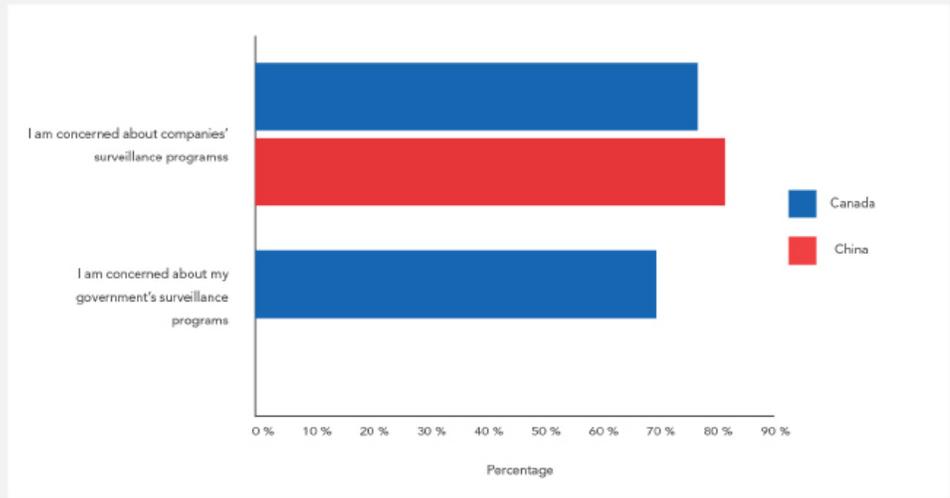


Attitudes regarding privacy are similar in both Canada and China (see Figure 1.24). There was general agreement in both China (77.3 per cent) and Canada (80.2 per cent) that in the future, advances in digital technology would result in less privacy. Moreover, surveyed individuals felt the same in China (64.6 per cent) and Canada (64.3 per cent) that they would rather discover new things themselves rather than have a website suggest new things based on their personal information. Of the Chinese individuals, 41 per cent thought that people worried too much about their personal privacy compared to only 24 per cent of surveyed Canadians. Furthermore, a majority of Chinese individuals (60.0 per cent) would pay more for enhanced security features, but only 45.0 per cent of Canadians would do the same.



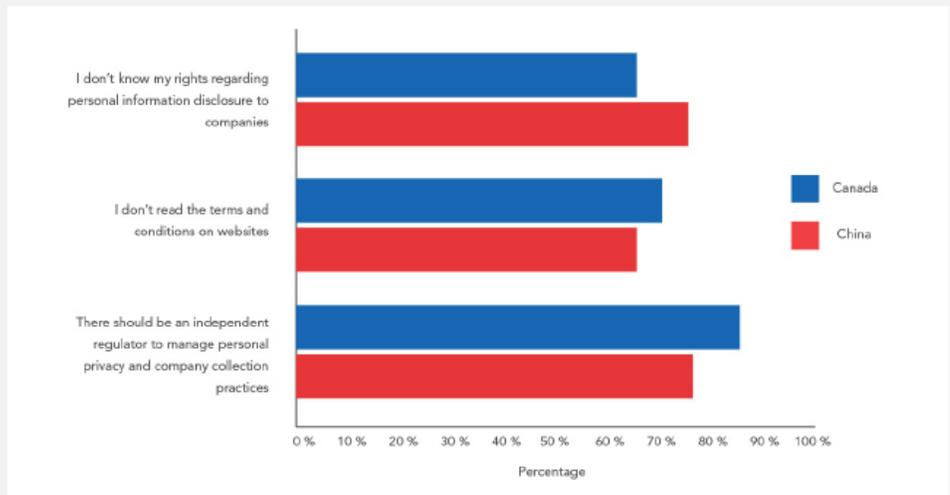
On the other side of the personal information privacy debate are the government and corporate surveillance programs that acquire personal information from individuals. Figure 1.25 reports the stated concern for these programs. In Canada, many respondents felt concern for both kinds of surveillance, but corporation surveillance programs elicited slightly more concern (77.2 per cent) compared to government surveillance programs (70 per cent). Chinese respondents felt more concern about corporate surveillance programs (81.9 per cent) than the surveyed Canadians (The government surveillance question was not asked to Chinese individuals in the study for protection reasons)..

Figure 1.25: Concern about Surveillance Programs (Per cent Agree with Statement)



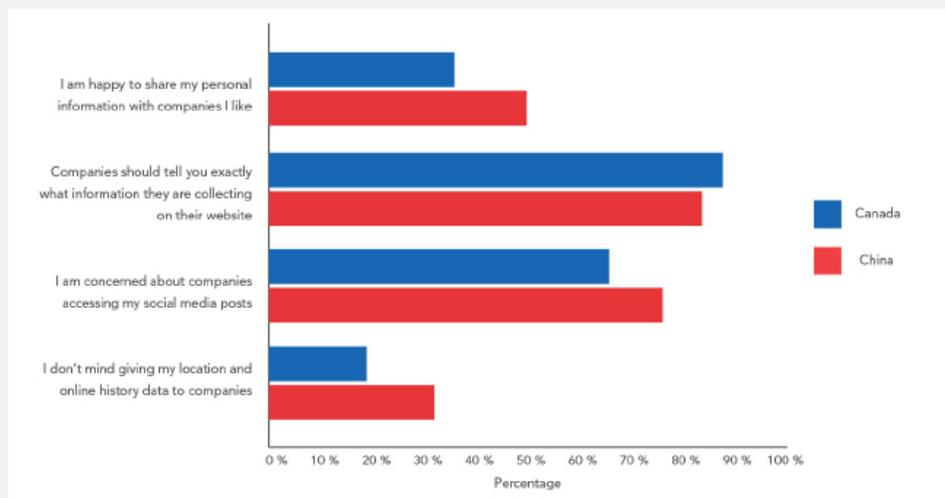
Surveyed individuals in both countries reported similar agreement regarding the extent to which they are aware of their privacy rights under the law or perform certain privacy protection behaviours (see Figure 1.26). There was near agreement between Chinese (76 per cent) and Canadian (66 per cent) surveyed individuals that they felt poorly equipped and prepared to deal with information disclosure requests from companies. However, a majority of people in both China (66 per cent) and Canada (71 per cent) reported not performing simple information privacy protection behaviours, such as reading the terms and conditions on websites. Moreover, the vast majority of Chinese (77 per cent) and Canadian (86 per cent) individuals felt that there needs to be an independent regulator that manages personal information privacy and governs the actions of companies seeking to collect this personal information from consumers.

Figure 1.26: Privacy and the Law (Per cent Agree with Statement)

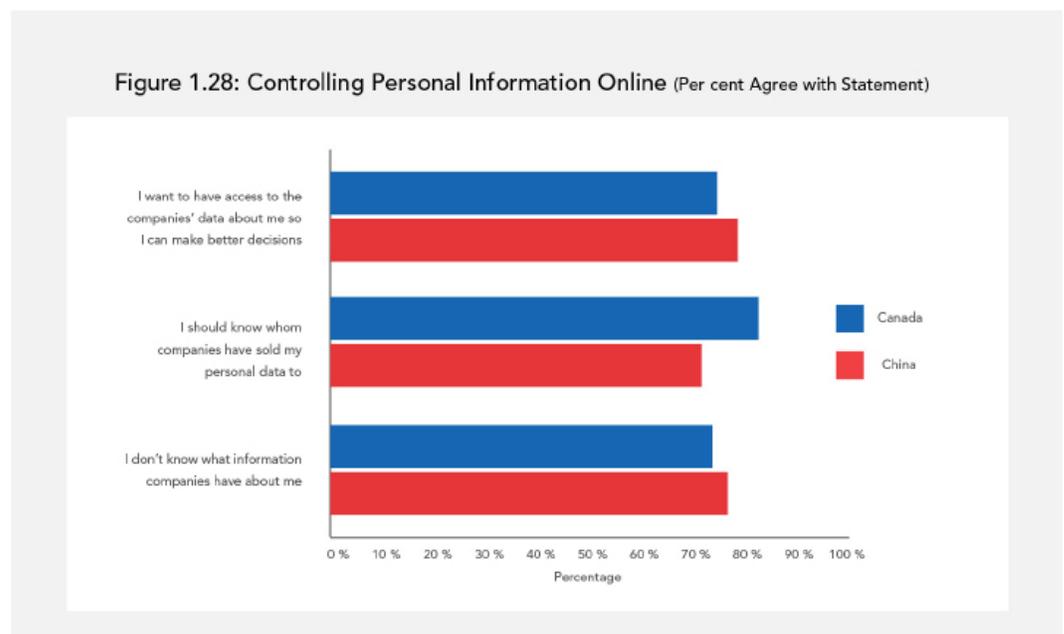


Understanding attitudes toward personal information helps firms in tailoring their marketing and customer management practices. Looking more closely at the personal information collection practices of corporations, individuals in both countries are concerned and seek transparency with these practices (see Figure 1.27). While 50 per cent of Chinese individuals reported being happy to share personal information with companies they like, only 36 per cent of Canadian individuals agreed. The vast majority of individuals in China (84 per cent) and Canada (88 per cent) thought that companies should be clearer about the exact information being collected by corporate websites. Similarly, at least two-thirds of surveyed individuals in China (76.3 per cent) and Canada (65.9 per cent) were concerned that corporations would access their social media posts. Moreover, relatively few Canadians (19 per cent) and Chinese (32 per cent) felt comfortable allowing corporate access to location and online history data.

Figure 1.27: Online Collection of Personal Data (Per cent Agree with Statement)

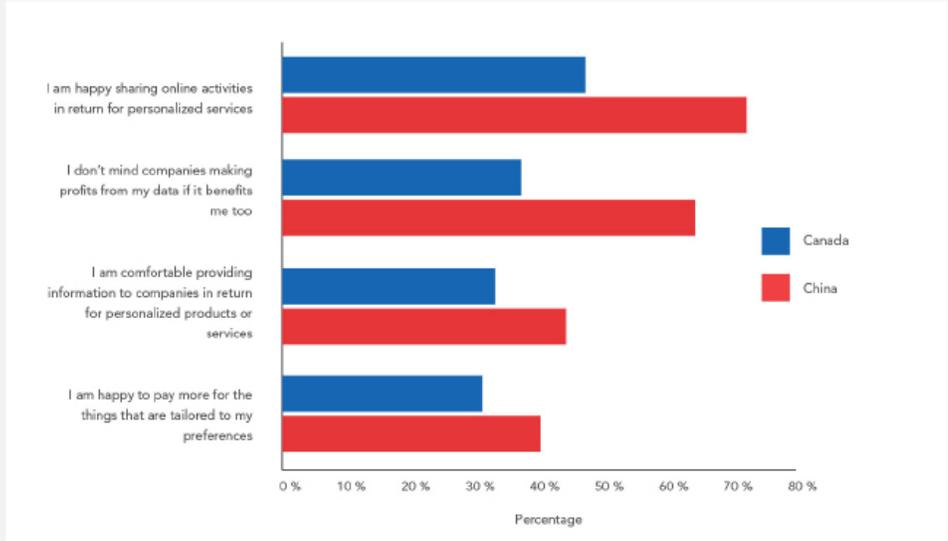


In terms of controlling the personal information after collection, both countries have similar reactions to the questions (see Figure 1.28). Chinese (77 per cent) and Canadian (74 per cent) respondents both reported that they are unsure of the information companies hold about them. Most surveyed respondents in China (72 per cent) and Canada (83 per cent) feel that they should know the names of the third-party organizations that bought their personal information. Furthermore, 79 per cent of Chinese and 75 per cent of Canadian respondents would like access to the data that companies hold on them so they can make better decisions.



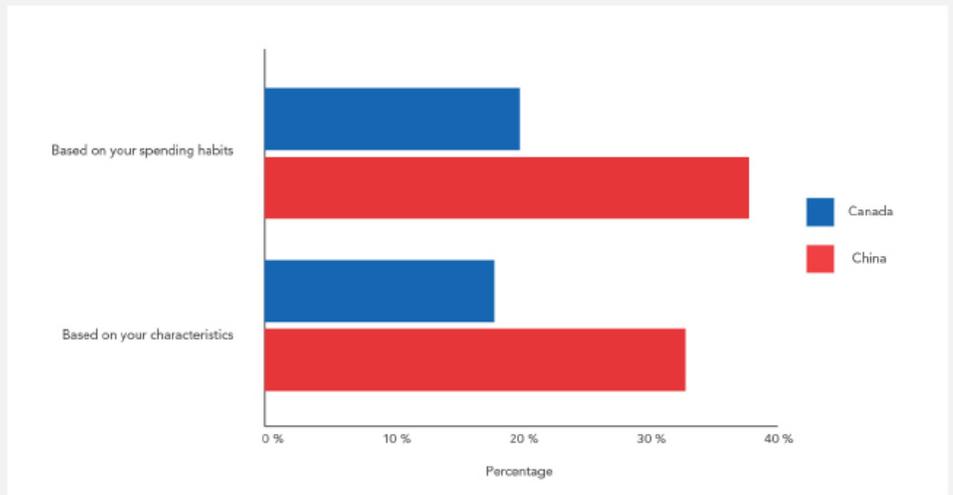
In light of these potential benefits, the next set of questions relates to how much personalization is wanted and at what privacy cost (see Figure 1.29). Overall, Chinese respondents saw greater benefits to personalization than Canadians. For instance, 40 per cent of Chinese respondents reported being happy to share personal information in return for personalized services compared to only 31 per cent of Canadians. Moreover, 44 per cent of these Chinese respondents did not have a problem with companies making profits using their personal information as long as they benefited in some way, versus only 33 per cent of surveyed Canadians. Furthermore, a significant majority of Chinese respondents (64 per cent) reported being comfortable with providing information to companies in return for personalized products and services, compared to a paltry 37 per cent of Canadians. Also, 72 per cent of Chinese respondents and 47 per cent of Canadians would be willing to pay extra for products and services that are tailored to their preferences.

Figure 1.29 Privacy versus Personalization (Per cent Agree with Statement)

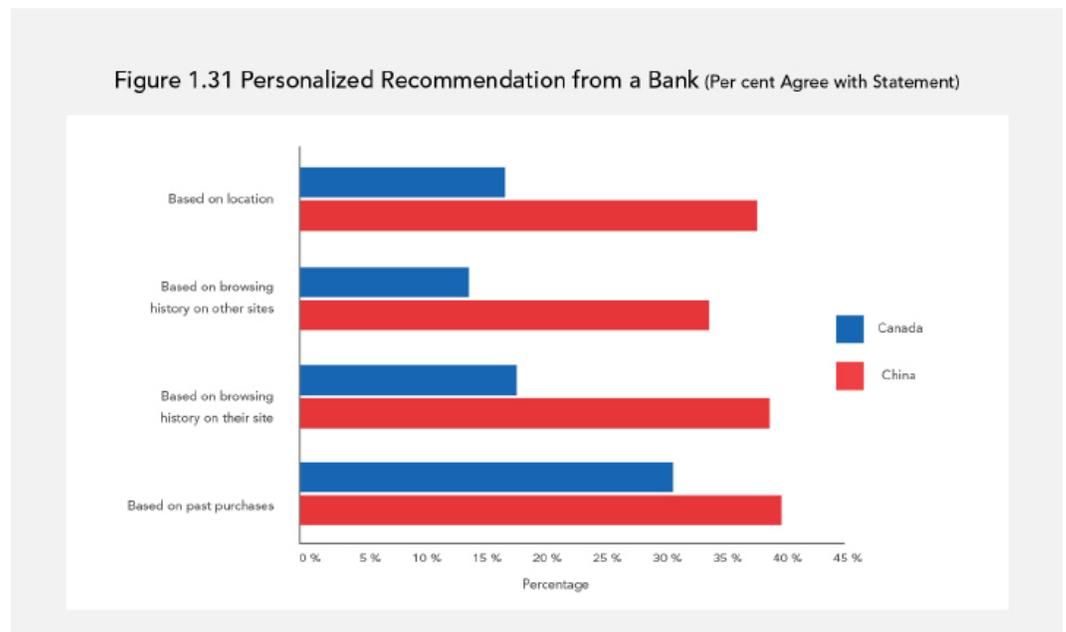


There is some variance across populations regarding the amount of information they are willing to provide in exchange for personalized surveys. With banks, Chinese respondents are far more willing to receive personalized banking services based on their characteristics (33 per cent) or their spending habits (38 per cent) than Canadians (based on characteristics 18 per cent, and 20 per cent on spending habits).

Figure 1.30 Personalized Recommendation from a Bank (Per cent Agree with Statement)

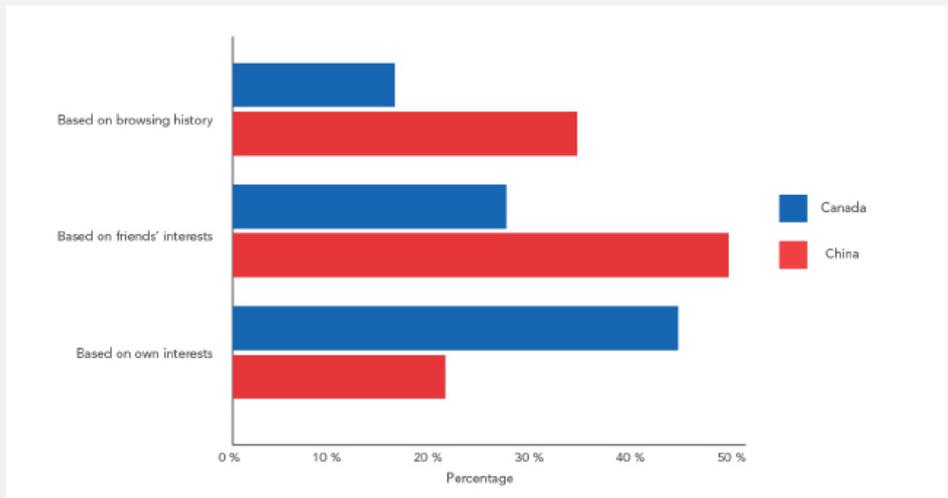


In terms of websites in general, again Chinese respondents were more comfortable receiving personalized suggestions based on location (38 per cent versus only 17 per cent of Canadians), browsing history of other sites (34 per cent versus 14 per cent of Canadians), and browsing history of that site (39 per cent versus 18 per cent of Canadians) (see Figure 1.31). Opinions were more similar in the case where consumers had past purchases on the website and suggestions were based on that (40 per cent in China versus 31 per cent in Canada).



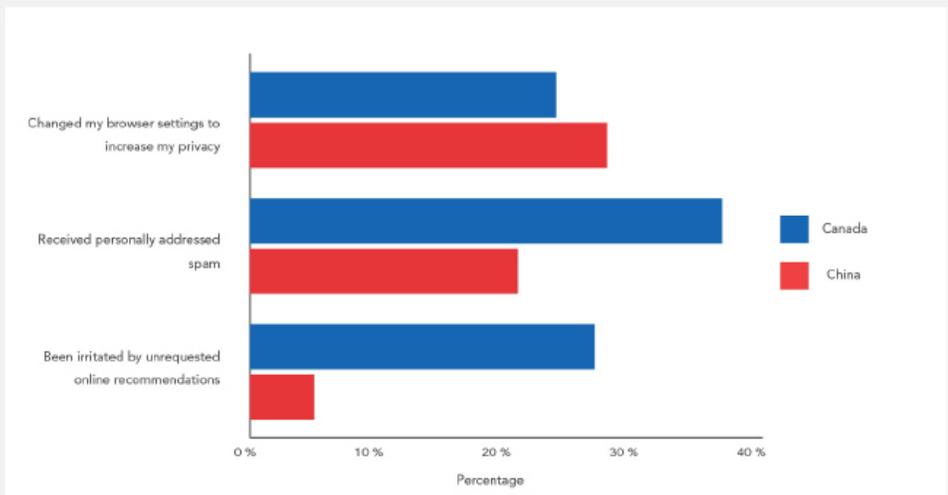
For social media companies, surveyed individuals seemed to be more sensitive to personalized suggestions in some cases and not as sensitive in others compared to websites in general (see Figure 1.32). Only 34 per cent of Chinese and 16 per cent of Canadian respondents were comfortable having personalized suggestions based on their personal browsing history. However, 44 per cent of Canadians, versus only 21 per cent of Chinese respondents, were comfortable receiving personalized suggestions from a social media company based on their own personal interests. This pattern reversed when respondents were asked how they felt about getting personalized suggestions based on their friends’ interests: 49 per cent of Chinese and 27 per cent of Canadian respondents were comfortable receiving such information.

Figure 1.32 Personalized Suggestions from a Social Media Company (Per cent Agree with Statement)

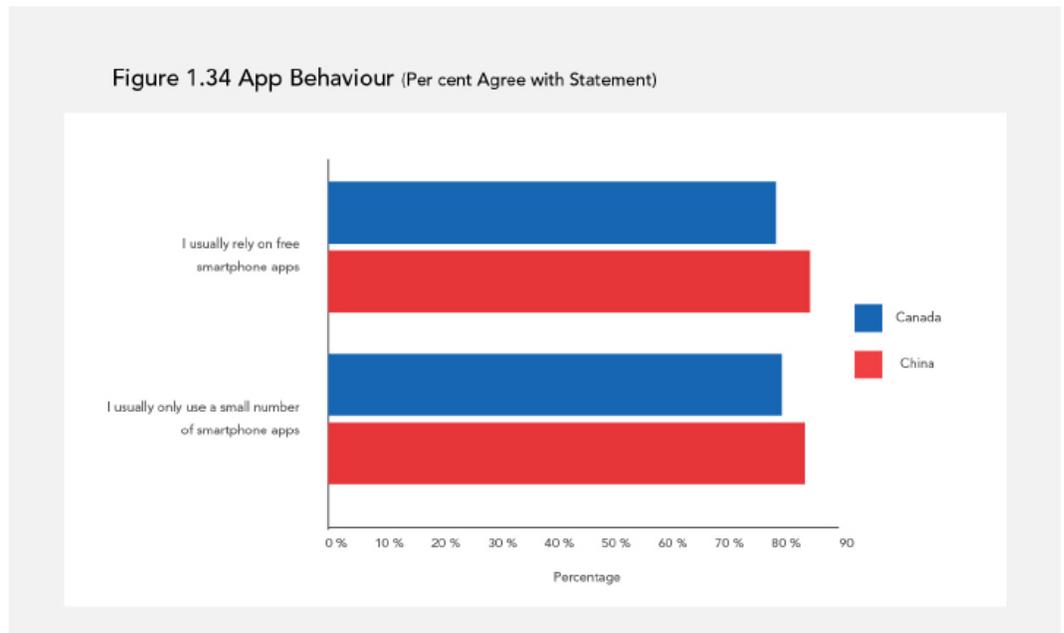


Overall, only a minor segment of the surveyed respondents in both countries reported taking steps to protect their personal information privacy online: 28 per cent of Chinese and 24 per cent of Canadian respondents reported changing their browser settings to increase the level of their personal information privacy. Yet a large number of Canadians (37 per cent) and a smaller number of Chinese respondents (21 per cent) reported receiving personally addressed spam in their email, indicating a lack of personal privacy protection behaviours. Furthermore, 27 per cent of Canadians and only 5 per cent of Chinese respondents reported receiving unrequested personalized recommendations online.

Figure 1.33 Responses to Requests (Per cent Agree with Statement)



Finally, surveyed respondents in both countries reported similar behaviours for app use (see Figure 1.34). While both countries reported relying on a small number of apps (China: 84 per cent; Canada: 80 per cent), these apps are generally free (China: 85 per cent; Canada: 79 per cent) and often have user agreements that require the disclosure of personal information or being allowed to track personal information such as location.



ABOUT THE AUTHORS



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