E-commerce in China: a booming market within a booking market

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China features the largest number of internet users (currently roughly equal to 457 million) and in the next few years should overcome the US as the biggest economy in the world. Only the combination of these two elements should make clear the potential for e-commerce in China.

However, additional elements seem to support the widely shared believes in the future growth of this important sales channel and the significant opportunities offered to foreign investors in this regard.

1. The development of e-commerce in China

Despite the frequent criticism by Western press on the obstacles posed by Chinese authorities to media and, more in particular, internet, it appears that the "dot-com bubble" that so negatively affected the West in 1999 has never reached China: in the last decade the number of Chinese internet users has increased twenty-fold, jumping by just 22 million to 457 million[1] (the figures are even more impressive if it is considered that in 1997 the number of internet users was just 0.7 million). With more particular regard to on-line commerce, several Chinese websites such as Alibaba (www.alibaba.com), Vancl (www.vancl.com) or Tao Bao (www.taobao.com) have become extremely popular in China, outclassing their Western equivalents such as Ebay or Amazon.

Chinese consumers are increasingly attracted to shopping online and the global financial crisis has not affected the growth of turnover of online business. The boom in China'e e-commerce is supported by the concomitant increase of internet users, their propensity to buy online, number of online transactions and their average value just to quote the most important ones.

Data and figures on the real volume of online sales in China seem to converge upon a growth of turnover from around RMB 7.5 billion (roughly equal to EUR 800 million) in 2008 to roughly RMB 70 billion (equal to EUR 7.5 billion) expected for 2011.

The growth in the volume of online business, however, has not been limited to a quantitative dimension, as the quality and variety of the virtual shopping forums available to Chinese (and, increasingly, foreign) consumers have always greatly increased: in addition to a growing number of e-commerce platforms such as Tao Bao, Vancl.com and Taobaobao most international brands in the retail sector, such as GAP or Adidas, are putting substantial efforts in developing online sales through their own websites.

[1] Data: China Internet Network Information Center.

2. How to sell on-line in China

There are two main channels a foreign brand can use, either alternatively or jointly, in order to sell online to Chinese consumers:

(a) Sales through existing online platforms: the simplest structure to sell online is through an already existing website for online shopping. While consumers to consumers (c2c) sales cover the largest portion of transactions in Chinese websites, the market share of b2c transaction is increasing over time, with more and more Chinese and international brands entering into arrangements with websites such as Tao Bao, Vancl or Groupon allowing the former to use the latter as a platform (creating dedicated online shops) to sell their products. If it is correct to affirm that this channel is the simplest available to brands interested in selling online, nevertheless problems such as online payment methods (mainly due to restrictions under Chinese law on cross-border financial flows) or the logistic aspects, just to quote two examples, should not be underestimated.

(b) Opening of a branded online shop: an increasing number of international brands are deciding to go one step deeper in China's e-market, setting up their own online shop. This option is typically chosen by brands with established retail operations in China (e.g., Gap, Adidas or Nike, but also luxury brands such as Armani), mainly for commercial and marketing reasons. As far as the legal aspects of this option are concerned, it should be further noted that, once the brand already has retail operations, no significant additional issues arise from online sales. Moreover, having a direct control of the sales can provide the advantage of limiting

3. The Chinese regulatory framework of e-commerce: main risks

The success of e-commerce is closely linked to the creation and development of a sound regulatory framework protecting both purchasers and sellers. In this regard, the impressive performance of e-commerce in China described above seems to have occurred notwithstanding the presence of significant problems.

Counterfeiting and IPRs infringements: piracy and counterfeiting are a primary concern for all companies but they assume an even more important significance for companies selling or interested in selling their products online. From this point of view, notwithstanding the big steps made by Chinese authorities in recent years in order to improve the protection of intellectual property rights (IPRs), piracy remains widespread in China and foreign brands are the primary victims. Paradoxically, however, an increasing number of international brands decide to sell their products through online stores to stop or at least limits the selling of counterfeit goods.

Over-regulation and regulatory uncertainty: a significant problem brands operating in the Chinese e-market is the voluminous number of laws and regulations to comply with and the constantly changing regulatory framework. To give an idea of the problems that may arise from regulatory changes, on 22 June 2011, China's Culture Ministry unexpectedly announced regulations for online gaming that severely affected companies operating in China's online games market.

Frauds: another level at which the discrepancies existing between laws and their enforcement can negatively impact online sales is the risk of frauds. Notwithstanding Chinese authorities have adopted in recent years regulations directly tackling online frauds, the problem remains widespread in China and the stories featured by the national and international press are only the tip of the iceberg.

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4. Conclusions

Growing by more than 20% in 2010 in a country whose GDP increased by 10% in the same year, e-commerce in China can be described as a booming market within a booming market.

A wide range of opportunities are available to foreign enterprises wishing to sell their products in China. E-commerce, in particular, represents an option with very high potential at limited entry and operating costs.

In a country like China, internet provides the leverage necessary to reach hundreds of millions of customers. It is however important to make an accurate cost-benefit analysis and keep up with the constantly changing regulatory framework.