

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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Voluntary  Public

**Date:** 11/15/2011

**GAIN Report Number:**

## **China - Peoples Republic of**

**Post:** Shanghai ATO

### **Overview of China's Online Shopping Market for Food and Beverages**

**Report Categories:**

Promotion Opportunities

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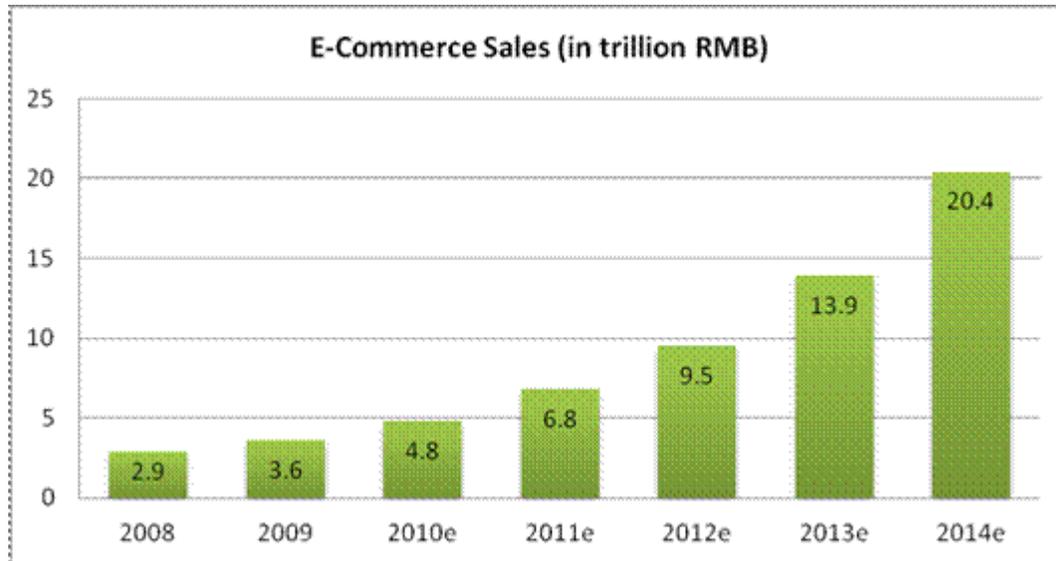
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**Report Highlights:**

China now has the largest Internet population in the world which continues to grow dramatically. According to industry sources, E-commerce users exceeded 160 million people in 2010. Many new companies are taking advantage of this trend to tap into the on-line shopping sector for food and beverages in China which has evolving at a rapid rate. This report gives an overview on some of the leading online food/beverage shopping websites in China. Many American companies are considering these new on-line channels as an alternative to traditional brick and mortar retail channels in some cases and as complementary for others.

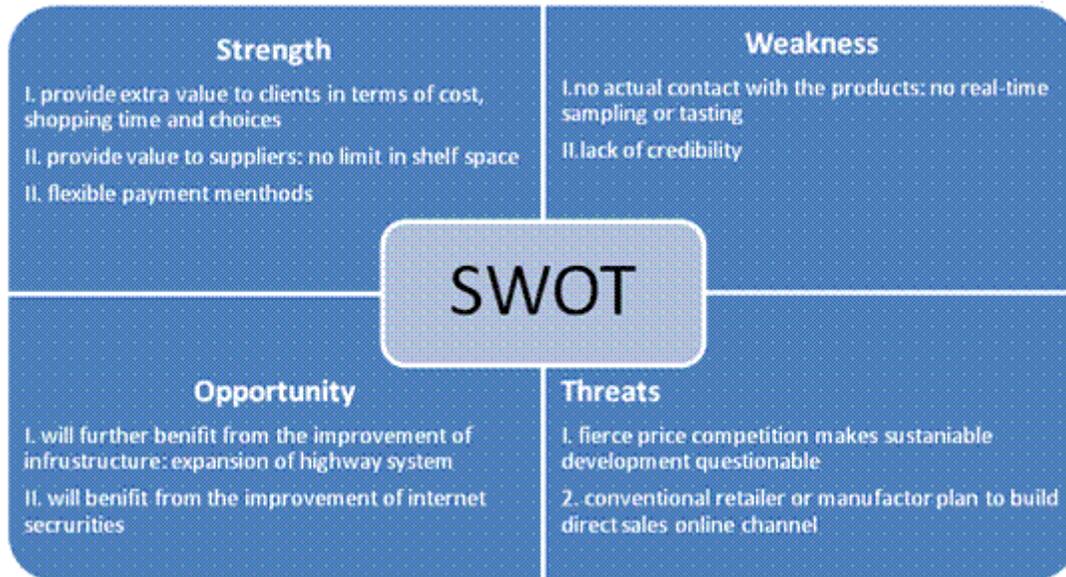
## General Information:

China now has the largest Internet population in the world, and this population continues to grow dramatically. According to CNNIC (China Internet Network Information Center), China had more than 457 million internet users at the end of 2010, an increase of 20 percent from 2009. More importantly, E-commerce users grew by 49 percent during the same period of time, reaching 161 million people.



Source: China Internet Network Information Center

On-line shopping is a new business model that delivers value to both the consumers and suppliers. On-line shopping websites position themselves as a new channel of retailing. They are a platform to sell products from suppliers to consumers using state-of-the-art client relationship management (CRM), supplier management, and storage and distribution management systems.



Multiple website operators are tapping the on-line shopping sector in China. The on-line shopping sector has been evolving quickly over the past five years, thanks to the availability of internet and new payment methods and improved internet security.

On-line shopping websites mainly fall into two product categories: general product sites and specialized sites. General product websites offer a wide range of products, including food and beverage, health care, kitchen ware, baby products, electronic appliance and lifestyle products. Specialized sites focus on one specific category of products. In terms of sellers and buyers, on-line shopping websites can be categorized as business-to-consumer and consumer-to-consumer. And some websites tend to be hybrid, offering both services in one platform. Typical examples include [www.dangdang.com](http://www.dangdang.com) and [www.taobao.com](http://www.taobao.com)

Hangzhou-based Taobao dominates China's e-commerce marketplace, a growing and vibrant sphere where tens of millions of goods—legitimate and fake—are sold each day. Taobao, founded in 2003, commands over 80 percent of the consumer-to-consumer (C2C) business in China, and as of January 2012 was the [12<sup>th</sup> most visited website in the world](#). Last year, a leading investment bank valued Taobao at \$55 billion. China's e-commerce industry reached over \$100 billion in 2011, and will be the world's largest e-commerce market in 2015, according to [press reports](#). Taobao's sister site, Tmall, founded in 2008, is the leading business-to-consumer (B2C) marketplace in China, with a 50 percent market share. With up to one billion goods for sale at any given time, Taobao and Tmall—and their parent company, Alibaba Group—represent a whole new marketing channel for American companies, but also present challenges for those companies concerned about protecting their patents, copyrights, and trademarks.

The B2C platforms provide more stable opportunities for American suppliers since the products can be traced back to the company's distribution center. Suppliers can avoid many of the typical shelf fees passed on by brick and mortar retailers and can provide much more detailed information highlighting the use of their products all in the local language. In addition, US companies can benefit greatly from consumer comments provided on most of the B2C websites. For more information about these new, on-line channels, please contact Ms. Freddie

Xu from ATO Shanghai at: freddie.xu@fas.usda.gov

Below are brief descriptions of some leading on-line shopping websites. The numbers given below were current when researched, but are now dated. YiHaoDian, for example reported routine month on month growth of about 35% 6 months ago. That has likely slowed somewhat since, but would equate to an annual growth rate of over 3000%.

### YihaoDian.com

At a Glance	
Year of Establishment	2008
Business Type	Business-to-Business-to-Consumer Business-to-Consumer
Product Category	food and beverage health care kitchen ware baby products electronic appliance lifestyle products
Distribution and Delivery	5 DCs

YiHaoDian, which means the “Number One Store” in Chinese, was Founded by former top Dell managers and launched in July 2008. The two founders are Mr. Liu Junling, former CEO of Dell China, and Dr. Yu Gang, former Vice President of Dell Global Sourcing who previously worked as head of Amazon.com Global Sourcing.



YiHaoDian has its own distribution centers in five cities across China, Shanghai, Beijing, Guangzhou, Chengdu and Shenyang which they use to distribute products nationally. The product availability is displayed on the website by region and fulfils orders accordingly.

According to industry insiders, P&G projects that YiHaoDian will be their 10<sup>th</sup> largest retail channel within the next five years. As of October 2010, YiHaoDian had four million registered accounts and offered more than 50,000 SKUs of products. They currently have 4000 employees.

Yihaodian also welcomes third party suppliers to open up stores on the Yihaodian platform. One difference from the other main stream websites is that they developed the “FBY” model - Fulfilled By Yihaodian. Under the FBY model, third-party suppliers who cannot handle fulfillment on their own can hand this job to Yihandian.

In addition, Yihaodian cooperates with China Ping’An Group and

opened up the YiHao Yaowang website, which sells pharmaceuticals. In May 2010, Yihaodian signed a strategic cooperation partnership agreement with Walmart Stores Inc. During the month of December 2011, ATO Shanghai launched its first ever, virtual -online American food and beverage promotion with Yihaodian. The promotion was a great success in that Yihaodian selected 16 new suppliers introduced by ATO Shanghai to participate in the promotion which featured at total of 360 individual items. 250 were new-to-Yihaodian products. Snack foods and UHT milk were most popular products in the promotion.

### 360buy.com

At a Glance	
<b>Year of Establishment</b>	2007
<b>Business Type</b>	Business-to-Consumer
<b>Product Category</b>	Electronic and computers Clothing, shoes and jewelry Health and beauty Sport and outdoors Food and beverage Home and kitchen ware Baby products Book, music and movies
<b>Distribution and Delivery</b>	5 DCs



Established in June 2007, 360buy.com first started its business in electronics and computers, similar to newegg.com, but gradually grew into a platform that sells all kinds of products used in daily life. It has over 250 million registered members, 6,000 suppliers, and receives about 300,000 orders a day.

The company now has five DCs in China, covering Northeast China, East China, South China, Southwest China and Central China. In addition, it set up secondary DCs in Wuhan, Shenyang, Xi'an, and Hangzhou. A new warehouse is on its way in the Jiading district of Shanghai which is purportedly to be "8 times larger" than the Bird's Nest Olympic stadium.

Liu Qiangdong, the chief executive of 360buy.com, recently (June 1, 2011) began a campaign to promote the welfare of Chinese authors (and dispel some growing discontent) by giving 3% of book sales to the original writers and a donating 1 million RMB to help fight against copyright infringement and for intellectual property rights.

Digital Sky Technologies along with the Tiger Fund invested over

\$1.5 billion in 360buy.com - as was confirmed on April 1<sup>st</sup> earlier this year. The same investment group added another \$500 million in December.

Their 2010 sales are estimated at \$1.7 billion by Reuters.com. The Financial Times commented that 360buy.com is one of the largest and fastest growing e-commerce sites in China.

## Dangdang.com

At a Glance	
<b>Year of Establishment</b>	1999
<b>Business Type</b>	Business-to-Consumer
<b>Product Category</b>	Electronic and computers Clothing, shoes and jewelry Health and beauty Sport and outdoors Food and beverage Home and kitchen ware Baby products Book, Audio books, music and movies Toys, games
<b>Distribution and Delivery</b>	5 DCs



Dangdang.com began as one of many online book retailers. They eventually added DVDs, CDs, software, and games. By 2001 they had cornered close to 50 percent of the online book and music market in China. The company currently carries a multitude of different products in much the same manner as places like Amazon.com and other competitors today. In November of 2010, Dangdang went public in an IPO valued over US\$1 billion. They employ a third party logistics company system which allows them to distribute from over 100 points across China. The “Lightning Plan” (begun in 2011) focuses on the customer’s experience by means of fast and reliable service. Their business accounts for 20-30 percent of deliveries for most of their logistics companies - which they have used as leverage to require special training and implement higher standards all around.

Tough competition with other prominent e-commerce sites (mainly amazon.cn) has taken its toll on the profits of both sides through the ensuing struggle for control of the market. Before 2009 Dangdang.com had yet to net a profit and instead showed large net losses \$70 million and \$81 million in '07 and '08 respectively. In 2009 they managed a net gain of close to \$20 million and have since maintained an upward trend.

According to ChinaRank.org.cn Dangdang.com received 2.3 million unique user clicks every day in the first quarter of 2011 before the number jumped to 3.5 in the second. Although this should lead to an overall increase in sales and revenue, the competition between them and amazon.cn/360buy.com has forced a decrease in prices across the board. In an interview Chia-Hung Yang, CFO of Dangdang said that although profit margins are low “Sales revenue growth has accelerated over the last two years and is our highest priority and focus.”

## Amazon.cn

At a Glance	
<b>Year of Establishment</b>	1998 (became amazon.cn in 2004)
<b>Business Type</b>	Business-to-Consumer
<b>Product Category</b>	Electronic and computers Clothing, shoes and jewelry Health and beauty Sport and outdoors Food and beverage Home and kitchen ware Baby products Book, music and movies Auto Supplies, Games, and Toys
<b>Distribution and Delivery</b>	9 DCs



Amazon acquired the online retailer Joyo.com on August 19, 2004 for \$75 million. Three years later “Joyo.com” was dropped as the address in favor of “amazon.cn.”

Joyo was founded by Kingsoft, a Chinese software company, in 1998. Originally an IT service and download center, Joyo.com quickly rose to prominence among Chinese web markets. By 1999 it had changed completely into an online bookstore that serviced the local area of Beijing. They soon expanded their reach into Shanghai and by 2003, Guangzhou. Soon thereafter “Tiger Management Corporation” invested \$52 million in them at which time they began to sell packaged products as well.

Amazon China is based in Beijing and offers a wide variety of goods to consumers from jewelry to car supplies and more along with free shipping.

A streamlined application process allows for new businesses to easily sign up and sell their wares through the Amazon site which is an almost verbatim translation of the original site in English.

Amazon recently announced their intent to build an eighth and largest (100,000 m<sup>2</sup>) logistics center in Kunshan, Jiangsu Province. Amazon has expanded rapidly in the last few couple year in China having added four DCs bringing the total to nine. They are spread around many of the major cities such as Beijing and Shanghai.

### Ye Mai Jiu (YesMyWine.com)

At a Glance	
Year of Establishment	2008
Business Type	Business-to-Consumer
Product Category	Alcohol (wine & spirits)
Distribution and Delivery	5 DCs



Founded in 2008 and offering a 100% imported inventory of over 1000 varieties of red wine from all over the world, “YesMyWine.com” appeals mainly to the increasingly prominent younger middle class in China. They broke away from Shanghai Roadway Direct Marketing Services Co. Ltd., and became independent in 2008. YesMyWine claims to be third largest retailer of imported wine in China behind Carrefour and Metro. ATO Shanghai plans to organize an American wine promotion with YesMyWine in July 2012.

In May 2011 YesMyWine.com completed a fundraising of US\$40 million from Chengwei Capital, Doll Capital Management (DCM), Mandra Capital and Zero2IPO Capital. This was their 3<sup>rd</sup> round to date having worked with and received support from Chengwei Capital in the past.

According to news reports, CEO Liu Jun estimated that they sold around 3000 bottles a day in 2010 with 1.2 million registered users at that time. He also stated that their gross margins are in excess of 20%. He estimated 2010 revenues would increase to nearly \$15 million, up from \$2.93 million in 2009. Currently they have 2.6 million members. This extreme upward trend is likely to continue due to the vastly growing population of middle-class liberally-spending Chinese that aren’t as worried about saving as their parents were. Their five distribution centers allow for delivery in 1-

2 days around major cities and most other places within five days. The company started importing wine directly in 2011, mostly French. ATO Shanghai will work with the company to introduce American wineries/suppliers in the future.

## Efruit (YiGuo.com)

### At a Glance

Year of Establishment	2005
Business Type	Business-to-Consumer
Product Category	Fresh Fruit
Distribution and Delivery	1 DC



As the current leader in China's online fruit marketing sector, YiGuo.com mainly services Beijing and Shanghai while also reaching into Jiangsu and Zhejiang province.

The largest obstacles for any online fruit retailer include the standardization of product quality and a streamlined and efficient cold chain delivery system. They have overcome the first problem but the second barrier prevents them from extending their reach too far outside their current range without heavy investments in new infrastructure.

YiGuo had RMB\$80 million in fruit sales last year, and has 600 employees. They emphasize strict quality control and state that their mission is to sell delicious and safe food. They have implemented a 48 hour return policy.

## Mobile Retailing

Thanks to the popularity and innovation of intelligence mobile phones, like iPhone and HTC, mobile-based e-commerce is gaining momentum. Kai-Fu Lee, one of the most prominent figures in the Chinese internet sector and the founding president of Google China, predicted that e-commerce and mobile internet services will be the trend for the internet industry. Some e-commerce operators, like Yihaodian and Taobao, have developed applications on mobile phones. With that, consumers can easily purchase the products through mobile phones and on the way, making it even more convenient and more accessible.

## Appendix: Flow Chart of Online Shopping Procedure

1. Create an account using accurate personal details generally including but not limited to an address, phone number, email address, and possibly credit card number.



2. Select desired items and add them to the virtual "shopping cart" using the website's interface.



3. Proceed to "check out" where an agreement to pay now or on receiving the item(s) that were added to the "cart" through the shipping method that is also selected at this point.



4. Generally prompted to review shipping information to ensure the proper address has been given.



5. Confirmation that the order has been received is given usually via email or phone call.



6. Item is delivered and typically signed for to ensure it is collected by the right person.