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Online Shopping in East China for Food and Beverages

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Approved By:

Keith Schneller

Prepared By:

Xu Zhen

Report Highlights:

This report gives an overview of China’s online-shopping market for food and beverages. It reviews the development of online shopping in China, from its infancy. In comparison to conventional brick-and-mortar retail stores, online-shopping offers convenience to consumers and unlimited exposure to products. A quick guide to doing business online is provided. This report also includes profiles of some online shopping websites.

Part I. History of Online-Shopping in China

1999-2002: The beginning of online-shopping

Online-shopping has a twelve-year history in China. The pioneers of online shopping were Eachnet and 8848, both of which started in 1999. Eachnet and 8848 are the benchmarks of C2C and B2C business in China, respectively. Although 8848 achieved decent sales results in its first year, it only lasted until 2001. Some analysts contribute the failure of 8848 to several factors - including the relatively small population of internet users (about 4 million people), an underdeveloped online payment system, a lack of a delivery system, and disagreements between investors.

Eachnet was founded by a Harvard Business School graduate and is a fee-based open platform for individual consumers to sell and buy products. Listing fees are between 1 to 8 RMB per product. Eachnet also charges a 0.25-2 percent commission on each transaction. In March 2002, EBay bought one third of Eachnet.

Dangdang and Joyo, two major online book, CD, and software platforms were established in November 1999 and January 2000.

Ctrip, an online travel arrangement platform was launched in October 1999, expanding online shopping choices from tangible products to intangible products.

In 2001, Newegg, an American online shopping website for electronics and home appliance entered China market. This created a more diversified online shopping landscape.

2003-2005: Changing the landscape

The year of 2003 not only witnessed the contagious spread of SARs but also the establishment of Alibaba, which later become an online retailing conglomerate. The fear of being exposed to the virus while shopping in public places may have boosted online shopping. In May 2003, Alibaba launched its website Taobao, a free-of-charge C2C shopping platform. The no-fee policy quickly reduced the market share of Eachnet. Moreover, Taobao offered an instant chatting tool for buyers and sellers to communicate with each other while Eachnet still counted on emails for communication. Lack of credibility between buyers and sellers was a major threat for the C2C business model. To solve this problem, Taobao offered a third-party payment tool called Zhifubao, the Chinese equivalent of Paypal. Buyers first pay Zhifubao. After buyers receive the products, Zhifubao will pay the sellers. Otherwise, Zhifubao will return the money back to the buyers.

In the same year, EBay acquired full ownership of Eachnet. However, the acquisition didn’t help Eachnet to win the battle with Taobao. According to CNNIC, in 2003 Taobao had almost 67 percent of the C2C market while Eachnet had 29 percent.

In January 2004, 360buy launched its website in the electronics and home appliance segment.

In August 2004, Amazon acquired Joyo, making itself the second foreign online shopping company to expand its business into China by acquisition.

During this time period, the competition in each online shopping segment, such as books, and electronics, became somewhat like locally owned companies competing against international companies, namely Taobao vs. Ebay; Dangdang vs. Amazon; and 360buy vs. Newegg.

2006-2008: Booming

A dozen national online shopping operators were established during this period, with each targeting different segments. Vancl was set up in 2007, targeting fast moving fashion apparel. Yihaodian was founded by a former Amazon top manager in 2008, with a mission to become the top online supermarket in China. It mainly sells grocery products and foods.

Some players are focusing on regional markets. These companies mostly sell products that face delivery constraints, such as fragile and perishable products. Yesmywine was established in 2008 targeting the imported wine market in Shanghai. Pagoda launched its online platform for fresh fruits in Guangdong province.

In April 2008, Taobao launched its B2C platform Tmall. It allows companies to open online shops on Tmall. This is another line of business for Taobao, which has recently grown rapidly. In a contrast with its C2C platform, Tmall requires that companies pay a deposit between 50,000 RMB to 150,000 RMB. In addition, companies need to be accredited by Tmall and guarantee that the products sold are authentic. A seven-day return policy is mandatory in Tmall, while it is optional on the Taobao C2C website.

2009-2012: Evolution and Merge

The major national players in online shopping have continued to evolve and become more sophisticated. They are expanding their product categories, from books to food, electronics to cosmetics, and many more. In addition, they are extending their platforms to include additional business models. For example, major B2C closed platforms have allowed other companies on their platforms. Also, regional players have expanded their markets from a single-city market to include first-tier cities.

Conventional retailers are adding online shopping arms to their business. This is especially true with the giant electronics and home appliance retailers, Suning and Guomei. Conventional supermarkets and hypermarkets are catching up as well. Even the Cash & Carry grocery chain, Metro, is setting up an online shopping service, offering free delivery for purchases of one hundred RMB or more. Shopping malls are behind no one in this race. For example, Yintai, a local shopping mall, and Mark & Spencer, an English shopping mall, both began operating online shopping sites for their consumers in late 2012.

In addition to these changes, there are many other important developments in online shopping, such as groupon, weibo (Chinese twitter) shopping, and location-based service.

Part II. Comparison between Online Shopping and Conventional Retailing

Admit it or not, online shopping and conventional retailing are quite the same in essence. They are just means to an end, which is to provide a combination of products, services, information and experience to meet the needs of people, be it in a retail store or on an online shopping website. The route to this goal, however, might be somewhat different. For food and wine in particular, there are certain differences between online shopping versus conventional retailing.

Online Shopping offers convenience to consumers

Online shopping offers a 24/7 shopping experience

The Internet never shuts down. People can shop online whenever they like. 24/7 shopping offers a lot of convenience and flexibility for consumers. Sales during non-regular business time prove the value of irregular shopping time to consumers. Tmall, a B2C shopping platform of Alibaba, launched a massive promotion on November 11, the unofficial bachelor day in China. 5 billion RMB of sales occurred from midnight to 8:10 am that morning. In Comparison, that was almost the total monthly sales of RT-Mart, a top retail chain in China.

Online shopping requires no commuting time and offers home delivery

Going to a conventional retail stores requires time and extra cost. In contrast, online shopping requires none of these. People can shop online wherever they like and products will be delivered to their address in a timely manner. Facing an increased pace of life, frequent users find themselves using scrap time to run errands and buy groceries. Thanks to tablets and smart phones, people can shop while commuting to work or relaxing in a coffee shop.

Home delivery is another plus for online shopping. Shopping websites and platforms normally offer free delivery with a certain size of purchase. While private car ownership in China is increasing, many consumers still use public transportation or shuttle buses to go to retail stores, which is time consuming. In addition, some low rise residential buildings do not have elevators. So consumers have to carry the products by themselves. Online shopping, in contrast, offers door-to-door delivery, either using its own delivery fleet or a third party company.

Online Shopping offers unlimited exposure to products

Online shopping offers unlimited shelf space for suppliers

In the battlefield of retail stores, suppliers often fight for shelf space. In terms of physical space, there is always a limit in brick-and-mortar stores. Boundaries are created when the walls are built.

However, space is less of a problem in online stores. As long as the infrastructure is well built, online stores can offer unlimited shelf space for suppliers.

Putting the products online is not as much a problem but location still matters. Just like stalls in the main aisle and shelf space at eye level are considered to be prime shelf space in retail stores, a location on the landing page or on the top of the webpage are better in cyberspace.

Online shopping offers opportunities for product introduction and behind-the-scenes stories

Telling a story about a product in retail stores and making it stand out usually costs a lot of money and resources . Standalone posters, mini recipe booklets, pop-up signs and even ipads are placed in numerous stores to educate people on what the brand stands for and how to enjoy the product. Yet, space is limited and a lot of human resources are required to make this happen. Even worse, it could cost a tremendous amount of money to run a two week nationwide promotion campaign.

However, a nicely designed product webpage on an online shopping website can achieve the same results or even better. More stories can be told about the brand and its history. With food safety being a concern in China, consumers are eager to know how the products are produced and what quality assurance they have. Companies can easily prepare one copy of the marketing materials and load this information onto different shopping websites. All this information is accessible online across China and becomes permanent to some extent.

Part III. A Quick Guide to Doing Online Business

I. Work on a strategy first

Thinking clearly about whether or not to do business online is an important first step. For example, there is a lot of controversy whether luxury and premium products should go online. In addition, it normally requires extra human resource to run an online business.

Depending on the product, online strategies will differ – sometimes by a great deal. A new-to-market product needs more exposure. In the beginning, its online business might be considered marketing rather than sales. However, a very mature product may achieve immediate sales after being launched online. Balancing the price between online retailers and offline retailers/wholesalers might be a priority for these products.

II. Determine online channels

In terms of online channels, there are a number of models that a company may use.

A. Selling products to a distributor who has online channels
B. Selling products to a B2C website
C. Setting up a store in a B2C platform
D. Setting up a company owned-and-run website

III. Work on product information and brand information

The beauty of online shopping is that the supplier can add as much descriptive information as they like. Industry insiders say making a well designed product webpage will help sell the products. Brand history, recipes, how-to-use directions, ingredients, and eye-catching pictures of the products, are the most popular types of information on a product webpage.

Designing an effective product webpage is vital. Most B2C platforms can provide this service with or without fees. Good resolution pictures of your products are always wanted. Literature about products on the internet is the equivalent of sample tasting in stores.

IV. Prepare a promotion and marketing plan

Running an online business is far more than delivering the products to a warehouse. It requires a serious sales and marketing effort. This is quite similar in essence to marketing in conventional retail stores except that it is in a different format. Critical issues include securing a prime location on the webpage, fitting into an existing promotion with the website operator, or creating your own promotion. Major website/platform operators are quite capable of doing event marketing, such as the bachelor day festival. Suppliers who actively engage in these promotions will usually have better sales results.

V. Monitor sales, collect consumer feedback and evaluate the results

Monitoring sales and evaluating results is basically the same job as it is with retail stores. The beauty of online shopping is that suppliers can collect first hand product feedback from consumers. Websites make consumer feedback more traceable and transparent. Consumers can write comments and post them online. Suppliers can use this feedback to improve the products or services.

VI. Adjust plans and look to market trends

Success does not come overnight. Instead it comes from trial and error. Here are some approaches to accomplish your goals.

A. Listen to advice and learn from the experiences of website/platform operators. They are on the frontlines and interface with your consumers. They know what works and what doesn't. Learn from them.
B. Listen to the voice of your consumers. Check consumer feedback. Handle product inquiries or complaints in a timely manner.
C. Based on the sales results and previous marketing activities, adjust your plans and improve them. Given the fact that online business is evolving very quickly, always stay updated with market trends and be prepared.

Part IV Profile of Major Online Shopping Websites in East China

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 “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 including, 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 10th 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 with 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. Walmart now owns 51 percent of share of Yihaodian.

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.

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 the most popular products in the promotion.

360buy.com

At a Glance	
Year of Establishment	2007
Business Type	Business-to-Consumer
Product Category	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
Distribution and Delivery	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 has established secondary DCs in Wuhan, Shenyang, Xi'an, and Hangzhou. A new warehouse is on its way in the Jiading district of Shanghai which is purported 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 1st 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
Year of Establishment	1999
Business Type	Business-to-Consumer
Product Category	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
Distribution and Delivery	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 quarter. Although this should lead to an overall increase in sales and revenue, the competition between them and amazon.cn and360buy.com has forced a decrease in prices across the board. In an interview, *C*hia-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	
Year of Establishment	1998 (became amazon.cn in 2004)
Business Type	Business-to-Consumer
Product Category	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
Distribution and Delivery	9 DCs

Amazon acquired the online retailer Joyo.com on August 19, 2004 for $75 million. Three years later the address "Joyo.com" was dropped 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^2) logistics center in Kunshan, Jiangsu Province. Amazon in China has expanded rapidly in the last few years having added four DCs. Their total of nine DCs are spread around 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. According to Liu Jun, CEO of YesMyWine, the company is the third largest retailer of imported wine in China behind Carrefour and Metro. California Wine Institute launched a California wine promotion with YesMyWine in 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 3rd 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 vast 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 has successfully worked with the company to introduce American wineries/suppliers from the U.S.

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. 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.

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.