

China's e-salesmen, the competitors of the future?

When the quarter-mile long Emma Maersk, laden with 11,000 containers of Christmas presents for Europe's consumers, set sail from Yantian in the Chinese province of Shenzhen, there could be little doubting the identity of the world's champion manufacturer. The Chinese have led the way on cost, on efficiency and increasingly compete with the world's best manufacturers on quality. They have mastered production and distribution, and some of the world's retailers are starting to worry they might soon get to grips with sales and marketing, threatening to cut foreign intermediaries out of the supply chain all together.

This is increasingly the case with some of China's largest companies, who are moving away from the fiendishly competitive home market and from their role as Original Equipment Manufacturer for foreign firms, and channelling their energies into the more lucrative developed-world markets. Haier, China's biggest appliance maker has established itself as a major player in the US refrigerator market with an own-brand offering and SVA has successfully branded itself as a supplier of reasonably priced plasma-televisions in North America.

But it's not only China's largest companies that have the potential to target Western consumers. E-commerce is one of the fastest-growing parts of the Chinese economy. In a country of 120 million internet users, 20 million are registered at the online auction site Taobao.com, including more than 10 million small and medium sized businesses, selling over 26 million products direct to consumers at a rate of 150,000 transactions per day. Taobao's parent company is the legendary Alibaba.com, the import-export marketplace pioneered since 1999 by Jack Ma, the celebrated Chinese entrepreneur. The company has grown remarkably and now has over 4,000 employees and offices in Europe and the United States as well as mainland China. Alibaba's business model is of a B2B forum for Chinese suppliers and worldwide buyers to contact one another and set up wholesale purchases. More than 500,000 people visit Alibaba.com every day, most of them buyers from the United States (23 per cent) and Europe (18 per cent), and similar sites such as tradekey.com and made-in-china.com swell the total numbers even more. The success of the Alibaba model owes much to its innovative



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"Alipay" system, partnered with China's leading banks which holds the buyer's payment in an escrow account until satisfactory receipt of the goods. This innovative payment system has proved an enormous boost for Chinese online trade, previously plagued by difficulties with credit-card payments, fraud and shoddily-manufactured or fake products.

The resolution of the payment problem has opened a door of opportunity for smaller Chinese operations, which are now able to market their products around the world from a single home PC, receiving payment via the Paypal system. While, large Chinese factories focus on B2B transactions, these smaller companies are increasingly targeting Western consumers directly. Wily Hong Kong merchants have known about eBay for a long time - selling shoes, apparel, DVDs, CDs and Chinese collectables to a world market. It is only recently, however, with decreasing costs of IT hardware and broadband internet access,

that salesmen across China started to follow the lead. Ad hoc inventories suggest that over 56,000 products are on offer on eBay from merchants based in China, 31,000 of these fell into the loosely defined category of Chinese antiques, although there were also computers, DVDs, look-alike watches and even real estate. The products on offer speak of a nascent industry, largely populated by the street traders of the big city markets, particularly those in Shanghai, each looking to supplement his usual income with a few lucrative foreign customers. Many of the businesses have very limited English, they either simply copy the description of articles from a rival's advert or attempt to paste together an often unintelligible or suspiciously extravagant description translated using a Chinese-English dictionary. The understanding of their target markets is often naïve and poorly informed. Many of the salesmen also have limited IT skills and struggle to set up their eBay account, payment arrangements and the presentation of their wares. What is more, the endemic one-upmanship of Chinese merchants mean that for every original high quality product on sale, there will be a number of fakes, scams and inferior versions.

But UK online sellers cannot rest on their laurels. Both the large Chinese manufacturers with their B2B online operations and their smaller compatriots pose significant risks to Western online retailers. It is inevitable that the smaller operations will move up the experience curve as time moves on and they will learn about their customers, the operations with good products and service will slowly build a reputation with buyers. But more significant still is the risk that the large Chinese manufacturers shift their operations into sales direct to customers. At present, this looks unlikely, as Chinese manufacturers aspire to large scale contracts with major foreign buyers, often refusing or even being offended by small orders. They also often charge very high C.I.F. prices for small orders because of unwillingness to use "groupage" container-sharing. There is no compelling reason why this should be the case, as groupage would allow the Chinese to start marketing white goods and consumer electronics at significant discounts to price-sensitive Western consumers. Of course, many Chinese firms would be unwilling to risk their ties with major Western distributors, but it would only take one to really put the cat among the pigeons.

China Consulting advises UK online retailers to take this threat seriously and to act fast to establish productive joint ventures with Chinese producers. The lack of international sales and marketing, English-language and customer-service skills in China can be fruitfully plugged by UK online retailers, combining the cost advantages of Chinese sourcing and e-selling. Rather than looking at Alibaba and its like as a threat we advise UK companies to take advantage of the opportunities it offers to cut sourcing time in half. Clearly the opportunity must be approached with an understanding of the Chinese legislative, commercial and cultural environment, these basics covered, the Chinese e-sellers could become British e-commerce's greatest ally. ■

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