From Bricks to Clicks: The Future of E-Commerce in China

How German Brands Can Win in China's E-Commerce Market

PREFACE

China's e-commerce market has seen explosive growth in recent years, becoming the world's largest digital economy. With a value of USD 2.3 trillion in 2022, China's e-commerce market is more than twice as big as the US and European markets combined. Driven by factors such as rising consumer purchasing power, technological advancements and evolving consumer behavior, China's e-commerce landscape has evolved rapidly to become a complex and dynamic market.

One of the key features of China's e-commerce market is its unique ecosystem, characterized by major players such as Alibaba（阿里巴巴）and JD.com（京东）. These platforms have created a highly competitive environment that favors innovation and rapid adaptation to changing consumer trends. Another notable aspect of China's e-commerce market is the rise of social commerce, which has become an increasingly important channel for reaching consumers in China. Social media platforms such as WeChat（微信）and Douyin（抖音）have become powerful marketing tools, enabling companies to engage with consumers in innovative and personalized ways.

In this report, AHK Greater China and GENUINE (an enabler for e-commerce and digital marketing in China and Southeast Asia), aim at orienting German companies towards effective utilization of the world's largest digital marketplace, including insights of its development, special features, social commerce, cross-border e-commerce and more.

While the potential benefits are immense, many German companies may not yet be fully capitalizing on the opportunities presented by Chinese e-commerce platforms. A myriad of reasons lies behind this: cultural disparities, language impediments, complex regulations, divergent consumer behavior, and a rapidly evolving market environment may all play a role in hindering German businesses in fully leveraging China's e-commerce landscape. Overcoming these hurdles requires an in-depth understanding of the market dynamics, astute strategic planning, and thoughtful implementation. German companies must be preptared to navigate through this distinctive e-commerce milieu to remain competitive and seize the tremendous opportunities embedded within.

To assist German companies in bridging the gap and effectively leveraging the pulsating Chinese e-commerce market, this report provides expert insights and recommendations tailored to address the unique conditions of this market. It aims to equip German businesses with the perspectives and tools required to understand the evolving Chinese e-commerce ecosystem, grasp consumer behavior and regulatory standards, and successfully expand operations in China beyond current limitations. By sharing insights on navigating this vast, untapped e-commerce frontier, this report serves as a valuable resource for businesses looking to thrive in China's digital marketplace. We look forward to equipping German companies with the knowledge needed to propel towards fruitful transitions and e-commerce success in China.

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CHINA E-COMMERCE MARKET INSIGHTS

1.1 Overview of the Current State of the Chinese E-Commerce Market

The Chinese e-commerce market is the largest in the world, with a value of USD 2.3 trillion in 2022[1]. It is expected to grow at a CAGR of 11.3% from 2022 to 2027[2]. As of 2022, the China e-commerce market became dominated by Tmall (天猫), JD (京东), Taobao (淘宝) and Pinduoduo (拼多多). Douyin (抖音), Kwai (快手), and WeChat (微信) are also growing at a fast pace.

FIGURE 1:
Overview of major Chinese e-commerce platforms 2022 with projected market share (%)
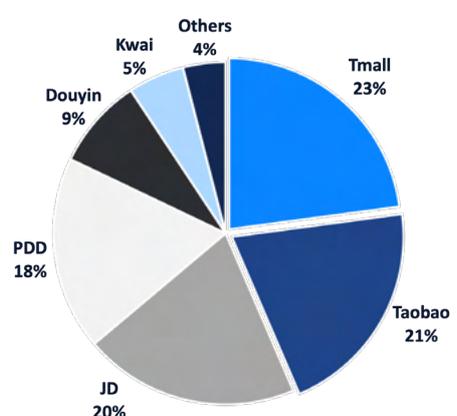
Key Implications:

- **Alibaba Group's Influence**: Both Tmall and Taobao are under Alibaba's umbrella, which means Alibaba holds a combined market share of 44%
- **Social commerce:** Kwai (Kuaishou) and Douyin (Chinese TikTok) have transitioned from video-sharing platforms to E-Commerce platforms
- **Diversity of E-Commerce Options**: The presence of multiple platforms with sizeable market shares highlights the diverse e-commerce ecosystem in China

Source: GENUINE analysis

This growth is largely being driven by a number of factors, including:
- The rise of the middle-class in China
- The increasing penetration of smartphones and mobile internet
- The growing popularity of online shopping platforms
- The government's support for e-commerce development

The Chinese middle-class is growing rapidly. In 2022, the middle-class population in China was estimated to be 707 million people (approx. 50% of the total population)[3]. This group of consumers is increasingly embracing online shopping. They are comfortable using online platforms to research products, compare prices and make purchases.

The increasing penetration of smartphones and mobile internet is another key driver of e-commerce growth in China. This is because all it takes is a mobile phone and just about all customers have the e-commerce world at their fingertips. As of March 2023, there were over 1.07 billion mobile internet users in China[4].

The growing popularity of online shopping platforms is also contributing to the growth of the Chinese e-commerce market. There are a number of large and well-established online shopping platforms in China, which can be categorized into B2B and B2C platforms. Some of the most popular B2B e-commerce platforms in China include Alibaba's 1688.com (阿里巴巴批发网), JD Industrials (京东工业), Baidu Aicaigou (百度爱采购), etc. Some of the most popular B2C e-commerce platforms in China include: Alibaba's Taobao (淘宝), Tmall (天猫), JD.com (京东), and Pinduoduo (拼多多), on which one can find almost any product from any category.

1 Global Data (2022)
2 Mordor Intelligence (2023)
3 South China Morning Post (2022)
4 Statista (2023)

In addition to the platforms mentioned above, there are a number of other smaller and niche e-commerce platforms in China. These platforms cater to specific industries or demographics, such as fashion, electronics or home appliances. The growth of these smaller platforms is a testament to the diversity of the Chinese e-commerce market.

The government's support for e-commerce development is also helping to drive growth. The Chinese government has implemented several measures to stimulate the growth as part of its broader push towards digitalization and economic development. Some of these measures include:

1. The Digital China initiative: This is a national strategy aimed at promoting the integration of digital technologies in various sectors of the economy, including e-commerce. The initiative includes investments in infrastructure, such as broadband networks and data centers.
2. Cross-border e-commerce: The government has encouraged the development of cross-border e-commerce by implementing policies that simplify customs clearance procedures and reduce tariffs for cross-border transactions.
3. 14th Five-Year Plan: The 14th Five-Year Plan (2021-2025) emphasizes the importance of digital transformation and innovation, with specific targets set for expanding e-commerce and improving logistics infrastructure. The plan calls for the development of new business models and technologies to support the growth of e-commerce, including the use of artificial intelligence and blockchain.
4. Consumer protection: The Chinese government has also implemented regulations to protect consumers in the e-commerce market, such as requiring e-commerce platforms to disclose information about sellers and products as well as providing channels for consumer complaints and dispute resolution.

In addition to the factors mentioned above, there are a number of other trends that are shaping the Chinese e-commerce market. These trends include:
- The growth of social commerce
- The growth of cross-border e-commerce

Social commerce is a fast-developing trend in China, with consumers increasingly turning to social media platforms to discover and purchase products. Here are some additional details about social commerce in China:
- Social commerce platforms: There are a number of popular social commerce platforms in China, including WeChat (微信), Douyin (抖音), RED (a.k.a. Xiaohongshu 小红书), etc. These platforms allow users to browse and purchase products from brands and retailers, as well as interact with each other and share product recommendations.
- Key Opinion Leaders (KOLs): KOLs are influential individuals who have a large following on social media. They often collaborate with brands to promote products and services to their followers.
- Livestream commerce: Live streaming is a popular form of social commerce in China. Brands and retailers use live streaming to showcase their products and answer questions from potential buyers.

Cross-Border E-Commerce (CBEC) is also growing rapidly in China. In 2022, the volume had doubled in size compared to 2018, reaching USD 306.3 billion[1]. Chinese consumers are showing an escalating trend of purchasing from overseas retailers, influenced significantly by the prevalence and convenience of cross-border e-commerce in China. This burgeoning demand is driven by the appetite of Chinese consumers for high-quality and unique products that are not readily available in their domestic market. These consumers are progressively favoring overseas brands, drawn by perceptions of superior quality, authenticity, and prestige. As such, Chinese consumers continue to broaden their shopping patterns, significantly contributing to the increasing popularity of cross-border e-commerce practices.

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1 The State Council of China (2023)

The Chinese e-commerce market is a dynamic and rapidly growing market. However, this market is not without challenges. One of the key challenges facing the China e-commerce market is intense competition among players. The market is dominated by large companies such as Alibaba's Taobao, Tmall and JD.com, but there are also many smaller players vying for market share. This competition drives down prices and puts pressure on margins, making it difficult for some companies to survive.

Another challenge is the prevalence of counterfeit goods on e-commerce platforms. Despite efforts by regulators and companies to crack down on fake products, they remain widespread, particularly in certain categories such as cosmetics and luxury goods. This undermines consumer trust in e-commerce and creates reputational risks for companies.

Logistics and supply chain management also pose significant challenges. With such a vast and geographically diverse country, delivering products quickly and cost-effectively can be a significant hurdle. Companies must invest heavily in logistics infrastructure and technology, such as warehouse automation and last-mile delivery solutions, to stay competitive.

Regulatory uncertainty presents a formidable challenge within the Chinese e-commerce market. This uncertainty partly stems from the wave of new rules and stringent controls introduced by Chinese regulators, which include tighter controls on cross-border e-commerce and mandates on e-commerce platforms to assume responsibility for counterfeiting activities. Although these regulations present their own challenges, a critical concern is the vagueness and opaque nature of these rules, leading to potential misconceptions and unclear implementation guidelines. Furthermore, companies are often given inadequate time to adapt to these regulatory updates, exacerbating the challenges of navigating this complex landscape. The ever-changing regulatory environment, coupled with unclear implementation and the short notice periods for adjustments, not only compounds the intricacy of the e-commerce market in China but also underscores the breadth of uncertainty that companies must confront.

1.2 Consumer Behavior and Preferences

Chinese consumer behavior is constantly changing, and this is due in part to the increasing role of social media in their lives. Chinese consumers are more likely to shop online than consumers in other countries, and they are also more likely to rely on social media for product recommendations.

Here are some key factors that distinguish Chinese consumers from consumers in other countries:
- Chinese consumers are influenced by a number of cultural values, such as collectivism, harmony, and face. These values can affect their shopping habits and preferences. For example, Chinese consumers are more likely to value brand reputation and social status than consumers in some other countries.
- Chinese consumers are some of the most digitally literate consumers in the world. They are comfortable using a variety of digital channels to shop and consume content. They are also more likely to be early adopters of new technologies.

Based on Alibaba's data, Bain – a global consulting company, identified eight strategic segments of China's online consumers[1]:

Rookie White Collars are young professionals in their early 30s residing in major metro areas. They work long hours in corporate or finance, but enjoy shopping online when they can. Although high earners, housing costs limit discretionary spending. Still, they splurge on self-improvement and try new brands readily. With busy lives juggling work and city living, this group values convenience.

Wealthy Middle-Class are financially secure consumers usually in their early 40s living in major metro areas. Highly educated and employed as civil servants or corporate managers, they value quality over novelty when shopping. This group tends to purchase premium products online rather than in stores. With stable incomes and a focus on quality, the Wealthy Middle-Class group represents an important consumer segment for brands in categories like electronics, fashion and home goods.

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1 Bain & Company (2019)

Supermoms are pregnant women or moms with kids under 12 living in major metro areas. Juggling family, work and personal health, they have substantial buying power as household shoppers. Willing to pay more for convenience, they prioritize safe, healthy products and often buy imported, high-quality goods like infant formula online. Their search for premium options drives premiumization across categories relevant to raising families. As discerning consumers focused on family wellbeing, Supermoms represent an influential demographic for brands.

Gen Z refers to those born after 1995 who live in major Chinese cities. As digital natives, they favor online shopping for most purchases. More interested in new, niche brands than established names, they see consumption as self-expression. With high growth in per-capita spending on Tmall and Taobao FMCGs from 2016-2018, Gen Z substantially impacts China's online cosmetics and beauty space. Their youth and openness to emerging brands make them trendsetters across categories from fashion to electronics. This tech-savvy, experimental generation is critical for brands seeking to engage young Chinese consumers.

Small-Town Youth refers to consumers in their 20s living in fourth-tier or smaller Chinese cities. Inspired by urban trends, this group has high disposable income thanks to lower housing costs. With ample free time, they are active in online leisure pursuits. Representing an important potential e-commerce market, Small-Town Youth looks to emulate the consumption habits of metropolitan counterparts. Their youth, digital engagement, and growing purchasing power make them an influential demographic for brands seeking to expand beyond major cities in China.

Urban Gray Hairs refers to retirees born before 1970 living in major Chinese cities. With generous pensions, this group spends minimal time online currently, but represents untapped e-commerce potential. As price-conscious consumers, they favor discounts and deals. Valuing relationships highly, their buying is swayed by social platforms like Pinduoduo. While not yet fully engaged in online shopping, Urban Gray Hairs' focus on price and community makes them a worthwhile segment for brands.

Small-Town Mature Crowd are consumers over 35 residing in fourth-tier or smaller Chinese cities. With a relaxed pace of life, they spend ample time online watching videos and reading news via both computers and mobiles. Still preferring offline shopping for social interaction, this group had very low FMCG spending per capita on Tmall and Taobao. Often following others' lead when purchasing, they are swayed by social network promotions. While not big online spenders yet, the Small-Town Mature Crowd's digital engagement makes them a potential target for e-commerce growth. Effective marketing through social platforms could further influence this group's consumer behavior.

Urban Blue-Collar refers to less affluent consumers in major Chinese cities, often working in sectors like food service, transportation or retail. Typically residing in suburbs, they consume mobile entertainment during long commutes. This group is familiar with e-commerce, however prioritizes value when shopping online, purchasing fewer items than other segments. While more budget-conscious, Urban blue-collar workers' reliance on mobile and familiarity with online shopping makes them a viable demographic for deal-focused e-commerce strategies.

It is important to understand the preferences and mindsets of Chinese consumers. This means understanding their shopping habits, their needs and their use of social media. By understanding these factors, marketing campaigns can be created to resonate with Chinese consumers and that help grow business.

"The Chinese consumers are demanding. They are digitally savvy and have high expectations regarding service speed."

- Karl Wehner,
Managing Director at Alibaba Group DACH

"When we say Made-in-Germany, it's a nice claim for the technology we use. However, the Chinese customer, who is extremely well-informed and often deeply engaged with product ingredients and quality, is a much more critical customer than the European customer."

- Stefan J. Lohaus,
General Manager Weckerle Cosmetics Hangzhou Co. Ltd.

1.3 Arising Chinese Social Commerce Trends

The three most popular apps for social commerce in China are WeChat (微信), RED (小红书) and Douyin (抖音).

FIGURE 2:
A very fragmented social landscape within China demands a segmented and complex strategy to navigate successfully

China's social media ecosystem

Three most popular apps for social media marketing in China

WeChat
- Messenger application
- Founded in 2011

RED (Xiaohongshu)
- Shopping notes sharing community
- Founded in 2013

TikTok / Douyin
- Short video social media platform
- Founded in 2011

Source: GENUINE analysis

WeChat (微信) is often described as an all-in-one super app that combines messaging, social networking, e-commerce and payment functionalities. It has over 1 billion active users and offers a range of features that businesses can leverage to connect with consumers, including official accounts, mini programs and WeChat Pay.

Companies can use WeChat as a marketing channel to boost sales by leveraging its various features and tools. One of the most effective ways to do this is by setting up an official account, which allows businesses to create brand awareness, share content and communicate directly with followers. Official accounts also offer advanced features such as CRM integration, customer service options and WeChat Pay.

Another useful feature is mini programs, which are lightweight apps that run within WeChat and can be used for a variety of purposes, such as e-commerce, games and utilities. Companies can leverage mini-programs to create engaging content, provide value-added services, and drive sales through targeted promotions and discounts.

WeChat's mobile payment system, WeChat Pay, is another valuable tool for companies looking to boost sales in China. By integrating WeChat Pay into their e-commerce platforms, businesses can offer a streamlined and convenient payment experience to customers and tap into the massive user base of WeChat Pay.

Finally, influencer marketing is a popular strategy on WeChat, particularly among fashion and beauty brands. Companies can collaborate with Chinese influencers to promote their products and reach new audiences. Influencers can also help provide credibility and social proof to foreign brands that are not yet well-known in China.

RED (小红书), on the other hand, is a social e-commerce platform that focuses on lifestyle content and product recommendations. It has over 300 million registered users, primarily female millennials, and offers features such as user-generated content, influencer marketing and in-app purchasing.

One of RED's core functionalities is user-generated content. Users can post product reviews, recommendations and lifestyle content, which can be shared and liked by other users. This creates a highly engaged community around the platform, making it an ideal marketing channel for foreign companies looking to tap into Chinese consumer preferences and trends.

Companies can use RED to strengthen their brand presence, sharing high-quality content, and engaging with their followers through comments and direct messages. By building a strong presence on the platform, companies can increase their brand awareness, generate buzz around their products, and drive traffic to their e-commerce platforms.

RED's influencer marketing capabilities are another valuable tool for foreign companies. The platform has a large pool of influencers who specialize in different niches, such as fashion, beauty and food. By collaborating with these influencers, companies can leverage their reach and credibility to promote their products and build brand trust among Chinese consumers.

Another way to boost sales on RED is through its in-app purchasing feature. Companies can open an online store on the platform or partner with existing e-commerce vendors to sell their products directly to RED users. This not only provides a seamless shopping experience for users yet also allows companies to leverage RED's algorithms to target specific user demographics and behaviors.

Douyin（抖音）is a short-form video app that has exploded in popularity worldwide, particularly among younger audiences. In China, it has over 600 million daily active users and has become a significant player in the social commerce space.

One of Douyin's core functionalities is its algorithmic approach to content recommendation, which enables the platform to curate personalized feeds for individual users based on their interests and behaviors. This presents a powerful marketing tool for companies looking to reach specific target demographics in China and increase exposure to their brand.

Businesses can leverage Douyin as a platform to exhibit their products or services through captivating and enjoyable video content, thereby gaining wider exposure and attracting potential customers.

Paid advertising is another means to increase sales on Douyin. The platform offers a range of advertising options, including in-feed ads, branded hashtag challenges, and brand takeovers. By targeting specific user demographics and behaviors, foreign companies can effectively reach potential customers and drive traffic to their e-commerce platforms.

In addition to these marketing strategies, businesses can also leverage Douyin's e-commerce capabilities to sell products directly on the platform. Through partnerships with third-party e-commerce vendors, companies can create an online store within the app and offer a seamless shopping experience to Douyin users.

FIGURE 3:
Among major Chinese social media apps, WeChat, RED and Douyin are most commonly-used by brands, for brand building, CRM, product seeding and other objectives

	WeChat	RED	Weibo	Douyin	Kwai
Platform launch	2011	2013	2009	2016	2011
Content type	Longer HTML articles, incl. text and images	Images & videos, blogs	Simple text, images & videos	Short videos, livestreaming	Short videos, livestreaming
Main purpose	Messaging, mini-apps, payment	Pre-purchase product research	News & gossip consumption	Entertainment	Entertainment, life moments recording
User profile	All ages, almost gender parity	Young and 70-80% female	All ages, mostly female	Gender parity	Gender parity
Monthly active users (by 2022 December)	1.32 billion	0.26 billion	0.59 billion	0.68 billion	0.65 billion
Influencers (KOLs)	◗	●	◖	●	●
Official account	●	◗	◖	◑	◖
In-app promotion	◔	●	◖	●	●
In-app shop	◔	◖	○	●	◕

Source: GENUINE analysis

Navigating this complex landscape requires a segmented and nuanced strategy that considers the demographics, preferences, and behaviors of different consumer groups. Companies need to carefully consider which platforms and tactics are best suited to their target audience and business objectives. By tailoring their approach accordingly, they can effectively engage with Chinese consumers and drive growth in the world's largest social commerce market.

1.4 KOLs in the Livestream Shopping Ecosystem in China

In China, KOLs play a pivotal role in the live stream shopping ecosystem. KOLs are influential individuals who have built a large and loyal following on social media platforms, particularly in niche industries such as fashion, beauty, gaming and lifestyle. These KOLs are often seen as experts and trendsetters, and their recommendations and endorsements hold significant sway over consumer purchasing decisions.

In the context of live stream shopping, KOLs serve as hosts or anchors who conduct live stream sessions to showcase and promote products to their followers. They utilize their personal brand, expertise and engaging content to create an immersive and interactive shopping experience. This form of marketing has gained immense popularity in China due to its ability to build trust, provide real-time product demonstrations, and create a sense of urgency through limited-time offers and exclusive deals.

Let's take a look at three well-known KOLs in China: Austin Li, Afu and Pamela Reif. These KOLs have gained immense popularity and success in the relevant sectors, primarily through their live streams and social media presence.

Austin Li
Austin Li, a.k.a. Li Jia Qi, the "Lipstick King" of China, is one of China's top livestreamers who has revolutionized the e-commerce industry. With his expert sales skills and engaging personality, he has amassed millions of loyal followers and has become a major player in the cosmetics market.

Austin Li has achieved remarkable sales records during his live streams. For instance, in 2021, he reportedly generated over USD 1.9 billion in sales on the first day of pre-sales leading up to Alibaba's annual shopping festival, highlighting his success as a KOL in driving sales.

Afu (Thomas Derksen)
Thomas Derksen, a.k.a. Afu Thomas, is a well-known influencer in the e-commerce and digital marketing space. With a strong online presence (10 million + followers in China) and a deep understanding of Chinese culture, Afu Thomas has become a trusted KOL and one of the most well-known German KOLs for Chinese-speaking audiences worldwide.

Pamela Reif
Pamela Reif is a well-known German influencer and fitness model who has built a thriving brand around health and wellness. With millions of followers on social media, she has established herself as a trusted authority on all fitness-related things.

She has become a sought-after collaborator and influencer through her successful partnerships with major fitness and lifestyle brands. By April 2023, she had nearly 15 million followers on Douyin alone.

KOLs have become a vital component of brand marketing and sales strategies in China. The unique qualities of these KOLs, such as Austin Li's engaging personality, Afu's authenticity, and Pamela's exceptional fitness capabilities, provide them with a platform to connect with their audiences and promote products effectively.

Livestream shopping is a rapidly growing trend in China, where consumers can watch live broadcasts of products being demonstrated and sold. The growth of livestream shopping can be attributed to a number of factors, including the rise of social media platforms, the increasing popularity of mobile devices and the COVID-19 pandemic, which drove more consumers online. Chinese e-commerce giants like Alibaba and JD.com have also played a key role in promoting and expanding livestream shopping through their own platforms.

"For our brand, it is crucial to position ourselves effectively among young Chinese consumers, as they are all influencers and can help us with brand building."

- Markus Henne,
*CEO of Genesis Motor China*

Though KOLs have been and remain the main drivers of revenue through their own livestreams, recent trends indicate that own brand livestreams are becoming more relevant in the market.

More and more brands are investing in their own livestreaming capabilities, taking advantage of these new sales channels and directly connecting with consumers. This shift is reflected in the fact that the share of own brand livestreams rose from 32.9% in 2018 to around 47.3% in 2022[1].

This changing landscape has important implications for both KOLs and brands. KOLs who make money from sponsored content may face more competition from brands that livestream themselves. Conversely, brands who invest in livestreaming may find it easier to engage and convert customers through more personalized and interactive experiences.

FIGURE 4:
Most livestream revenues are still being driven by KOLs, however in-store livestream is becoming more relevant and evolving steadily in recent years

Chinese livestream market breakdown

■ In-Store Livestream (%)   ■ KOL Livestream (%)

	2018	2019	2020	2021	2022	2023e
KOL Livestream (%)	67.1%	69.5%	67.9%	56.8%	52.7%	50.2%
In-Store Livestream (%)	32.9%	30.5%	32.1%	43.2%	47.3%	49.8%

Explanations

KOL livestream was widely adopted earlier for its effectiveness of driving traffic and boosting high conversion rates in the short term

Traffic increase in KOL livestream belongs to the KOL not the brand, also KOL can be risky

In-store Livestreams have been increasingly used by merchants since 2020

Instant interaction with consumers enables merchants to obtain loyal consumers, and increase higher customer lifelong value

Leading Livestream Platforms

Taobao   Taobao Livestream   JD.COM   Douyin   Kwai

Source: GENUINE analysis; iResearch Livestream industry study

Livestream shopping has become an integral part of the Chinese retail landscape, offering brands a powerful marketing channel to reach and engage with consumers. With the influence of KOLs and the interactive nature of livestream shopping, this ecosystem presents exciting opportunities for brands to drive sales, build brand loyalty and shape consumer trends in China.

1.5 Key Technology Trends and Future Outlook

In recent years, several technology trends have emerged that are shaping the future of e-commerce in China, with a constant stream of new technologies being adopted to enhance customer experiences and streamline business operations. The most prevalent technology trends in the Chinese e-commerce market include the metaverse, Artificial Intelligence (AI), AI livestreaming, 3D modeling and Augmented Reality (AR), Machine Learning (ML) and AI-powered personalization, and the convergence of physical stores and e-commerce.

Metaverse
The metaverse concept is gaining popularity in China, referring to a virtual world where users can interact with each other in digital environments. It offers tremendous potential for e-commerce companies, who could craft immersive virtual stores for shopping experiences. Many Chinese firms, such as Alibaba and Tencent, are already investing in the development of metaverse platforms.

Artificial intelligence (AI)
AI is a driving force of innovation in various industries, and e-commerce is no exception. AI-powered technologies, such as chatbots, offer enhanced customer service by providing personalized recommendations and addressing inquiries. AI can also streamline inventory management, supply chain operations, and optimize pricing models.

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1 iResearch (2021)

AI livestreaming

AI livestreaming has gained momentum in China, becoming a popular way for e-commerce companies to engage with customers. AI-powered influencers, or virtual KOLs, host livestream events to recommend products and interact with viewers. This development has attracted brands and led to increased sales through livestreaming platforms.

3D modeling and augmented reality (AR)

As technology advances, 3D modeling and AR will likely play more significant roles in the e-commerce landscape. Virtual try-ons, 3D product previews, and personalized AR experiences will redefine customer engagement, making online shopping more interactive and reliable.

Machine learning (ML) and AI-powered personalization

ML and AI will likely empower e-commerce platforms to offer increasingly personalized shopping environments. This could enable tailored recommendations and promotions based on individual consumer behavior, preferences, and history. It will allow businesses to better target their marketing efforts, while improving customer satisfaction and loyalty.

Convergence of physical stores and e-commerce

The convergence of physical stores and e-commerce will accelerate, with businesses seeking to provide seamless, omnichannel experiences. Integration of advanced technologies, such as AI and IoT, will enable efficient retail processes and create interconnected shopping ecosystems that adapt to customers' changing needs.

1.6 Major Differences between E-Commerce in Germany and China

Several major differences between e-commerce in Germany and China are highlighted as follows:

1. **Market size and penetration:** China has a much larger e-commerce market compared to Germany. With a population of over 1.4 billion people, China's e-commerce market is the largest in the world. In contrast, Germany has a population of around 83 million. This difference in market size and penetration influences the scale of e-commerce operations and the variety of products and services available in each country.

2. **Platforms and ecosystems:** In China, e-commerce is dominated by large platforms such as Alibaba's Taobao and Tmall, as well as JD.com. These platforms offer a wide range of products and services, including consumer goods, electronics, fashion and more. They also integrate various services like payment systems, logistics and marketing, creating a comprehensive e-commerce ecosystem. In Germany, while platforms like Amazon and eBay exist, the market is more fragmented with a greater number of smaller online retailers and marketplaces.

3. **Mobile dominance:** Mobile e-commerce is more prevalent in China than in Germany. In 2023, mobile e-commerce accounted for 95.8% of total e-commerce sales in China, compared to 60.5% in Germany[1]. Chinese consumers heavily rely on smartphones for online shopping, social media, and mobile payments. Mobile apps like Taobao and WeChat are widely used for e-commerce transactions.

4. **Payment methods:** The payment landscape in e-commerce differs between the two countries. In China, mobile payment systems like Alipay and WeChat Pay are widely used and have become ingrained in everyday transactions. Cash on delivery and credit cards are less common. In Germany, credit cards, bank transfers and PayPal are more commonly used for online payments.

5. **Cross-border e-commerce:** China has a thriving cross-border e-commerce market, with consumers often purchasing goods from overseas through platforms like Tmall Global and JD Worldwide. This has led to the rise of "daigou (代购)", or personal shoppers, who buy and ship products from overseas for Chinese consumers.

6. **Consumer behavior and preferences:** German consumers often prioritize quality, reliability and customer service when shopping online. They value detailed product information, transparent pricing and trust in the seller. In China, consumers are more price-sensitive, often seeking discounts and promotions. Chinese consumers also heavily rely on user reviews and recommendations from influencers or KOLs when making purchasing decisions.

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1 eMarketer Global Ecommerce Forecast (2023)

CHAPTER

2

MARKET SEGMENTATION OF B2B AND B2C E-COMMERCE PLATFORMS

2.1 China B2B and B2C Platforms: Revolutionizing E-Commerce

China's e-commerce landscape has undergone a remarkable transformation in recent years, with the rise of B2B and B2C platforms playing a significant role. These platforms have revolutionized the way businesses operate and consumers shop, fostering unprecedented growth and opportunities in the world's largest e-commerce market.

In the B2B sector, platforms like Alibaba (阿里巴巴), 1688.com and JD Industrials(京东工业) have emerged as major players, connecting businesses within China and across the globe. These platforms provide a comprehensive range of services, including product sourcing, trade facilitation and logistics support. With extensive supplier networks, advanced search capabilities and streamlined transaction processes, China's B2B platforms have empowered businesses to expand their reach, source quality products, and establish valuable partnerships.

The B2C sector in China is equally dynamic, driven by prominent platforms such as Alibaba's Tmall and JD.com. These platforms offer a diverse range of products spanning various categories, from fashion and electronics to home goods and fresh produce. By leveraging cutting-edge technologies, such as artificial intelligence and big data analytics, B2C platforms have personalized the online shopping experience, providing tailored recommendations, flash sales and seamless payment options. Moreover, robust logistics networks and efficient last-mile delivery services have accelerated the speed and convenience of online shopping for Chinese consumers.

The success of China's B2B and B2C platforms can be attributed to several key factors. Firstly, China's massive consumer base and increasing purchasing power have fueled demand, attracting both domestic and international businesses to these platforms. Additionally, China's digital infrastructure, including widespread internet access and mobile penetration, has facilitated the rapid growth of e-commerce and enabled seamless online transactions. Moreover, the platforms' commitment to trust and security, evidenced by stringent quality control measures, buyer protection policies and secure payment systems, has fostered confidence among businesses and consumers alike.

As China's e-commerce ecosystem continues to evolve, B2B and B2C platforms are expected to play an even more prominent role in driving innovation and economic growth. Emerging trends such as cross-border e-commerce, livestreaming shopping, and social commerce are reshaping the landscape, presenting new opportunities for businesses to connect with consumers and drive sales. With the ongoing advancements in technology and the relentless pursuit of customer-centric experiences, China's B2B and B2C platforms are set to shape the future of e-commerce not only within the country but also globally.

2.2 Overview of B2B E-Commerce Market

The B2B e-commerce segment in China has seen remarkable growth, with a variety of B2B platforms emerging in the Chinese market.

1688.com is a Chinese B2B platform that enables Chinese companies to trade with domestic manufacturers and suppliers. The platform offers a broad range of products, including industrial goods, consumer goods, electronics and fashion. The platform is known for its large number of suppliers and allows businesses to buy in large quantities and negotiate favorable prices.

Alibaba.com（阿里巴巴）is a globally leading B2B trading platform serving businesses on a global scale. The platform enables companies to engage in direct trade with manufacturers, wholesalers, and distributors from various countries. With an extensive product range, including industrial products, electronics, fashion and beauty, Alibaba.com provides a diverse selection for companies worldwide.

JD Industrials（京东工业）is another Chinese B2B platform, specializes in selling industrial products. It primarily caters to the Chinese market, providing a diverse selection of products such as tools, machinery, electronics and safety equipment. With an emphasis on quality assurance and dependable logistics, JD Industrial is favored by companies seeking direct sourcing from manufacturers.

Baidu Aicaigou（百度爱采购）is a B2B vertical search engine powered by Baidu, designed to facilitate seamless connections between users and businesses. By utilizing advanced search technology and AI capabilities, Aicaigou aligns demand signals and enables precise interactions between buyers and sellers. The B2B system empowers buyers to explore merchant products effortlessly while enabling sellers to effectively showcase their companies and offerings.

ZKH（震坤行）is an integrated industrial supplies service platform that focuses on serving the manufacturing sector. Leveraging IoT technology and data intelligence, ZKH enables intelligent factory material management. It offers a wide array of services, such as online monitoring, equipment leasing and maintenance. ZKH's objective is to streamline and enhance transparency in online procurement, ultimately assisting customers in managing direct costs and management expenses.

Regarding B2B marketing tools, WeChat, Zhihu.com and Baidu SEO offer unique B2B marketing opportunities in China. Businesses can use them to boost brand awareness, engage with audiences, establish credibility and drive growth.

WeChat（微信）is a popular social media platform in China with over a billion monthly users. It offers a range of features that businesses can leverage to promote their products and services. One such feature is the Official Accounts feature, which allows businesses to create and publish content on their accounts. This content can be targeted towards other businesses, making it an effective platform for B2B marketing. The Official Accounts feature is different from other content targeted towards private users in several ways. For instance, businesses can use this feature to create customized menus, which can be used to provide information about their products and services. They can also use it to create chatbots that can interact with customers and provide them with personalized recommendations.

Zhihu（知乎）, is a prominent Q&A platform hosting a sizable community of professionals, experts and knowledge enthusiasts. Corporate accounts can be created to share valuable content, establish brand authority and demonstrate thought leadership. Engaging with users through insightful answers and industry discussions boosts credibility and attracts potential customers.

Baidu SEO（百度搜索引擎优化）aims to optimize website visibility and rankings on China's top search engine, Baidu. By aligning content, meta tags, and keywords with Baidu's algorithms, businesses can enhance their presence in search results, attract relevant traffic, and leverage opportunities in China's competitive digital landscape. Baidu SEO is crucial for businesses targeting the Chinese market to enhance brand awareness, increase revenue and foster business growth.

2.3 Overview of B2C E-Commerce Market

China's B2C e-commerce market has witnessed tremendous growth, becoming the largest in the world. According to recent data, the market size exceeded approximately USD 1.4 trillion in 2022, accounting for a significant portion of global e-commerce transactions[1]. This growth is driven by factors such as increasing disposable income, urbanization, rising middle-class population, and convenient access to digital platforms.

Alibaba and JD.com are the dominant players in China's B2C e-commerce market. Alibaba's Tmall and Taobao platforms, along with JD.com, have captured a substantial market share. These e-commerce giants have successfully established partnerships with numerous brands and implemented effective logistics networks, e.g., Alibaba founded its logistics company Cainiao in 2013 to cater to the diverse needs of Chinese consumers.

FIGURE 5:
Tmall and Taobao are still the market leader, while Douyin, Kwai, WeChat, and Pinduoduo are gaining market shares with an unprecedented speed

Source: GENUINE analysis, SmartPath Insights (2023)

Several key trends have been shaping China's B2C e-commerce landscape:

Mobile Commerce Dominance
Mobile devices play a vital role in China's e-commerce ecosystem. With a large population of smartphone users and the widespread availability of mobile payment platforms like Alipay and WeChat Pay, mobile commerce has become the primary driver of online shopping in China. Consumers are increasingly using their smartphones to browse, shop and make payments, making mobile optimization essential for businesses targeting the Chinese market.

Social Commerce Integration
Social media platforms have seamlessly integrated e-commerce functionalities, enabling the concept of social commerce. In China, platforms like WeChat and Douyin have become powerful channels for brands to engage with consumers, promote products and drive sales. Live streaming, KOLs and user-generated content are widely used strategies to influence consumer purchasing decisions.

Personalization and Customization
Chinese consumers have become more discerning and seek personalized shopping experiences. E-commerce platforms leverage data analytics and AI to understand consumer preferences, offer tailored product recommendations, and create personalized marketing campaigns.

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1 Statista (2023)

Cross-Border E-Commerce Expansion

Cross-border e-commerce has experienced rapid growth in China. Consumers are drawn to the authenticity and quality of imported goods. Platforms like Tmall Global and JD Worldwide facilitate cross-border transactions by connecting Chinese consumers with international sellers. To tap into this trend, many international brands have established a presence on these platforms or launched dedicated cross-border e-commerce initiatives.

Integration of Online and Offline Retail

The boundary between online and offline retail is blurring in China. E-commerce giants like Alibaba and JD.com have expanded their presence in the offline space through partnerships with brick-and-mortar retailers. This integration allows consumers to enjoy a seamless shopping experience, with options like click-and-collect, in-store returns and digital payments.

Rural E-Commerce Development

E-commerce is not limited to urban areas in China. The government has made efforts to promote e-commerce in rural regions, aiming to bridge the urban-rural digital divide. Initiatives like the Taobao Village program have empowered rural communities to engage in e-commerce, boosting local entrepreneurship and enabling consumers in remote areas to access a wide range of products.

Sustainability

Chinese consumers are increasingly conscious of environmental impact and sustainability. This has influenced their purchasing decisions and prompted e-commerce platforms and brands to adopt more sustainable practices. From packaging and logistics optimization to promoting environmentally responsible products, sustainability has become one of the important considerations for businesses operating in the Chinese e-commerce market.

These trends demonstrate the dynamic nature of the B2C e-commerce market in China. Adapting to these trends and leveraging innovative technologies and marketing strategies are crucial for businesses to succeed in this highly competitive market.

China has several major e-commerce holidays that have gained significant popularity and become key shopping events for consumers.

Singles' Day (late October to November 11)
Singles' Day, also known as Double 11, is the largest and most famous shopping festival in China. It originated as an event for single individuals then transformed into a massive online shopping extravaganza. E-commerce platforms like Alibaba's Tmall and JD.com offer huge discounts, promotions and exclusive deals during this 24-hour shopping event. Singles' Day has broken records year after year, with billions of dollars in sales and is considered a barometer of China's e-commerce industry.

FIGURE 6:
Tmall 11.11 Shopping Festival (Chinese Black Friday) is 9x as large as Black Friday Week
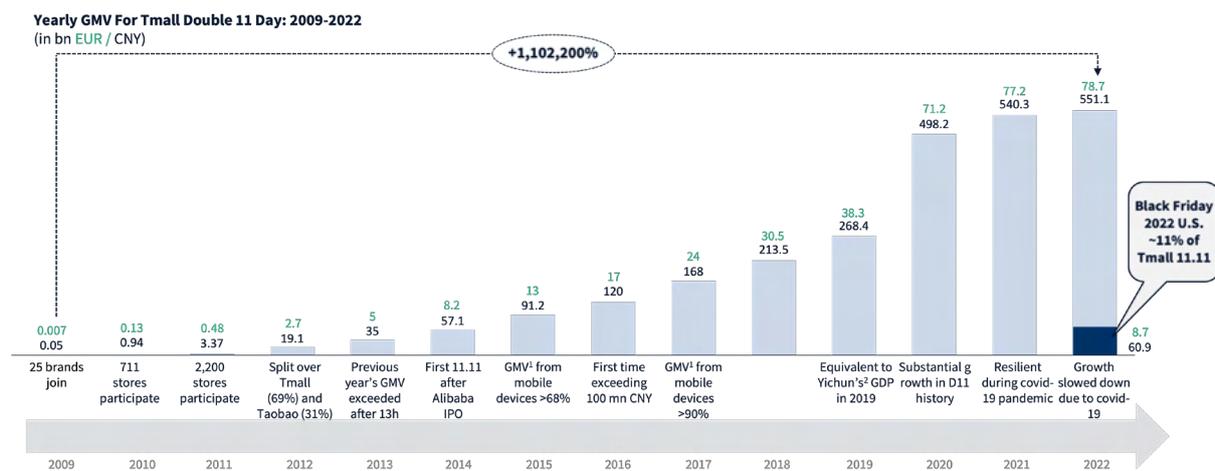
Source: GENUINE analysis, Statista (2021), Juliangxingtu (2022)

Mid-Year Shopping Festival (late May to Mid-June)
The Mid-Year Shopping Festival, also known as 618, is another significant e-commerce holiday in China. It was initially created by JD.com to commemorate its founding anniversary, but it has since grown into a nationwide shopping event. During this period, various e-commerce platforms offer massive discounts, flash sales and promotional activities to attract consumers. It has become a major mid-year shopping spree and a rival to Singles' Day.

Chinese New Year Shopping Festival
The Chinese New Year Shopping Festival takes place during the Lunar New Year period, which typically falls between January and February. As families gather to celebrate the traditional holiday, online shopping has become an integral part of the festive season. E-commerce platforms launch special promotions, discounts and campaigns to cater to the increased demand for gifts, clothing, decorations and traditional New Year items.

Double 12 Shopping Festival (early December to mid-December)
Double 12, also known as 12.12, is another significant shopping festival in China. It was created as an extension of the success of Singles' Day and offers consumers another opportunity to enjoy discounts and promotions before the year-end. E-commerce platforms and retailers provide attractive deals on a wide range of products, encouraging consumers to make their final purchases before the holiday season.

National Day Holiday (end September to early October)
National Day Holiday occurs during the first week of October. This holiday period prompts increased travel and shopping activities. Many e-commerce platforms offer exclusive promotions and discounts to cater to the needs of consumers who prefer online shopping during this holiday.

These major e-commerce holidays have become integral parts of China's online shopping culture, offering consumers exciting deals, discounts and a wide range of products. E-commerce platforms and retailers strategically plan marketing campaigns, product launches, and promotional activities around these holidays to maximize sales and engage with consumers during these shopping events.

"Based on our past experience, Asian consumers want something completely different. They want their festivals, they want their promotions, they also want these special offers with big discounts in the big shopping festivals."

- Christina Oster-Daum,
Founder of Cosnova GmbH

2.4 Cross-Border E-Commerce

Cross-border e-commerce in China has experienced remarkable growth in recent years, driven by various factors such as increasing disposable income, evolving consumer preferences and improvements in logistics and technology.

The market size of cross-border e-commerce in China topped about 1.2 trillion USD in 2022, and is expected to grow at a CAGR growth rate of 15.4% from 2022 to 2027 [1].

One of the main reasons for the popularity of cross-border e-commerce in China is the demand for high-quality and unique products not readily available in the domestic market. Chinese consumers are increasingly seeking out international brands and products due to factors like perceived higher quality, authenticity and prestige.

To facilitate cross-border e-commerce, the Chinese government has implemented several policies and initiatives. One notable example is the establishment of CBEC Zones in cities like Shanghai, Guangzhou and Hangzhou. These free-trade zones offer favorable regulations and tax incentives to attract foreign businesses and promote cross-border trade.

Popular cross-border e-commerce platforms in China include Tmall Global, JD Worldwide, Kaola, etc. These platforms provide a wide range of imported goods and have streamlined processes for customs clearance and delivery. They often partner with overseas brands, retailers, and logistics providers to ensure efficient and reliable cross-border transactions.

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[1] Statista (2022)

In recent years, the Chinese government has also made efforts to enhance the regulatory framework for cross-border e-commerce. They have introduced measures to improve consumer protection, crack down on counterfeit goods, and streamline customs procedures. Additionally, there have been updates to regulations related to product labeling, certification and quality standards to ensure consumer safety.

However, it's important to note that cross-border e-commerce in China still faces challenges. These include language barriers, cultural differences, complex import regulations, and competition from domestic brands. Adapting to local preferences, building brand awareness, and establishing reliable supply chains are crucial for success in this dynamic market.

Overall, cross-border e-commerce in China continues to thrive, offering opportunities for international businesses to connect with Chinese consumers and tap into their growing demand for high-quality imported goods.

"Western brands venturing into the Chinese market need not confine themselves to the sole market entry strategy of exporting. Instead, these brands have the opportunity to harness established cross-border e-commerce platforms, such as Tmall, as a prudent and cost-effective means to initiate product testing and gain market insights. Subsequently, they can pursue further expansion by adopting localization strategies tailored to the Chinese market."

- Frank-Olaf Walter,
Founder & CEO of OrgHive

FIGURE 7:
Cross-Border E-Commerce and standard import each have different advantages depending on product characteristics and overall strategic background

	Cross-Border E-Commerce	Standard Import
Initial Invest	Low	Medium
Complexity	Low	Medium
Flexibility	High	Medium
Legal Entity	Overseas	Chinese
Bank Account	Overseas	Chinese
Packaging	Original	Chinese
Brand Registration	Overseas	Chinese
Testing Standards	Overseas	Chinese
Taxation	CBEC-Tax	Customs, VAT
Price Limit	5000 CNY	None
Logistics	Cross-Border Warehouse	Flexible
Custom Clearance	After Sale	Before Import

Key Implications:

- **To enter China, a CBEC model is often quicker** because brands do not need any local Chinese infrastructure
- CBEC offers increased **flexibility**, in particular **new products can be tested on a larger scale** before going through the registration process
- Direct **access to transaction and consumer data** enables brands to internalize learnings and make informed strategic decisions on the 2C market

Source: GENUINE analysis

CHAPTER **3**

E-COMMERCE REGULATIONS AND POLICIES

3.1 An Overview of China's E-Commerce Regulations and Policies

As the e-commerce sector continues to expand, the Chinese government has implemented regulations and policies aimed at ensuring fair competition, protecting consumer rights, and promoting the healthy development of the industry.

The Chinese government has established a regulatory framework consisting of various regulatory bodies responsible for overseeing different aspects of the e-commerce industry. The State Administration for Market Regulation (SAMR) is the primary regulator responsible for enforcing laws related to consumer protection, market supervision and antitrust regulations. Other key regulatory bodies include the Ministry of Commerce, the National Copyright Administration, and the Cyberspace Administration of China.

The regulatory approach in China's e-commerce industry is based on the principles of market supervision, fair competition and consumer rights. The laws and regulations governing e-commerce in China include the E-Commerce Law, Anti-Unfair Competition Law, and Consumer Protection Law, among others.

E-commerce operators in China are required to register with the relevant government authorities and obtain the necessary licenses to operate legally. Online marketplaces and cross-border platforms are subject to specific registration procedures, while certain sectors such as pharmaceuticals, food, and cosmetics require additional licensing requirements. Cross-border e-commerce is also subject to customs regulations and procedures to ensure compliance with import and export laws. Taxation policies for e-commerce transactions in China include value-added tax and customs duties, with special tax schemes available for cross-border e-commerce. Initiatives have been introduced to combat tax evasion and ensure tax compliance.

Counterfeiting and intellectual property infringement are major concerns in China's e-commerce industry. To combat these issues, the government has implemented measures to protect intellectual property rights, including online enforcement mechanisms and cooperation with rights holders. E-commerce platforms are also expected to play a role in protecting IP rights and preventing the sale of counterfeit goods on their platforms.

Consumer protection is a key area of focus in China's e-commerce industry. Regulations have been put in place to ensure transparency, fairness, and safety in online transactions, with a particular emphasis on prohibiting false advertising, misleading pricing and unfair practices. E-commerce platforms are obligated to protect consumers' rights and interests, and penalties can be severe for non-compliance. For example, Alibaba Group has established Alibaba Intellectual Property Protection Platform to protect the intellectual property rights of individuals and the businesses. The online platform provides a range of tools and services for intellectual property owners.

The protection of personal data is another important area of regulation in China's e-commerce industry. Regulations are in place to safeguard personal data in e-commerce transactions, and e-commerce platforms are required to comply with cybersecurity requirements. Cross-border data transfer and data localization policies in China are subject to government oversight. Businesses that collect or process data in China are required to comply with a variety of regulations, including those that govern the transfer of data out of the country. These regulations are designed to protect national security, public interests, and the privacy of Chinese citizens. The types of data that are subject to these regulations include personal data, financial data, medical data, and technological data.

China's e-commerce industry is highly competitive, with dominant players facing scrutiny from regulators regarding potential anti-monopoly behavior. Regulations are in place to prevent unfair practices, price fixing, and abuse of market power. The government has also taken steps to reduce market entry barriers and foster fair competition.

China's e-commerce regulations and policies aim to promote fair competition, protect consumer rights, and foster the sustainable growth of the industry. The regulatory landscape is complex, but businesses operating in the Chinese e-commerce market can navigate it successfully with careful attention to compliance requirements and a willingness to adapt to evolving regulations. The future of China's e-commerce industry looks promising, with opportunities for innovation and growth within a regulated environment.

"E-commerce regulation in China is not merely a framework; it's a dynamic force shaping the future of digital commerce in China, where adaptability and compliance are the keys to unlocking success in this ever-evolving landscape."

- Maximilian Butek,
Executive Director & Board Member,
German Chamber of Commerce in China - Shanghai

3.2 Payment Platforms and Methods

The payment landscape has evolved alongside development of China's e-commerce market. The most common methods of online payment are internet banking payments and third- party payments.

Mobile Payment Platforms
- Alipay: Developed by Alibaba's financial arm Ant Group, Alipay is the leading mobile payment platform in China. It offers a wide range of features, including in-app purchases, peer-to-peer transfers, utility bill payments and investments. Alipay supports various payment methods, such as QR code scanning, barcode scanning and contactless payments.
- WeChat Pay: Integrated into the WeChat app, WeChat Pay is another dominant mobile payment platform. It offers similar functionalities to Alipay, including in-app purchases, transfers, and bill payments. WeChat Pay's popularity is attributed to its large user base and seamless integration with WeChat's social features.

Bank Transfers
- Online Bank Transfers: Many e-commerce platforms in China allow customers to make payments directly from their bank accounts. This method involves customers logging into their online banking platforms to authorize the transfer. Online bank transfers provide a secure and convenient payment option for users.

Credit and Debit Cards
- UnionPay（中国银联）: As the dominant payment card network in China, UnionPay cards are widely accepted by e-commerce platforms. UnionPay cards can be used for online transactions, and they are also commonly used for offline purchases.
- Virtual Wallets: Apart from Alipay（支付宝）and WeChat Pay（微信支付）, several emerging virtual wallet providers, such as JD Pay（京东钱包）and Meituan Pay（美团支付）, are gaining popularity. These wallets offer similar functionalities and are often integrated with their respective e-commerce platforms or service providers.

The payment landscape in China's e-commerce market is dominated by mobile payment platforms, with Alipay and WeChat Pay leading the way. These platforms offer a wide range of features and provide a seamless payment experience for consumers. Bank transfers and credit/debit cards remain popular options as well. While cash on delivery is gradually declining, emerging payment methods like virtual wallets and biometric payments are gaining momentum.

Businesses operating in China's e-commerce market should consider integrating multiple payment methods to cater to the preferences of their target customers. Keeping up with evolving payment technologies and staying aligned with the dominant platforms will be crucial for success in the rapidly growing Chinese e-commerce market.
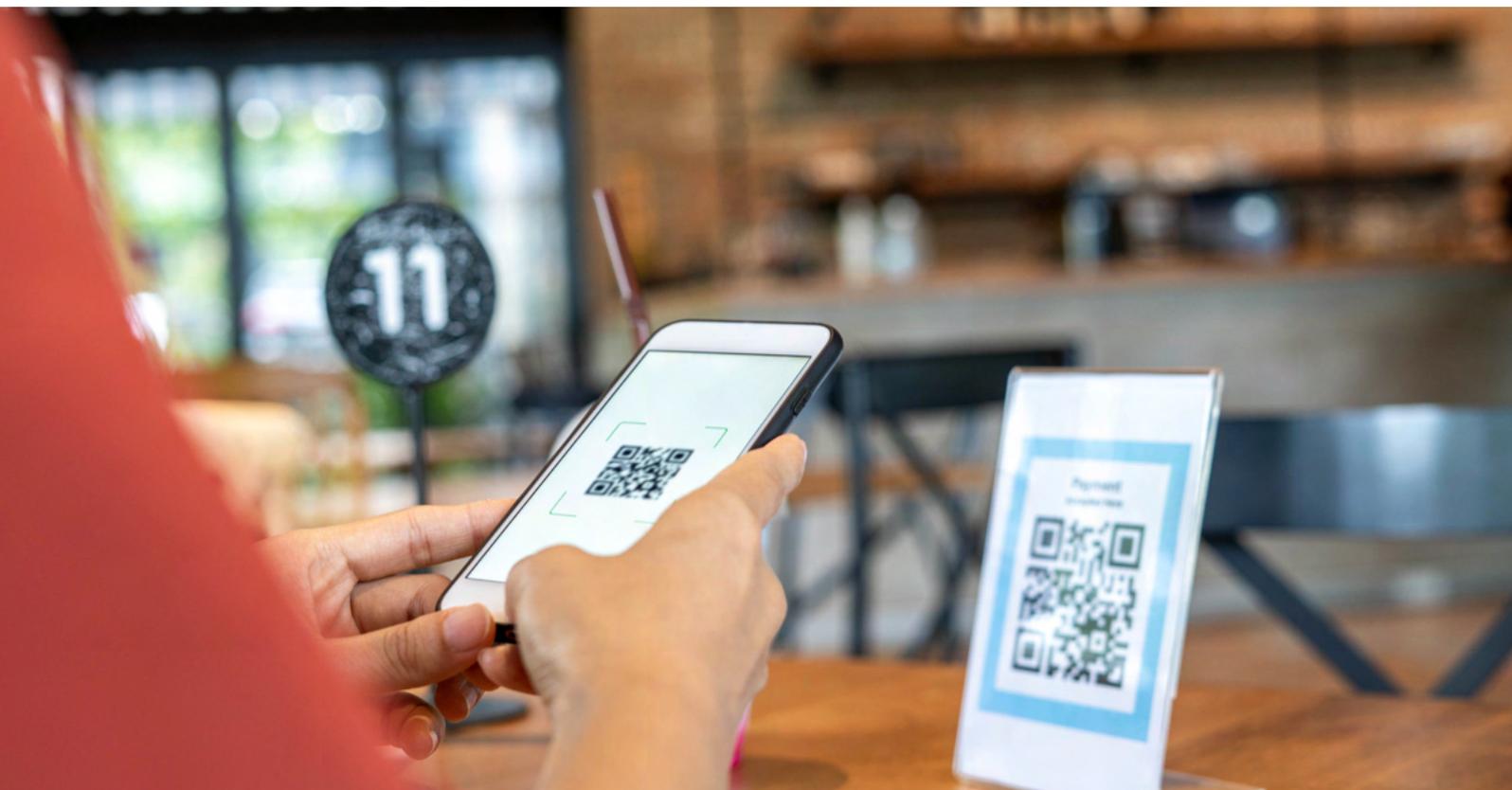
CHAPTER 4

HOW GERMAN INDUSTRIAL AND CONSUMER GOODS COMPANIES CAN USE E-COMMERCE PLATFORMS FOR BRAND BUILDING AND SALES

4.1 In-House or Outsourced E-Commerce

In the competitive landscape of China's e-commerce industry, German companies face a crucial decision of whether to conduct e-commerce in-house or outsource it to external partners.

In-House Approach
Establishing a specialized in-house e-commerce team can provide benefits such as cost control, knowledge retention, streamlined communication and brand control.

With an in-house team, the company has direct control over expenses and can manage costs more effectively and transparently. In addition, the organization retains valuable e-commerce expertise and knowledge within its own workforce. This is particularly crucial for those companies which have complicated or customized products which requires a deep technical and product know-how. The in-house is also beneficial in brand control, since the company has complete control over its brand image and customer experience, enabling them to deliver the right brand message to the customers and always have customers' feedback on their radar.

However, this in-house approach comes with potential drawbacks, including a time-consuming learning curve and the possibility of making mistakes, which can eventually lead to unsuccessful practices. Furthermore, limited external insights might restrict the company's growth and hinder staying updated with the latest trends and practices in the market.

Outsourcing to External Partners
In comparison, outsourcing e-commerce activities to external partners offers a fast, cost-effective, and relatively hassle-free solution with a higher chance of success, allowing the company to focus on its core competencies.

First, external partners already possess the required expertise, facilitating faster entry to the Chinese market. Additionally, their language advantage and domestic market know-how can significantly reduce the possibility of making irrational decisions due to information asymmetry. Secondly, these partners bring valuable market and operational expertise from their past experiences, enabling faster and more stable growth for the company.
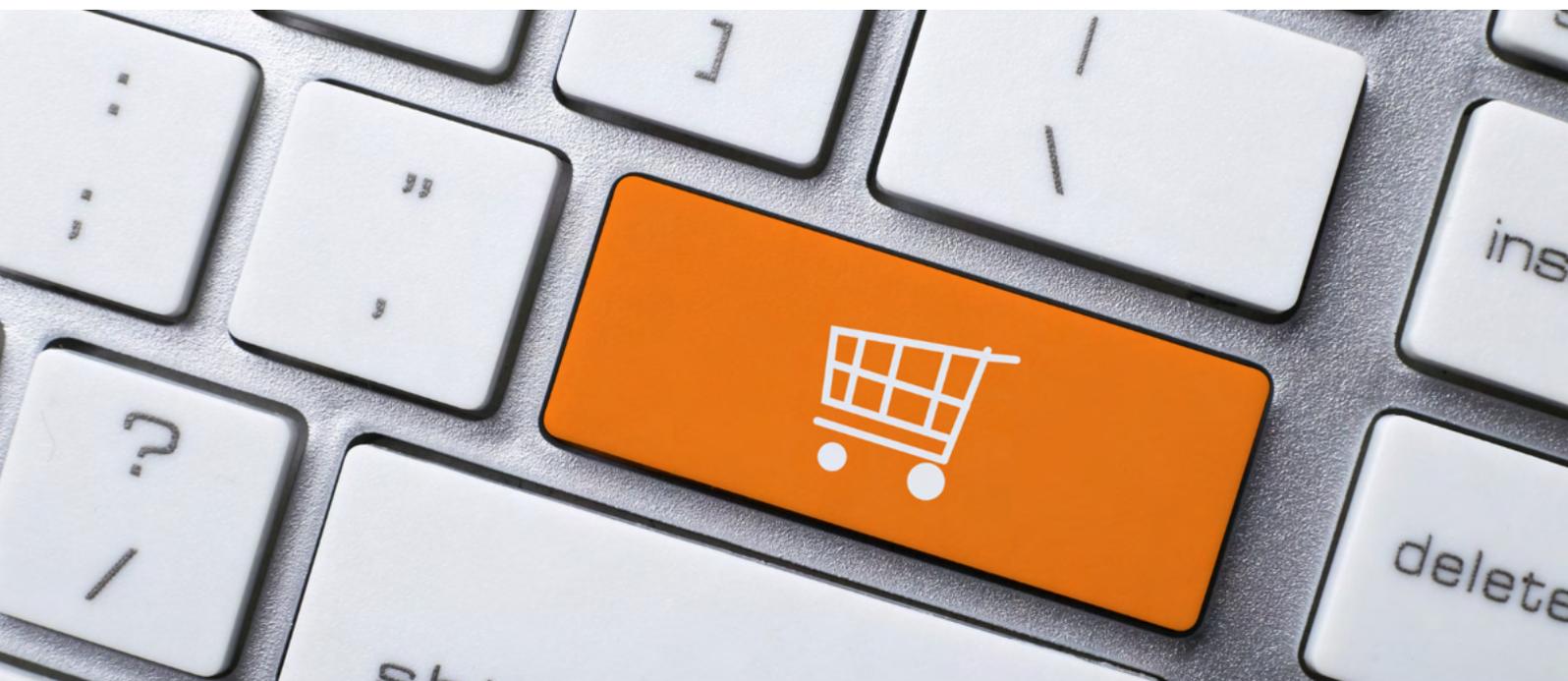
Considering China's fast-changing market nature, Internet firewall, and language barrier for foreign companies, the expertise of external agencies can be crucial to the company's success in China. Thirdly, outsourcing can be particularly cost-effective for SMEs, as it avoids the need for extensive in-house infrastructure and staff recruiting and training. Last but not least, by entrusting e-commerce operations to competent agencies or enablers, the company's management can redirect their focus on other critical areas such as business planning, research and development, product development, and offline distribution.

However, relying on external partners does come with certain risks. First, outsourcing the e-commerce activities to an external partner may be expensive, who may not fully understand the company's unique needs, leading to unsatisfactory results. Secondly, some providers may overstate their knowledge and competence, making unrealistic sales promises to secure deals and generate profits. Others may prioritize their own interests over those of the company, potentially leading to complex collaborations and a loss of control over the brand. Thirdly, communication issues may also arise due to differences in communication styles and priorities between the company and the agency.

In conclusion, while outsourcing e-commerce operations can be a viable strategy for German companies entering the China market, it does not guarantee 100% success. Thoroughly assessing their own strategies and carefully considering the mentioned factors is essential before business leaders make the critical decision of whether to outsource e-commerce to external partners.

"The Chinese e-commerce market is exceptionally dynamic, characterized by unique consumer behaviors and preferences. Marketing tactics that thrive in the West may not necessarily yield the same results in China. In this context, the risk of failure for newcomers is significantly elevated unless they have a trusted Tmall Partner or an established external partner in China with a deep understanding of the local market intricacies and consumer expectations."

- Damian Maib,
Founder & CEO at GENUINE

4.2 Marketing Strategies

The Chinese e-commerce market presents substantial opportunities for German companies in both the B2B and B2C sector. However, entering this market in China also poses significant challenges. To succeed in China's dynamic and rapidly growing e-commerce landscape, German companies must develop effective e-commerce marketing strategies tailored to the local market.

1) Market Research and Consumer Insights

Conduct extensive market research and gain deep insights into Chinese consumer behavior. This includes understanding consumer preferences, purchasing habits and expectations. Leveraging market research tools and collaborating with local partners such as market research agencies can provide valuable insights to shape effective marketing strategies. Conducting surveys, focus groups and analyzing online reviews can provide valuable insights into the needs and wants of Chinese consumers.

> *"The greatest pitfall lies in the belief that exporting cheaper products to China can make us globally competitive. This strategy lacks merit. Adopting such a mindset overlooks the critical factors of creativity and speed that are valued in the Chinese market. In clearer terms, we need to understand that competing globally, particularly in China, demands strategic innovation and a quick adaptation to market trends, rather than merely focusing on price competitiveness."*

- Phillip Salveter,
CFO at Alfred Kärcher Vertriebs-GmbH

2) Localize E-Commerce Strategies

Resonate with Chinese customers and localize e-commerce strategies. This involves adapting website or online store to the Chinese language, incorporating local payment gateways (such as Alipay and WeChat Pay), and ensuring a user-friendly and intuitive interface. Additionally, optimizing the company's platform for mobile devices is crucial, as mobile commerce is dominant in China. Localizing product descriptions and using images that resonate with Chinese consumers can also increase the effectiveness of e-commerce strategies.

3) Leverage Local E-Commerce Platforms

Use established Chinese e-commerce platforms to significantly enhance visibility and reach. Platforms such as Alibaba's Tmall and JD.com are popular choices. Collaborating with these platforms enables German companies to tap into their vast customer base, benefit from their logistics infrastructure, and leverage their marketing tools and promotional opportunities.

4) Implement Cross-Border E-Commerce Strategies

Cross-border e-commerce provides a streamlined way for German companies to enter the Chinese market. Establishing a cross-border e-commerce operation allows companies to sell directly to Chinese consumers without the need for a physical presence in the country. This approach offers convenience, faster entry and simplified logistics. Partnering with reliable cross-border e-commerce platforms or logistics providers can facilitate this process. When implementing cross-border e-commerce strategies, it is important to consider customs and taxation regulations, as well as shipping and delivery times.

5) Build Brand Awareness and Trust

It's crucial to build brand awareness and trust in the Chinese market. Utilize various marketing channels to promote brand, including Search Engine Optimization (SEO), social media marketing, influencer collaborations and content marketing. Engaging with Chinese consumers through localized content, customer reviews and testimonials can help establish credibility and foster trust. Building relationships with Chinese influencers or KOLs can also greatly enhance a brand's reputation and visibility.

> *"Chinese brands have caught up significantly especially in recent years, but the "Made in Germany" label is still important, whether it's for sports products or German cars."*

- Robin Trebbe,
Vice President Greater China at Adidas

6) Implement Effective Digital Marketing Strategies

Digital marketing plays an important role in reaching Chinese consumers. Utilize targeted online advertising, including display ads, search engine marketing, and social media advertising. Leverage popular Chinese social media platforms like WeChat（微信）, Weibo（微博）and Douyin（抖音）to engage with the brand's target audience, create compelling content, and run promotional campaigns. It is important to note that different social media platforms have varying levels of popularity among different age demographics and regions in China, so it is necessary to tailor digital marketing strategy accordingly.

7) Develop Strategic Partnerships

Collaborating with local partners, influencers or KOLs can greatly enhance brand visibility and credibility. Strategic partnerships can help promote products, provide access to wider audiences, and establish relationships with local distributors or suppliers. Partnering with reputable local entities can also assist with navigating regulatory and legal complexities.

8) Customer Service and After-Sales Support

Provide excellent customer service. It's essential for building customer loyalty in China. Establish efficient and localized customer service channels, such as live chat, social media support, and local language call centers. Promptly address customer inquiries, complaints and after-sales support to ensure a positive customer experience. In addition, Chinese consumers place a high value on after-sales service, so providing extended warranties or timely repairs can further enhance customer satisfaction.

9) Monitor and Analyze Performance

Regularly monitor and analyze the performance of e-commerce marketing strategies. Utilize analytics tools to track Key Performance Indicators (KPIs), such as website traffic, conversion rates, customer acquisition costs and Return On Investment (ROI). Based on data insights, refine strategies and adapt to changing market dynamics. Continuously monitoring and adjusting marketing strategies is imperative to staying competitive in the dynamic Chinese e-commerce market.

As the Chinese e-commerce market continues to evolve, it is important for companies to stay informed about the latest trends, regulations and consumer preferences to refine their strategies and adapt to changing market dynamics. Regularly evaluating and adjusting marketing strategies will enable German companies to stay competitive and capture the opportunities presented by the dynamic Chinese market.

4.3 Examples of Brand Localization and Sales Growth

Case Study: BORCO's successful expansion into China's premium spirits market via e-commerce partnership

BORCO, a leading spirits brand group from Hamburg with a global presence in over 90 countries, is famous for the red sombrero-shaped bottle caps on their SIERRA Tequila line-up. The brand has taken up a big part of the European - and especially, German market - for gin and tequila. After deciding to further expand into the APAC market, more specifically, China, BORCO saw itself facing new challenges. These challenges included limited brand awareness, lack of e-commerce and country-specific marketing knowledge, and no prior experience or existing legal entity in China.

China, the world's second-largest economy, is also one of the largest alcohol consumption markets. The growing consumption of Western spirits, such as gin and tequila, coupled with the rising middle class and Gen-Z's willingness to try new spirit products, presented a significant opportunity for BORCO. However, the company needed to navigate the complexities of a relatively unfamiliar market and gain brand recognition without prior experience or an established presence in the country. While China is one of the largest alcohol consumption markets globally, the specific segments of the market, such as premium tequila and gin, were relatively niche for BORCO at the time of entry.

To address these challenges and navigate the unique complexities within the Chinese alcohol market, BORCO strategically partnered with a reliable Tmall Partner company of German origin. This partnership provided them with expert market entry consulting and in-depth market research tailored to the distinctive dynamics of the Chinese spirits market, which presented complexities primarily due to its distinct consumer preferences, distribution challenges, and cultural factors. After successfully setting up a Tmall flagship store, BORCO prioritized establishing a strong online presence. They revamped their e-commerce strategies to align with local best practices, investing heavily in social media marketing and analytics to maximize discoverability and optimize performance, thereby strengthening their presence and appeal to the Chinese consumer market. Leveraging product seeding and orchestrating livestream collaborations with key opinion leaders and key opinion consumers on prominent Chinese social media platforms like RED and Douyin, coupled with strategic offline events, BORCO adeptly targeted its core demographic, enhancing brand visibility on a truncated timeline. This surge in social media engagement subsequently translated into a tangible uptick in sales on Tmall.

BORCO's partnership with the Tmall Partner company proved instrumental in the successful launch and operation of their Tmall flagship store, effectively introducing their premium spirits to the Chinese market. The brand's unwavering commitment to quality, coupled with the TP's deep expertise in navigating the intricate Chinese e-commerce landscape, played a pivotal role in helping BORCO overcome distribution complexities and cultural nuances. This strategic collaboration not only expedited market entry but also established a tangible presence, enabling BORCO to build brand recognition, expand its customer base, and initiate a robust distribution network in China.

This case study sheds light on BORCO's successful expansion into the Chinese market, despite initially lacking know-how and presence in the region. Through a strategic collaboration with a trusted Tmall Partner, BORCO managed to navigate the complexities of the Chinese e-commerce landscape, and established a robust presence, ensuring brand visibility and consumer engagement. By innovatively adapting to local demands and intricacies, BORCO has effectively penetrated one of the world's largest alcohol consumption markets, setting a remarkable benchmark for successful global expansion.

Case Study: Hoffmann Group's Distinctive E-Commerce Strategy – Innovative Localization and AI Employment for Effective Market Entry and Customer Engagement in China

Founded in 1919, the Hoffmann Group has grown to become the pre-eminent system partner for delivering superior tools and services across Europe. Hoffmann's product lines include cutting tools, hand tools, workstations and storage options. As of 2019, it has an expansive workforce of approximately 3,000 employees, and it caters to over 135,000 customers in 50 different nations. In recent years, the Hoffmann Group has channeled efforts towards the expansion into China, as China represents the second largest global tool market. In order to secure firm footing in the dynamic Chinese e-commerce ecosystem, the company devised a strategy to construct a proprietary B2B platform right from scratch.

This B2B platform is deeply automated and carefully integrated into the consumer interface through digital catalogues, separate from Hoffmann's global e-shop, therefore allowing for local customization. After registration on the platform, customers are presented with bespoke pricing terms, which are discerningly based on their customer profiles and purchase history.

The company employs RPA (Robotic Process Automation) capabilities for efficiently processing orders, providing quotes either via the Chinese app WeChat or email, according to attached PDF documents. This modification not only simplifies the customers ordering process but also ensures that Hoffmann does not have to share sensitive customer information with third-party platforms.

Adaptability was pivotal for Hoffmann's e-commerce strategy. As the Chinese B2B customer is already used to a specific B2C experience, both the look and functionality of the website was designed with the look and feel of a B2C website in mind. Also discount levels, and payment terms were specifically designed considering the Chinese market and the e-shop was designed for SEO in China.

While initially working with third-party marketplaces like Alibaba proved helpful in understanding buying behavior in China, constructing their own platform offered Hoffmann stronger and more direct customer relations, which lie at the heart of Hoffmann's merchant business model. Taking an approach that was both localized and customer-centric, the company increased visibility and trust with successful marketing and branding strategies through WeChat outreach and tailor-made emails.

Facilitated by RPA and AI, Hoffmann developed personalized promotions and pricing, while still ensuring high service levels through bespoke customer care. Hofmann entered the Chinese market with a long-term vision, thereby making the required investments for creating an e-commerce operation from scratch. This highly localized, customer-centric approach allowed them to conquer the extremely competitive market.

The Hoffmann Group's case study showcases the critical significance of apprehending and aligning with local business customs and consumer behavior. The primary lessons for other global corporations emphasize the necessity of formulating e-commerce processes with local relevance, investing in customer relationships, and dedicating ample resources to ensure successful assimilation within the target market. These key insights derived from Hoffmann's experience elucidate the importance of investing in local e-commerce design and being attuned to client relationships. Hoffmann Group's success story underscores the significance that localization serves for international brands establishing themselves in China's unique e-commerce landscape, demonstrating the essential role it plays in a multinational brands' victorious venture into such diverse e-commerce ecosystems.

Case study: tesa's success in the Chinese e-commerce market through strategic platform integration despite challenges

tesa, a German manufacturer of adhesive tape, has a history of 125 years and has become a global player in the industry, offering a wide range of adhesive solutions. With a strong presence in Europe, the USA, and the Asia-Pacific region, they recognized the potential of the Chinese market. China's burgeoning e-commerce ecosystem was an attractive avenue for growth, with the electronic and automotive industries serving as their primary customer base.

tesa faced significant hurdles while entering the Chinese e-commerce market, including adapting internal processes such as invoicing and customer service to align with e-commerce activities and complying with China's stringent data security regulations, which demanded meticulous attention and added complexity to their operations.

To understand the Chinese market's preferences and consumer behavior, tesa conducted comprehensive market research. They employed various tools, including open data, Tmall's integrated statistics, and third-party market intelligence providers. This research helped them identify gaps and opportunities in the market while assessing the competitive landscape.

To establish its presence in the Chinese e-commerce market, tesa adopted a phased approach. They started with a learning phase by partnering with 1688.com to understand the nuances of Chinese e-commerce and streamline internal processes. Expanding to Tmall Global allowed them to tap into a broader consumer base, although delivery times posed a challenge for B2C customers. To further solidify their presence, they set up their own store on Tmall and JD Industrials, catering to different customer segments. Recognizing the potential of short-video platform Douyin, tesa entered a trial phase and planned to open an official store, capitalizing on this emerging channel.

tesa implemented various marketing strategies to improve their visibility and engagement in the Chinese e-commerce market. They utilized keyword marketing, identifying highly searched keywords on Baidu and e-commerce platforms to invest in and boost sales. Internal sales staff provided insights into trendy words and market trends, allowing for more effective marketing campaigns. Additionally, tesa collaborated with KOLs for live streaming sessions, which increased brand awareness. Through these efforts, tesa was able to enhance their presence in the market and achieve success.

tesa's entry into the Chinese e-commerce market was marked by both successes and lessons. E-commerce channels played a significant role in revenue generation. Initially facing low brand awareness in specific markets, tesa's marketing efforts, especially through live streaming and keyword advertising, helped increase visibility. They also recognized that establishing a unique selling proposition was crucial, given the strong competition in China's e-commerce landscape. tesa successfully catered to both B2B and B2C segments through different platforms.

tesa's voyage in the Chinese e-commerce landscape exemplifies overcoming significant challenges through adaptive strategies, robust market research, and digital innovation. It emphasizes the importance of understanding consumer behavior, leveraging technology, and integrating streamlined operational processes to achieve success in a highly competitive e-commerce landscape.

CHAPTER 5
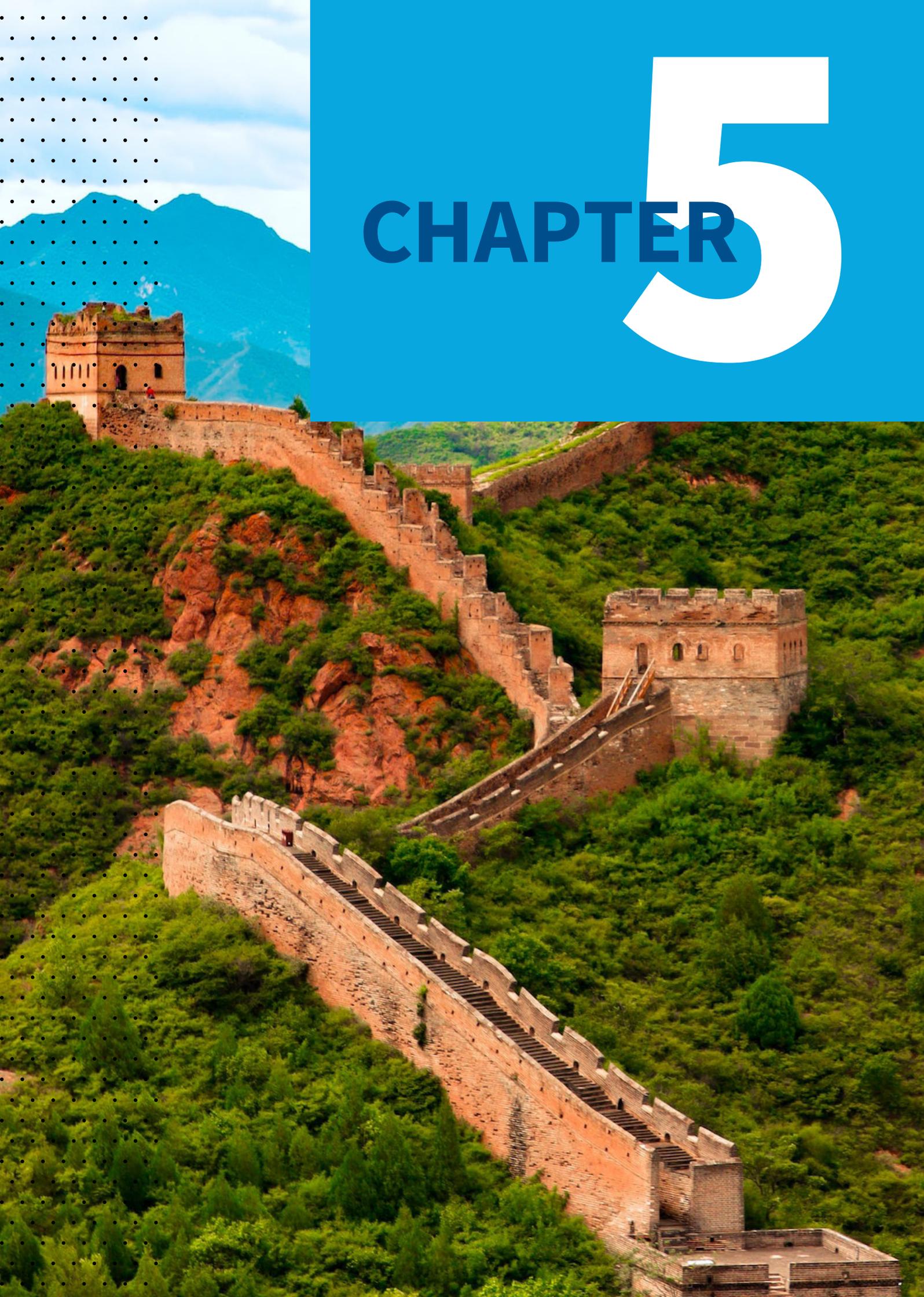
RECOMMENDATIONS

For German companies seeking to enter and expand in China's rapidly growing e-commerce market, it is imperative to develop smart strategies tailored specifically to the local landscape. This report has explored key aspects of the Chinese e-commerce ecosystem, including market dynamics, consumer behavior, regulations, and leading platforms. Building on these insights, several key recommendations emerge for German brands aiming to succeed in this promising but complex market:

First and foremost, it is essential to invest significant time and resources into understanding the Chinese consumer. Their preferences, shopping habits, and decision-making processes differ considerably from Western counterparts. Conduct extensive market research, surveys, focus groups and analyze online reviews to gain actionable consumer insights. Adapt e-commerce strategies accordingly to align with local tastes and expectations. For example, Chinese consumers respond well to social media influencers, live streaming and interactive content.

Secondly, localization is pivotal across all aspects of e-commerce operations. The website and apps must be fully translated and optimized for Chinese languages. Integrate local payment systems like Alipay and WeChat Pay, which dominate the online payment landscape. Ensure a seamless and intuitive user experience, particularly on mobile devices which lead e-commerce transactions. Customize marketing content, product descriptions and visual assets to resonate with Chinese cultural sensibilities.

Thirdly, leverage leading e-commerce platforms, especially Alibaba's Tmall and JD.com. Collaborating with these established giants provides instant scale and access to vast built-in customer bases. Their extensive logistics infrastructure facilitates efficient product delivery across China's massive geography. Marketing tools, analytics and promotional events on these platforms can significantly amplify brand exposure. However, given intense competition, brands must differentiate themselves through smart SEO, social media engagement and influencer collaborations.

Fourthly, cross-border e-commerce has opened up opportunities to directly engage Chinese consumers without a local entity. While enabling faster market entry, brands must weigh customs procedures, taxation policies and logistical challenges. Particularly for complex or customized products, an on-the-ground presence may still be advisable. For cross-border e-commerce, optimize processes on leading platforms such as Tmall Global and JD Worldwide.

Fifthly, build brand awareness and trust relentlessly through localized digital marketing campaigns. Chinese consumers value social proof and word-of-mouth. Leverage KOLs and influencers to organically promote products. Create WeChat and Weibo accounts to engage followers with unique content. Participate in viral Chinese social media trends and memes to generate buzz. Monitor reviews closely and respond promptly to feedback.

Lastly, stay nimble and data-driven. Continuously track e-commerce KPIs and refine strategies based on results. China's digital landscape evolves rapidly. Regulatory changes can also impact e-commerce operations. Maintain flexibility to pivot tactics and experiment with emerging e-commerce channels like livestreaming and community buying. Pursue strategic partnerships with credible domestic entities to navigate this fluid environment.

In closing, China's e-commerce sector will continue its robust growth trajectory, offering alluring opportunities for German brands. By harnessing the strategies outlined above, tailored specifically to China's distinct commercial landscape, German companies can overcome inherent challenges and fulfill the market's immense potential. As Chinese consumers' spending power rises amid digitization, foreign brands that skillfully adapt to local conditions will be best positioned to thrive in this new e-commerce frontier.

CONTACTS

AHK GREATER CHINA

AHK Greater China is part of the German Chamber of Commerce and Industry (DIHK) and the network of over 140 German Chambers of Commerce Abroad (AHKs), which includes 140 offices in 93 countries and regions. Our history stretches back to 1981. With a team of 150 employees based in 12 locations, we focus on trade and investment between Greater China and Germany.

As #PartnerForGrowth, AHK Greater China offers a wide range of solutions in the areas of market entry and market expansion. We advise, support and represent German companies that want to establish or expand their business in China. Our service portfolio includes market entry support and incubation solutions; strategy consulting with a focus on market analysis, policies and regulations, and competitive environment; organization of business delegations to China; trade fair services; professional vocational training programs; as well as HR services for corporate clients across all sectors.

The German Chamber of Commerce in China is the leading platform of German business in China. The Chamber represents the interests of its 2,100 members and helps them succeed by hosting informative events, providing up-to-date market information, and offering practical advice.

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E-COMMERCE SOLUTIONS OF AHK GREATER CHINA

AHK Greater China is pleased to provide comprehensive e-commerce solutions designed to swiftly introduce your business to the vast and rapidly evolving Chinese market. Our e-commerce solutions extend far beyond providing a mere platform for online selling. We integrate our network, experience, and local market understanding to strategize your entry or growth in China's e-commerce market. With our assistance, you can navigate through your e-commerce journey in China, seizing local opportunities and expanding your global footprint.

AHK E-Commerce Solutions accompany you throughout your journey to the Chinese market.

Our portfolio of services is versatile, extending a set of three distinct e-commerce sales channels explicitly geared to assist diverse shapes of business models, meticulously positioning them to exploit the unique facets of each sales approach for maximum growth and profitability.

German Pavilion Online Stores, a platform that focuses on cross-border e-commerce. Specifically catering to the businesses willing to penetrate the Chinese market without establishing a physical entity in China, it allows companies to offer their products directly to Chinese consumers with more efficiency and reduced operational costs.

German Gift Online Store, a general trade e-commerce platform situated in China. It is an ideal portal for businesses already established in China or planning to, by offering a platform to present their products directly to the local consumers. A part of the broader AHK Greater China network, it offers all the advantages of a vast marketing and distribution channel.

Livestream - an innovative live e-commerce approach. In essence, the method revolves around interactively promoting your products to the end consumers through live-streamed videos, a phenomenally popular trend in China's contemporary e-commerce scene. It allows businesses to showcase their products in real-time, answer queries, and drive immediate sales.

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ABOUT GENUINE

GENUINE
E-COMMERCE SOLUTIONS

GENUINE is a top-tier digital marketing and e-commerce agency helping global brands enter and thrive in China and Southeast Asia. Our company extends far beyond standard service provision; we are committed to being a leading light in the international expansion of western brands, with a particular specialization in the Chinese market. Our mission is not only to understand but also to celebrate cultural nuances—building a thriving global business ecosystem where collaboration knows no borders and prospering relationships flourish.

In our journey, every step taken, from being industry experts to e-commerce leaders, mirrored the triumphs of our esteemed clients. Each one of their success stories bears testimony to our relentless commitment, robust expertise, and the collaborative spirit that underpins GENUINE. The breadth of our services encompasses a 360-degree approach that covers everything from strategic planning to meticulous execution, whether it's launching and operating e-commerce stores, amplifying marketing campaigns, or enhancing sales performance.

Within the multifaceted landscapes of the Chinese and Southeast Asian markets, we offer a holistic approach to long-term brand building and robust connections to local sales channels. Our understanding of the unique nuances of these markets, backed by our team of digital natives and extensive expertise, ensures our clients' brands resonate perfectly with local consumers, providing them a hassle-free, swift entry and smooth landing into these complex realms.

At GENUINE, we understand that global interconnectedness is a necessity in today's world, not a luxury. We are the builders of bridges transcending boundaries, sharing values, and facilitating vital communication and commerce. We help navigate the scale or nature of the most intricate challenges, guiding international brands on their path to prosperity. Consider GENUINE not only as an agency but also as a vibrant force of digital pioneers and your gateway to the burgeoning Chinese market.

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E-COMMERCE SERVICES OF GENUINE

At GENUINE, we champion your brand's growth in China's vast e-commerce landscape. We pride ourselves on a holistic, end-to-end partnership, intertwining strategy and execution to ensure a significant footprint in the Chinese market.

E-Commerce Operations
Our prowess in the e-commerce domain is anchored in platforms like Tmall, Douyin, and JD. As a TP (Tmall Partner) Company with a mix of local and global expertise, we tailor solutions for brands, encompassing services from store setup, daily operations, to analytics. Through deep know-how of brand building, store operations, tailored designs, exceptional customer interactions, and efficient logistics, we ensure brands not only enter but flourish in China.

China E-Commerce Consulting
Navigating the complexities of the Chinese market can be daunting, but with GENUINE, brands find a compass. Drawing from our extensive experience with giants like Tmall, JD, and Douyin, we offer modular services. These span from workshops that decode Chinese e-commerce to market research and business expansion strategies, ensuring brands are well-equipped to thrive.

Douyin Social Commerce
The social commerce realm, particularly on Douyin, is a space we've mastered. Our team expertly navigates KOL collaborations, product seeding, and livestream integrations, creating tailored strategies for client success. This approach ensures brands engage effectively, driving both sales and growth in a rapidly evolving market.

Social Media Marketing
GENUINE ensures brands resonate in China's dynamic social media scene. From crafting compelling narratives to influencer partnerships and campaign management, we create impactful strategies. Our expertise ensures brands not only establish but also grow their presence exponentially.

B2B Sales in China
Our expertise in B2B sales, especially in supporting global businesses, stands unparalleled. We offer a range of services, including website optimization, lead generation through SEO and SEM, online marketing strategy implementation, market research and analysis, consulting on legal and regulatory compliance, consulting on e-commerce platforms (such as 1688), as well as assistance with offline partnerships. With us, brands find the right channels and strategies for exponential growth.

With GENUINE, your brand's Chinese journey is streamlined, ensuring sustained success in this vibrant market.