

Untangling China's Ecommerce Success

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THE BIG PICTURE

Ecommerce platforms in China help rural farmers and small merchants **sell more** at **higher prices** to a **larger** and **more segmented** customer base.

However, the multilayered nature of the ecommerce ecosystem requires many **pre-existing** and **platform-specific** infrastructural pieces to be in place before the benefits can be fully realized.

We explore these opportunities and limitations here.

PRE-EXISTING CONDITIONS

CORE INFRASTRUCTURE REQUIRED FOR ECOMMERCE WAS ALREADY IN PLACE

ROADS & ENERGY

China's road infrastructure is well-developed, even in more rural and low-income locations.

- The government continues to invest; over half of China's 2.6 million miles of road was built in the last 10 years.
- Several villages told us of government-led village revitalization policies pushing road development.
- Villages we visited were electrified with sufficient energy grid for mechanized farming, small scale manufacturing and lighting.
- None of our interviewees cited poor roads or energy infrastructure as a barrier to ecommerce.

MOBILE

98% of China's population has a mobile phone, 68% has a smartphone, providing easy access to ecommerce.

- Local manufacture of communications hardware drives affordability of handsets & mobile network infrastructure.
- China's 95% 4G penetration (98% by 2020) means advanced ecommerce services such as livestreaming can reach even remote areas.
- Kuaishou told us how companies used to negotiate zero-rated services with MNOs but data is now cheap enough to not require these deals to reach the poor.

DIGITAL FINANCE

The ubiquity of digital payments, AliPay & WeChat Pay, was critical. Such solutions were able to reach scale because:

- China's bank account penetration is 80% according to FinDex (90% according to People's Bank of China). This enabled proliferation of digital finance by solving KYC and cash-in-cash-out.
- The Central Bank's "wait-and-see" regulatory approach allowed early innovation, promoting widespread adoption of digital finance solutions.
- NetsUnion Clearing Corporation (NUCC) serves all digital payment providers, enabling near-seamless interoperability for e-wallets.

Road, power and mobile infrastructure is adequate & affordable, even in rural areas

Visiting peach farmers in Anjiazhuangcun 安驾庄镇, Feicheng, Tai'an, Shandong Province



PRE-EXISTING CONDITIONS

CORE INFRASTRUCTURE REQUIRED FOR ECOMMERCE WAS ALREADY IN PLACE

LOGISTICS COMPANIES

Shipping is convenient and affordable for China's ecommerce sellers:

- The logistics sector is mature, with lots of competition and choice: from large public entities (postal service), well-established enterprises (Tonglu companies) & startups (SF Express).
- Peach farmers told us it cost a flat 5 RMB (\$0.73) to ship to anywhere but China's most remote areas. Textile manufacturers said they send items up to 1kg for just 3 RMB (\$0.44).
- Logistics companies collect goods daily right from seller factories / farms in most places. In more remote villages logistics companies still collect, providing volume is sufficient.

ECONOMIC PLANNING

Rural village structures lend themselves to ecommerce:

- Government-led rural development projects, spanning decades, designated certain areas as farming / manufacturing hubs for specific products. This helped industry to flourish as producers became specialised in specific skills and could benefit from economies of scale in raw materials. Therefore, rural populations were producing goods ready to be sold online.
- In agriculture, previously-formed cooperatives were leveraged for ecommerce e.g. for bulk sales, brand development, training & logistics.

GOV FINANCIAL SUPPORT

Government financial support helped pre-existing industry develop:

- In a textile village, we heard how the government provided merchants with discounted land rent and had built an industrial park offering subsidized rates for rent, power & infrastructure.
- Tea farmers told us the government had subsidized improvements, including land reclamation through a 3 million RMB grant. Peach farmers had received a government loan for construction of greenhouses.
- A manufacturer making women's shoes told us the local government gave financial bonuses to new companies performing well.

Government financial support helped industry to develop, creating a supply of produce ready to sell online. Government loans paid for equipment to turn idle land into arable land in this village growing tea.

Xiaojinkou Village, 小津口村, Tai'an, Shandong Province



PRE-EXISTING CONDITIONS

E-commerce platforms successfully targeted the segment of the previously underserved population

Users are mostly low Income or rural residents

Their unique characteristics:

- Slow-paced life, short commute time, have time to spend on social media related apps
- Price sensitive. Willing to spend lots of time browsing cheaper things online, have low quality expectations, even willing to compromise quality for cheaper price
- Prefer physical stores. Need to show customer the actual things to build initial trust
- Easily influenced by people they are familiar with

E-Commerce companies tackle the needs

How e-commerce platforms addressing those unique traits:

- News, short videos, live streaming and other entertainment functions added into the service (Douyin, Kuaishou, Taobao streaming etc.)
- Competitive pricing strategy with company subsidies, cash and discount rewards for using the mobile app
- Build local convenience stores (ie. Small corner stores)
- Incorporate social function within the app. Using social data for precious marketing

Transfer buyer into seller

Starting from promoting rural buyers to sell agricultural products

- Local agents to train customers starting selling
- Contracting local agent to train naive sellers, sometimes with local government training grant subsidies.
- Cash reward for start selling.
- Shipping cost subsidy

PLATFORM-LED ENABLERS

ENABLING STRUCTURES THAT HAVE BEEN SET UP BY PLATFORMS TO FACILITATE ECOMMERCE

TRAINING

Alibaba partners with local government and third parties to provide training to new rural sellers, on general business as well as ecommerce- specific skills such as photography, marketing, branding and Taobao storefront management.

- Merchants in Feicheng told us about a training company (Yinxiangli), certified by Alibaba, which provides training to merchants on how to open and maintain Taobao stores. Local government requested Alibaba to provide this training company and paid for them.
- We visited an authorized dealer in Taian who offers training, value added services, and store management-as-a-service for Alibaba's 1688 B2B platform. Basic training is free with 1688 annual subscription (6,888 RMB).
- Most villages we visited had designated spaces, including computers and photography equipment, provided or paid for by local government. This is where trainings occur and where sellers come to manage their ecommerce stores.

AGENTS

Private agents play an important role in helping merchants and farmers who do not or cannot manage their own presence on Taobao or other ecommerce stores.

- At a peach village, there was a local agent who purchased high-quality peaches directly from the local cooperative at a 20-30% markup, with 10% going to costs such as packaging, marketing and logistics.
- In a tea village, we learned that the village cooperative had its own Taobao store which sold processed tea, but allowed its individual farmers members to sell through their own ecommerce storefronts as well.
- We spoke with Shandong Chuang Min which offers an ecommerce shop-as-a-service for Alibaba's 1688 site.

While agents take a cut, sellers felt their contribution was very valuable as they lack the time and digital skills to set up and run their own online stores, and this model still provides higher income than offline sales.



“70% - 80% of our sales are on Taobao. We manage our Taobao store at night time when we have finished at the factory. We go to the training room at the government office to do this - there is a community there, we exchange ideas - and there is AC!”

*Textile factory owner,
 Beiwangzhuang Village, Shandong Province*



“We tried managing our own Taobao storefronts after we received the training, but this requires a lot of work and skills, and we farmers are busy. Customer service on Taobao is an 18 hour per day job. You have to understand marketing and invest in promotions. We lack the time and digital skills for this. We are happy to sell through the agent.”

*Peach Farmer, Aujiashuangcun, Feicheng,
Taian, Shandong Province*



PLATFORM-LED ENABLERS

ENABLING STRUCTURES THAT HAVE BEEN SET UP BY PLATFORMS TO FACILITATE ECOMMERCE

MECHANISMS FOR TRUST AND AUTHENTICITY

- Alibaba offers the “Taobao Village” certification to villages which have 10 million RMB annual ecommerce transaction volume and 10% of households selling on Taobao.
 - Taobao Villages receive official recognition (plaque & online branding) which increases consumer trust.
 - They get Taobao banner promotions and special placement which is crucial for visibility.
 - Such highlights are lucrative - we heard from a peach agent that 5 hours of being promoted on Taobao could sell out his entire year’s supply.
- Taobao features a return window for buyers which escrows payment for up to 15 days.
- Platforms let users to review merchants and products and request after-sales support. Customers often use Taobao profiles to determine authenticity of WeChat sellers.
- Platforms help merchants develop their brand through in-person training and digital storefront management
- Live streaming is heavily used by ecommerce sellers:
 - The peach village Taobao agent employs 2 dedicated live streamers online for 10+ hours per day.
 - Live streams showcase product quality, history, and offer insight into the production process.
- We visited Kuaishou, a short video platform:
 - Content creators, including farmers and small producers, can develop relationships with customers and interact directly through messages and stickers.
 - They use short videos to showcase the products they make and sell them via Kuaishou’s own ecommerce page or links to other ecommerce sites.
- Direct marketing helps push up pricing by promoting quality and authenticity for otherwise commodity goods.
- Ecommerce has created a new appreciation for rural villages and produce which, combined with improved incomes, has helped draw youth back from migrant work in cities.



“I employ 2 full time people for live streaming. We stream the daily harvest and packaging. We talk about the history and flavor of the fruit, describe how to eat it etc. Customers can type questions as they watch the videos. Live streaming is all about demonstrating authenticity.”

*YueLiangGu, E-Commerce Agent
Sujiuzhuangcun, Feicheng, Shandong Province*

Fact: During the most recent July 15 Rural Livestreaming campaign Day, nearly 100 livestreaming sessions were hosted in rural areas across China, more than 150,000 units of agricultural products were sold.

PLATFORM-LED ENABLERS

ENABLING STRUCTURES THAT HAVE BEEN SET UP BY PLATFORMS TO FACILITATE ECOMMERCE

GENERATING DEMAND

- E-commerce platforms offer financial services to help accelerate the demand side. For instance, Alibaba partner Ant Financial provides:
 - *JieBei*: A consumer online cash loan product for Alipay users with high [Zhima Credit](#) scores (600+). The product is in part intended to drive additional consumption on Alibaba's marketplaces. Loan applications are made on Alipay and loans are disbursed directly to the customer's Alipay account.
 - *HuaBei*: meaning "just spend" offers a revolving credit line, like a virtual credit card, within Alipay.
- Ecommerce platforms run campaigns such as 11/11 to drive traffic and sales, merchants are encouraged to participate in these promotions.
- PinDuoDuo told us how group buying has increased ecommerce by leveraging the social relationships, sharing and fun of WeChat. |

STIMULATING SUPPLY

- Transaction data generated on ecommerce platforms facilitates the provision of financial services that can increase merchant productivity, and therefore sales on the platform. For instance, Ant Financial offers several financial services options to merchants:
 - Agents talked frequently about the need for working capital to bridge the period between a purchase and the release of funds from escrow. Alibaba offers a short term loan to help suppliers who need it. Agents said the terms were good and the loan was easy to access but that the loans are insufficient to cover the working capital need.
 - One theme we saw strongly through interviews is that the savings culture is strong in China and many manufacturers and farmers rely on their or their family's prior savings rather than taking new loans for working capital or investment needs.

“Selling on Taobao increased demand. We had to invest to meet this demand - we had to buy more machines. We used our own money to do this. I am aware of loans on Taobao and from the government but so far I haven’t needed them”.

Textile Manufacturer, Beiwangzhuang Village, Shandong Province



PLATFORM-LED ENABLERS

ENABLING STRUCTURES THAT HAVE BEEN SET UP BY PLATFORMS TO FACILITATE ECOMMERCE

Transfer traditional stores into e-commerce serviced stores

Hui Zhang Gui (by Hui Tong Da, HTD)



Traditional local stores (mostly rural areas) became a smart retail network membership. The store remains running independently with smart retail system's help in:

- Opening online shops;
- Customer acquisition;
- Increasing sales;
- Transaction/IT system;
- Access to HTD shipping network;
- Training;
- Inventory supply;
- financial support.

Tmall Corner store (Supported by Ling Shou Tong, LST)



Local store (mostly lower tier cities) became a member store to use LST's distribution network store. Tmall Corner Stores is part of the LST initiative to leverage Alibaba's technology and expertise to upgrade mom-and-pop stores.

- Store management support from LST;
- Regional-sales-data-led smart inventory management;
- Inventory partly supplied by Ling Shou Tong;
- Designated shelf in the store to offer customer access to the bestsellers on www.tmall.com;

THE BENEFITS OF ECOMMERCE TO MERCHANTS

ECOMMERCE OFFERS INCREASES IN VOLUME AND PRICE FOR SMALL MERCHANTS

MARKET & MARGIN EXPANSION

- The platform **aggregates demand** from previously unreachable or costly areas (such as urban centers) which **expands the types of customers rural merchants can reach**.
- Farmers can **diversify the types of products they are able to sell** by being able to access different customers online. In the peach villages, farmers started crafting wooden sculptures out of peach wood during non-harvest periods to sell online.
- By **reaching new customer segments** merchants can change their product mix to higher priced items. Farmers in the peach village are switching to a varietal that gains 3x the price of their normal peaches, since they can now reach urban customers. Selling online provides a feedback loop, allowing merchants to gain better information about customer preferences.
- Prices are driven up by **better product selection** and the ability to further increase a product's value through strong **brand and authentic marketing** - often turning commodities into specialized products. For example, we saw how peach sellers built up their brand on Taobao through live streaming, highlighting the quality of their produce.
- **Costs are being driven down** by aggregation and compression of the supply chain. Platforms help sellers compile demand as well as connect and ship to their customers more directly. Peach sellers told us how they don't need storage because they pick from the tree and ship immediately - this is possible when farmers have a tighter link with buyers and fewer intermediaries.
- **Increased margin creates new employment opportunities.** Farmers told us how they can now afford to employ people and have engaged disabled and older people in packaging.

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