# Winning Customers in China

*The efforts of ecommerce providers in China are beginning to bear fruit.* ***Andrew Eldon****, COO at online cosmetics retailer StrawberryNet, talks to Criticaleye Asia about where the opportunities exist*

**What do you see as the major growth opportunities for your business in Asia?**

The whole of Asia is a major growth opportunity. It's a big area, no matter which way you define it. For us, two things are driving business here – smart phone and tablet penetration, and credit card usage. If you look at a country like Indonesia, it has a population of 250 million and only about 15 million cards in circulation. Compare that to the UK with a population of 62 million and 58 million credit cards in circulation. There's still so much more growth to come.

**What about the health of the Chinese economy?**

I am generally positive about China but maintain a healthy dose of caution. Sectors like ours, online retail, are showing phenomenal growth and I think this will continue as disposable incomes rise, digital penetration increases and investment in logistics infrastructure grows. There have also been a string of successful IPOs this year from retailers like JD and JuMei, micro-blogging platform Weibo and, of course, the pending Alibaba listing.

A dose of caution is required though when you consider the quality and basis of a lot of that growth. For example, the anti-corruption drive has really taken its toll on the luxury branded goods market. I've had one business manager from a well known, high-end watch brand tell me that their business is down 60 per cent as a result.

There are also reports of the banking, manufacturing and property sectors dragging on China's growth. In the case of the property market, I think a cooler market is a good thing. So, on balance, I'm optimistic but cautious.

**Which indicators are you keeping a close eye on?**

I look at import regulations for cross-border trade. As we have no physical presence in China, what's happening at the border is very important to us. For example, certain logistics providers have been trialling a government initiative to speed up customs clearance for international ecommerce deliveries which is of great interest, as is the opening of the free-trade zone in Shanghai.

I also keep watch over policies regarding maintaining a server infrastructure ►

in China. The requirements to get a license to operate servers inside China are complex and very time consuming. There are advantages to being able to have infrastructure inside 'the Great Firewall' and I wish the process was simpler, but I'm not optimistic about it.

Of course, I'm keen to see the RMB (Renminbi) become more convertible. Right now we offer incentives to China-based customers to pay us in Hong Kong Dollars. While it's convenient for us at the moment, it's still a premium we have to pay and the convertible RMB would make that much easier. It's starting to happen, which is positive.

**What are some of key issues for retailers in China at the moment?**

From an online retail perspective there are a number that I would highlight. Educating consumers about products is critical. If you visit the large Chinese retail websites, the amount of information about the product and the brand is seemingly endless and very detailed - far more than you would find in any other market.

## About Criticaleye Asia

*Criticaleye Asia, headquartered in Hong Kong, specifically serves our Members throughout the Asia Pacific region as well as connecting them with our Community in Europe and the US.*

*For more information about Criticaleye Asia and our Hong Kong-based Leadership Retreat, please contact Michael Crompton, General Manager, Asia – mc@criticaleye.net*

Secondly, trust is a big issue. Last year, 60 per cent of online retailing was done via C2C transactions through marketplaces such as Taobao (which is similar to eBay) and, while they have made considerable gains in policing their platforms for fake goods, it's still a big problem.

International brands tend to have an advantage in this respect as buying from an overseas company is viewed as both prestigious and a safe bet that you're buying authentic product – so we're very well positioned to take advantage of this.

**How about delivering excellent customer service?**

Naturally, it remains a top priority. Chinese consumers are extremely demanding – so much so that we have a dedicated team to handle just China, whereas the rest of the world we can handle with a central customer service team.

To give you an example, cash on delivery is quite a popular customer choice, but it's not uncommon for a consumer to order the same product from several different retailers and to pay for the one that gets there first.

**How are retailers adapting to meet customer needs?**

Many people cite the role the demand for luxury brands has played in driving online purchases. In my view this has been important but overstated – especially if you now consider the impact of the anti-corruption drive on luxury goods sales.

If you take a company like VIPshop.com, which is expected to do US $3.1 billion in sales this year from a standing start in 2008, they have relationships with over 9,000 brands and by definition the vast majority of those are not luxury.

Chinese consumers want quality they can trust at the right price. They can find that on platforms like ours for the beauty retail sector and there are big domestic online players like Jumei and VIPshop that are filling the gap left by the C2C marketplaces by helping to liquidate a lot of the excess inventory that's sitting there. They may use some of the luxury brands to bring people to the site, but the volumes are elsewhere.

I think the excess inventory availability will be there for a few more years, but the large online retailers are starting to develop their own brands and take advantage of higher margins. And, unlike the unknown quantities on the C2C marketplaces, they now have the trust of the consumer. ■



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*Founded in 1998 and based in Hong Kong, StrawberryNet is a leading online retailer of brand name cosmetics. It carries over 30,000 products from more than 700 brands, ship to over 200 markets and currently operates in 38 languages. Andrew joined the company in 2009 as COO and is responsible for IT, Customer Service and Marketing.*

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