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THE HEALTH FOOD MARKET

IN CHINA

FLANDERS INVESTMENT & TRADE MARKET SURVEY



THE HEALTH FOOD MARKET IN CHINA

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1. INTRODUCTION OF HEALTH FOOD IN CHINA

2.1 DEFINITION

According to “*The administrative measures for the registration and filing of health food*” implemented on July 1, 2016, Health Food refers to food products that have specific health function or supply vitamins and (or) minerals. With the goal of regulating body’s function, health food is suitable for specific groups of people. However, it is not used for the purpose of curing disease and causes no acute, sub-acute or chronic health effect to human body.

Different Names of Health Food in the World

Country Name	Product Name
China	Health Food
European Union (EU)	Food Supplement
The United States (USA)	Dietary Supplement
Canada	Natural Health Product
Australia	Complementary Medicines
South Korea	Health Functional Food
Japan	Food with Health Claims (FHC)

Source: CIRS

2.1 CLASSIFICATION

According to the different consumption objects, health food can be divided into two categories: one is for healthy people, mainly the supplement nutrients to meet the needs of different stages of the life cycle; the other is mainly for certain people with physiological problems, emphasizing its regulatory function in disease prevention and rehabilitation.

- I. **Nutrition supplement:** Food that replenishes the vitamins and (or) minerals but without providing energy or other active ingredients.
- II. **Functional health food:** Food that labelled with health function claim has physiological effects on the human body.

2.1 HEALTH FOOD VS GENERAL FOOD VS MEDICINE

Health food VS General food

Both of them can provide the basic nutrients necessary for human survival (the first function of food), and have specific colour, aroma, taste and shape (the second function of food). The differences are (1) Health food contains a certain amount of functional ingredients (physiological active substances), which can regulate human body functions and **can claim to have specific functions** (the third function of food); while general food cannot emphasize specific function (the third function of food). (2) Health food generally has **a specific range of consumption** (specific population), while general food does not.



Health food VS Medicine

Both of them add or contain a certain amount of physiological active substances, which are suitable for specific people to eat. The main differences are (1) Health food is not used for the purpose of curing disease, while medicine is. (2) Health food has no acute, sub-acute or chronic health effect to human body, while medicine properly has. (3) Health food can only be taken orally, while drugs can be used by injection. Food enterprises shall clearly understand the definition and use of these foods prior to their product development and promotion, label design and other work. The following table summarizes the main differences among General food, Health food, and Medicine.

Main differences among General food, Health food, and Medicine

Common question	General food	Health food	Medicine
Can health function claims be made(for label, promotion...)?	No.	Yes. *	Yes.
Can disease be prevented or treated?	No.	No.	Yes.
Is the primary use to provide energy and nutrients?	Yes.	No.	No.
Is there any other way to eat than by mouth?	No.	No.	Yes.
Are there suitable population and consumption limit requirements?	No.	Yes.	Yes.
Do I need to use it under the guidance of a doctor or clinical dietitian?	No.	No.	Yes.
Are certain toxic side effects allowed on the human body?	No.	No.	Yes.
Are there any filing and registration requirements?	No.	Yes.	Yes.

* Health food can only declare the functions on the "approved function list" released by government.

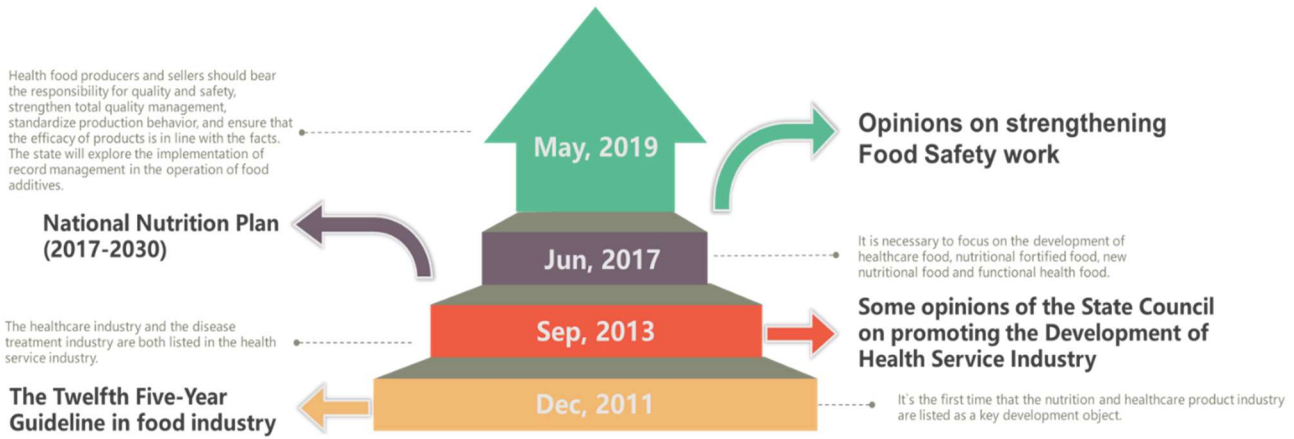
2. CHINA’S HEALTH FOOD MARKET

2.1 INDUSTRY DEVELOPMENT

The development of China’s modern health food market can be roughly divided into three stages. The first stage is the 1980s: China’s health food market first emerged in the 1980s, according to the National Food Safety Standard – Health Foods. Compared to other developed countries in the world, the health food industry started late in China but rose rapidly. The second stage is the 1990s: the health care industry began to enter the stage of vicious expansion and disordered competition. The relevant laws and regulations have not yet been formulated. The whole market grows disorderly in the absence of supervision. The third stage is the 21st century: the health care industry has gradually sought the stage of standards and norms. Policies issued by the Chinese Government have promoted the development of healthcare products industry. Since 2015, healthcare products have been formally brought into the legal supervision in China.

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Policies Schedule from 2011-2019

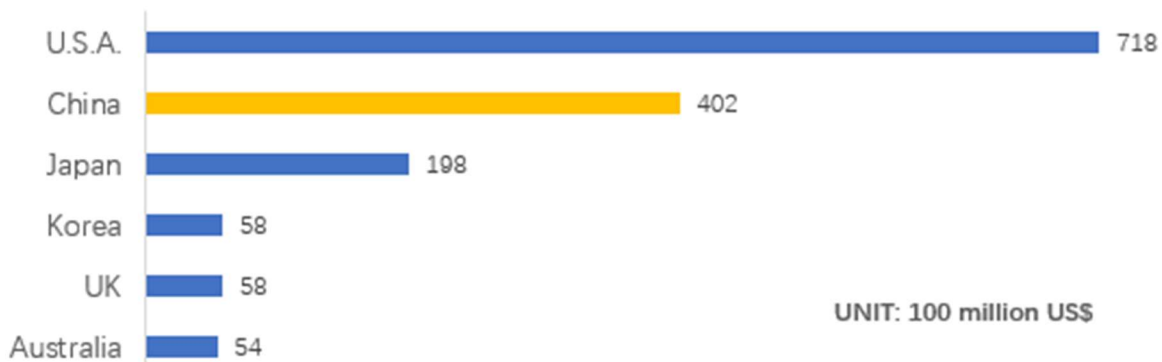


Source: Policies issued by the Chinese Government. Image from iGEM.org

2.2 MARKET SIZE

China's health food products market is developing rapidly. Its market size is second only to that of the United States. According to Euromonitor data, for the global health care product market in 2018, the market size of the United States and China were 71.8 billion US Dollars and 40.2 billion US Dollars respectively. As for the growth rate, the market of health care products in the United States is mature and competitive. The compound annual growth rate of its market size is about 4%. Thanks to the demand driven by consumption upgrading and aging population, China's industry has grown rapidly with a compound annual growth rate of about 9%.

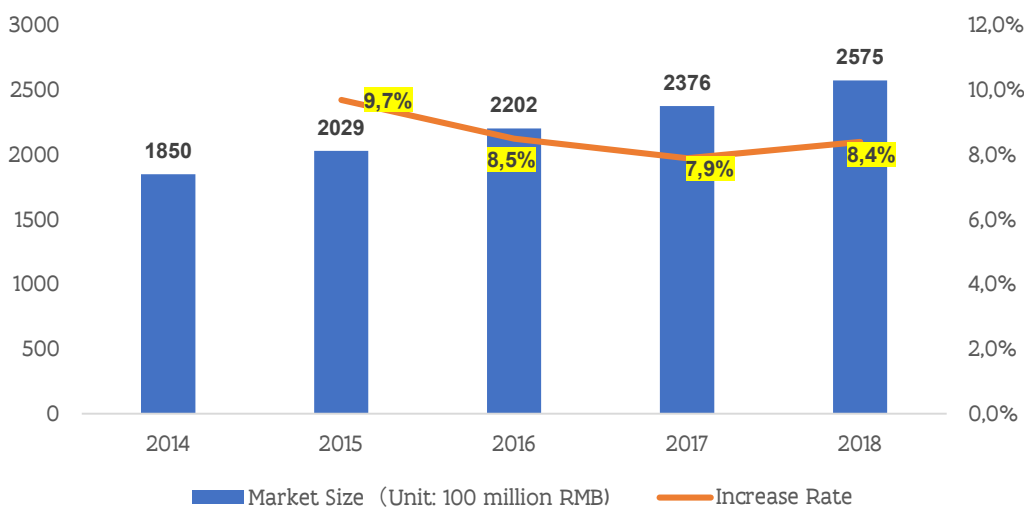
Market Size of Health Food Products In Major Countries in 2018



Source: Sina finance(新浪财经) ; QainZhan analysis (前瞻产业研究院)

During 2014-2018, the market size of health food in China has shown an overall growth trend year by year, maintaining a high growth rate. In 2018, the market scale of China's health care products is around 257.5 billion RMB, with a year-on-year increase of 8.4%. With the increase of per capita disposable income, the upgrading of consumption structure, the aggravating aging of the population, and consumer groups paying more attention to healthy lifestyle, it is expected that the market size of health care products will continue to maintain a high growth rate.

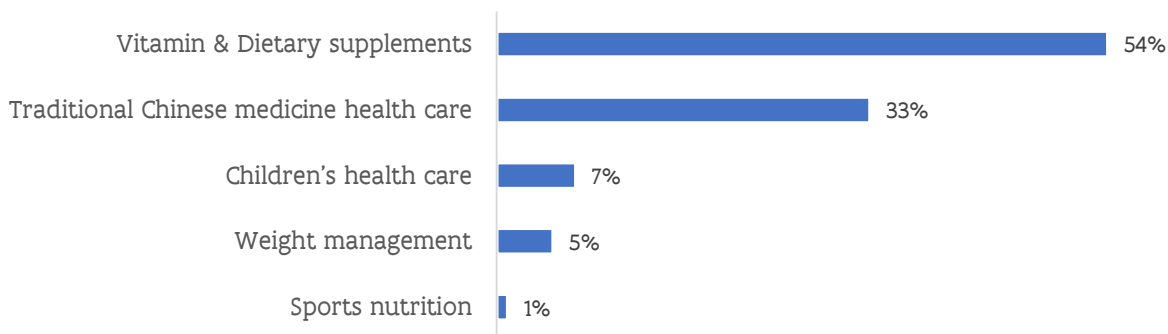
2014-2018 Chinese Health Food Market Size



Source: iimedia data(艾媒咨询), QianZhan analysis(前瞻产业研究院)

The market segment of health food products is dominated most by vitamin & dietary supplements with more than half of the market in 2019.

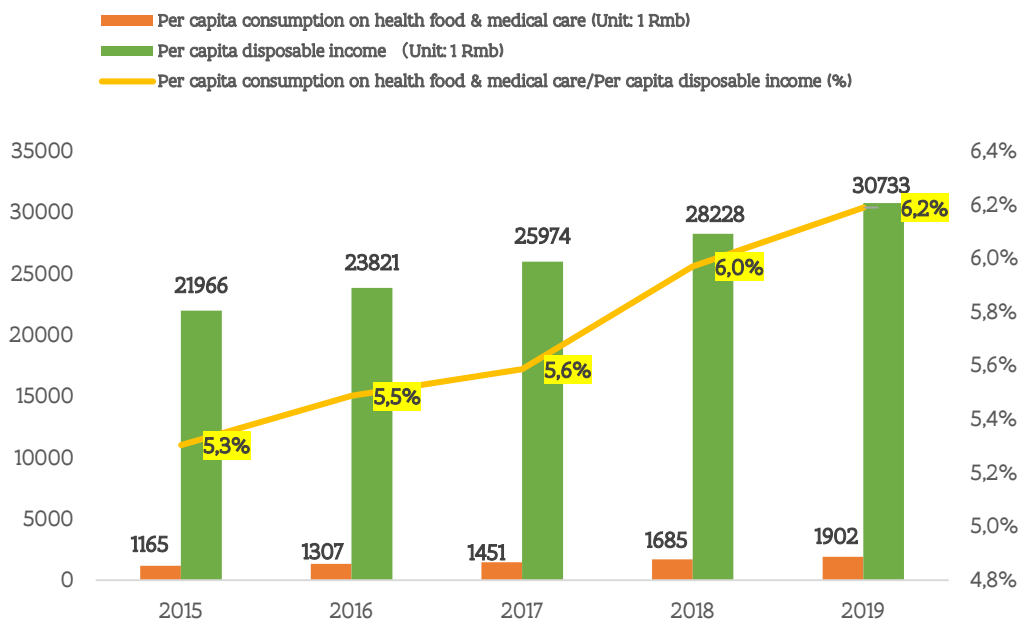
2019 Market Segment of China's Health Food Products



source: chyxx (中国产业信息网), Market Segment of Healthcare Products in China

From 2015 to 2019, per capita disposable income and per capita health care related consumption of Chinese residents have been increasing year by year. In 2019, the per capita disposable income of Chinese residents was 30,733 RMB, and the per capita consumption expenditure on health care and medical service was 1,902 RMB, which accounted for 6.2% of the per capita disposable income.

China Consumption Expenditure per Capita: Health Care and Medical Service

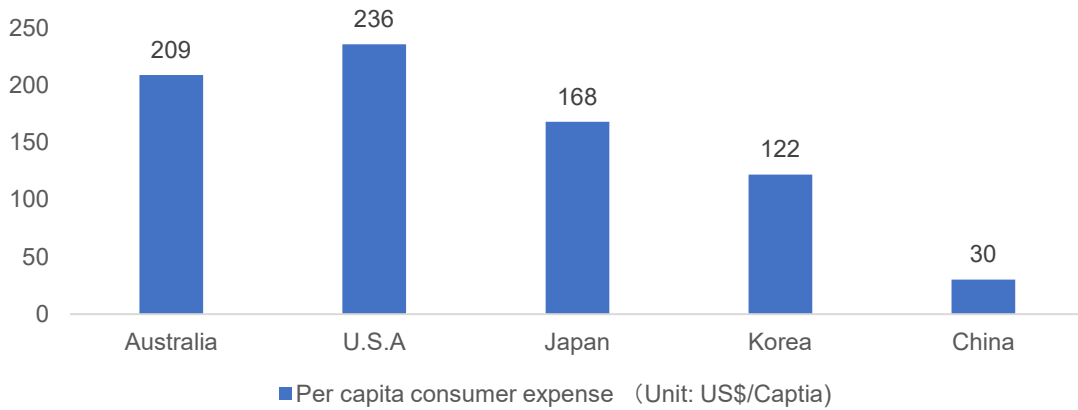


Date Source: Chinese National Bureau of Statistics

Though Chinese consumers are accustomed to the idea of health food, there is still a large gap between China and the developed countries in per capita consumption of health food. In 2019, the per capita consumption of health food in the USA amounted to 236 US Dollars, while in Japan it was 168 US Dollars – both figures far higher than China’s 30 US Dollars. This may be due to competition from entrenched Traditional Chinese Medicines (TCM) alternatives, or simply a consequence of such products having only entered the China market relatively recently. In mainland China, the per capita consumption level of health food is moderate compared with that in mature markets. The health food market has much potential for expansion.



2019 Consumption Expenditure per Capita at Main Countries: Health Food



source: chyxx (中国产业信息院)

Experts have compared the China market for health supplements to the state of the market in the US in the 1970s, and predict a similar boom in coming years, potentially doubling the number of users, as consumer awareness grows. Other experts compare the China market more closely to Japan's, due to similar consumption habits and more similar cultural contexts. The Chinese market has a penetration rate half that of Japan's (20% to Japan's 40%), with only 10% of users being 'sticky', i.e. most Chinese buyers of health products do not make repeat purchases of the same brand and product. Meanwhile, Japanese health product users spend an average of 1,655 RMB annually on such products, while Chinese users currently spend only 585 RMB (approx. 75 EURO). Experts take these figures to suggest that the China market has space to grow by 200-300% in the coming years, once the market is better established and more mature.

2.3 CUSTOMER

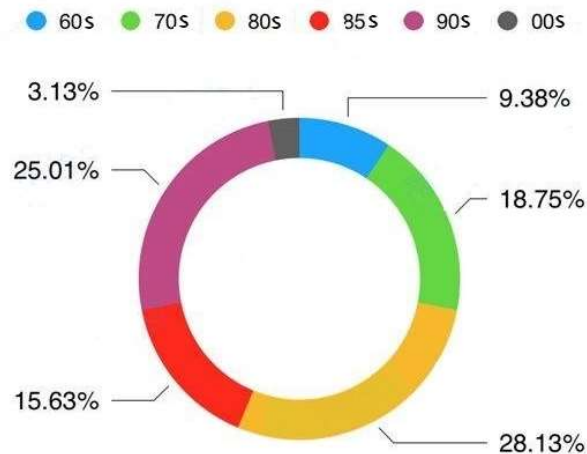
Age distribution

Analysts have noted that more than 70% of those aged 65 or above in China consume health food, showing that there is enormous potential in the health food market among the elderly. As living standards continue to rise, seniors are paying more attention to staying healthy, and health food is a popular choice for them. And as Chinese society begins to age, health food products for the elderly will become a leader in the market.

According to the data issued by the National Bureau of Statistics, at the end of 2018, the number of people in China aged 60 or above stood at 249 million, 17.9% of the total population. The World Health Organization projects that by 2050, those aged over 60 will make up 30% of the Chinese population. In addition, the average life expectancy in China is now 76.4 years and is expected to rise to 81.9 years by 2040. The demand for health food products in China is set to increase.

In addition, according to the survey by a local financial company-Rong 360, the consumption of nutrition and health food is becoming younger in age. The post-60s generation still attaches great importance to health preservation. However, the post-90s generation has become the main group of this consumption. Data shows that among the buyers of Nutrition supplement, the post-90s generation accounts for 25.01%. It is a global trend in the health care products market that consumers are getting younger. In the United States, Japan and other mature health care product markets, there is product segmentation for different groups such as the elderly and the young, which will also be the development trend of China's health care product industry.

Age Distribution of Chinese Consumers in Nutrition Supplements in 2018

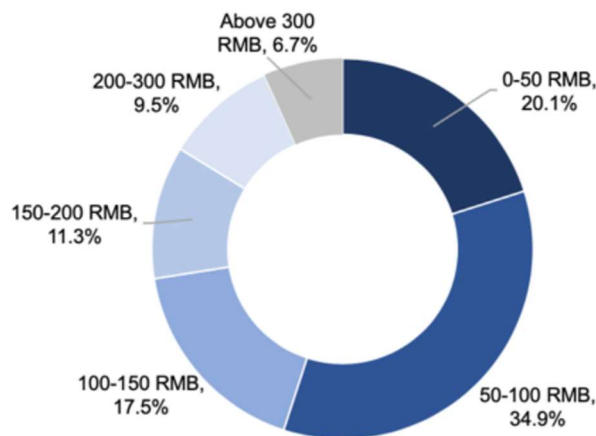


Source: Rong 360 (融360)

Price distribution

Many Chinese see health supplements as a part of a healthy life. Hence, health supplements, such as vitamins and fish oil, are an important choice for health-conscious Chinese consumers. In a survey conducted by iimedia, 48.6% of the participants choose health supplements as their first choice to improve their health condition.

Price Distribution of Health Supplements on Taobao & Tmall by Sales Volume (May 2020)



Data source: Taosj (淘数据), Daxue Consulting

Price distribution of health supplements ranges from 50 RMB to over 300 RMB. Most consumers buy health supplements for under 150 RMB on Taobao and Tmall. Customers’ price preference means high-end products are popular among a small group of online shoppers.

Core drivers of purchasing health food

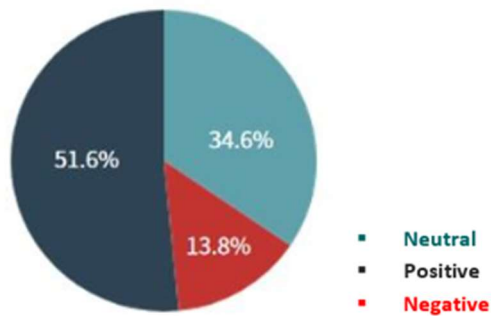
According to the survey conducted by DXY(丁香医生), 96% of the Chinese people said they were worried that they had health-related problems. skin care, anxiety, sleep problems, stomach problems, and hair loss are the top five health concerns among Chinese between age 20 to age 50.

Top Five Health Problems Bothering Chinese People (The online survey of DXY targets on Chinese people 20-50 years old, 2019)



Data source: DXY (丁香医生)

Public Opinion of Health Food Products in China 2019 (Feb-April)

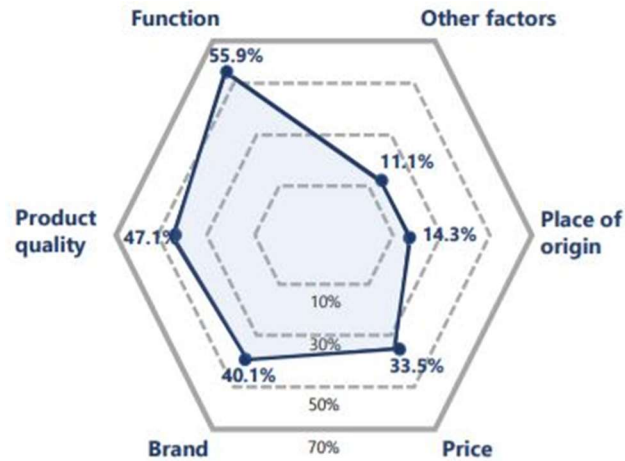


Data source: iimedia(艾媒咨询)

More than half of Chinese people have a positive opinion of health food products. Function, product quality, brand, price and place of origin are the five main drivers of purchasing health food products for Chinese customers.



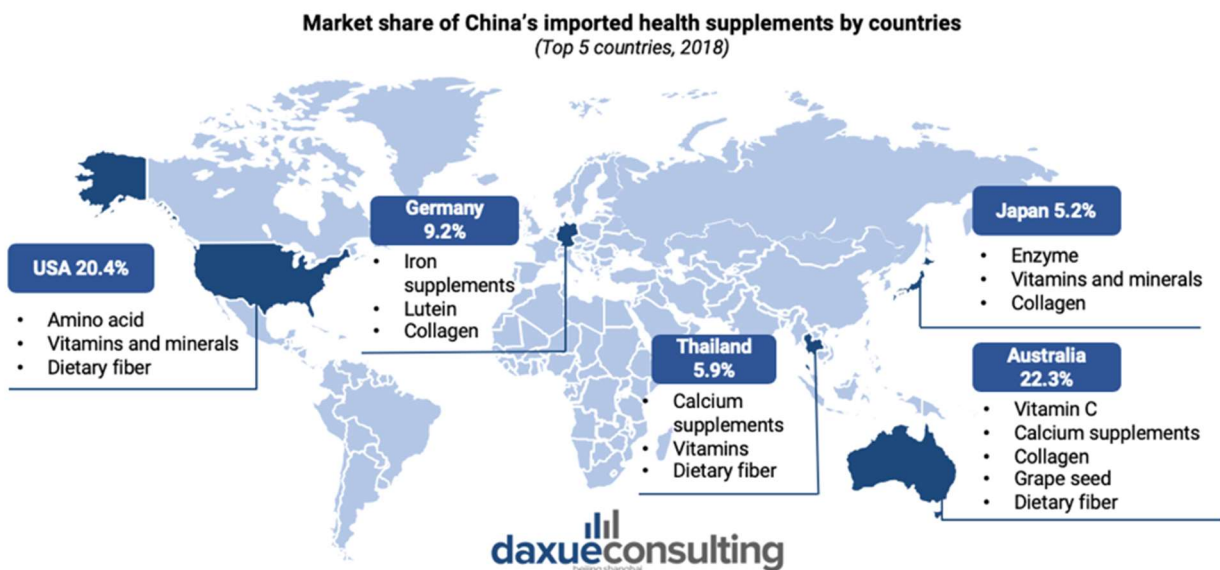
Factors that Chinese Consumers Consider when Buying Health Supplements



Source: Online survey of iimedia(艾媒咨询) for health supplement consumers, 2019

2.4 COMPANIES IN THE MARKET

2018's customs data by CBNDData(sorted by daxue consulting), shows that Australia and U.S.A are the top two suppliers of the VDS (vitamin and Dietary supplements) market in China. Australia and U.S.A account for 22.3% and 20.4% of VDS imports to China respectively. Their brands quickly seized China's health supplements



market share by cross-border and social e-commerce.

Besides Chinese brands, Australian brands, such as products from Swisse and Cenovis, are the most popular on China's online market. By-Health (汤臣倍健) ranked #1 in May 2020, followed by Swisse (#2) and Cenovis (#5).

Brand names	LOGO	Units sold on Taobao & Tmall (May 2020)	Country of origin
By-Health (汤臣倍健)		584,960	China
Swisse		269,262	Australia
Conba (康恩贝)		215,218	China
Yangshengtang (养生堂)		76,227	China
Cenovis		61,834	Australia
Fancl		57,007	Japan
Centrum (善存)		42,389	USA
Jamieson		42,350	Canada
Blackmores (澳佳宝)		32,225	Australia
GNC		32,030	USA

Data Source: Taosj (淘数据), 'Top health supplements brands on Taobao & Tmall

3. HEALTH FOOD REGISTRATION IN CHINA

3.1 COMPETENT AUTHORITIES & RESPONSIBILITIES



In accordance with Food Safety Law of the People's Republic of China (2015 version), companies who plan to bring health food to the Chinese market shall apply and obtain the health food

registration certificate or filing certificate. For domestic health foods produced in China, the registration shall be conducted with State Administration for Market Regulation (SAMR, former CFDA), whereas, the filing shall be carried out with Provincial Administration for Market Regulation. For imported health foods produced in oversea factories, both the registration and filing shall be applied with SAMR. Meanwhile, oversea companies shall have a permanent Chinese representative office or appoint a Chinese agent to deal with registration or filing and obtain such certificates.

3.2 REGULATIONS

Blue Hat Registration and Filing



In 2016, the China Food and Drug Association (CFDA) issued its Administrative Measures on Health Food Registration and Filing, an update to the “Blue Hat” scheme (so named because of its logo, which resembles a blue hat). The Blue Hat scheme is a mandatory investment for those wishing to sell health foods to Chinese consumers, especially at brick-and-mortar shops. Registration can cost hundreds of thousands of USD to register these on a per-product basis. However, changes in 2016 introduced a parallel track, called ‘filing’ rather than ‘registration’ (the “Small Blue Hat” to registration’s “Big Blue Hat”). This new track means that primarily food-based, as well as most vitamin and mineral,

supplements no longer have to go through the time-consuming and expensive registration process, and instead go through a much more convenient process. Though some tests and documentation are still required, filing is permanent (rather than needing to be updated every five years), and streamlines or omits many of the more costly or lengthy parts of the process. This has made the market much more accessible for overseas brands.

Cross border e-commerce (CBEC) registration

Different from traditional trade which requires obtaining the registration or filing certificate prior to import into China, health food entering the Chinese market through Cross border e-commerce (CBEC) retail does not require those certificates at present. CBEC (B2C) import commodities have been temporarily supervised as personal items. Therefore, in recent years, many overseas health food, particularly the health food of new brands, have entered the Chinese market by CBEC and some of them have gradually accumulated great reputation and popularity among consumers in China. More detailed information on CBEC will be introduced in Chapter 5 of this study report.

Labelling requirements

- I. It should not claim that the function of the product is to prevent or treat any disease.
 - II. It should indicate clearly who is the appropriate and/or inappropriate consumer for the product, accurate labelling of active/marker ingredients and their contents.
 - III. The functions and ingredients must be consistent with those on the label and in the instructions.
- Health food functions approved in China (original list: SAMR Link Original list from samr.gov.cn)

Approved Function List

1	2	3	4
Enhancing immune	Assisting blood lipids reduction	Assisting blood sugar reduction	Anti-oxidative
5	6	7	8
Assisting memory improvement	Alleviating eye fatigue	Alleviating lead excretion	Clear the throat
9	10	11	12
Assisting blood pressure reduction	Sleep Improvement	Facilitating milk secretion	Alleviating physical fatigue
13	14	15	16
Enhancing endurance	Assisting irradiation hazard protection	Weight loss	Improving child growth
17	18	19	20
Increasing bone density	Improving nutritional anemia	Assisting the protection against chemical injury of liver	Eliminating acne
21	22	23	24
Eliminating skin chloasma	Improving skin water content	Improving skin oil content	Regulating gastrointestinal tract flora
25	26	27	
Facilitating digestion	Facilitating feces excretion	Assisting the protection of gastric mucosa	

Note: The three health functions highlighted in RED might be canceled in future.

Source: Data from SAMR (only Chinese version, here English translation is for reference)

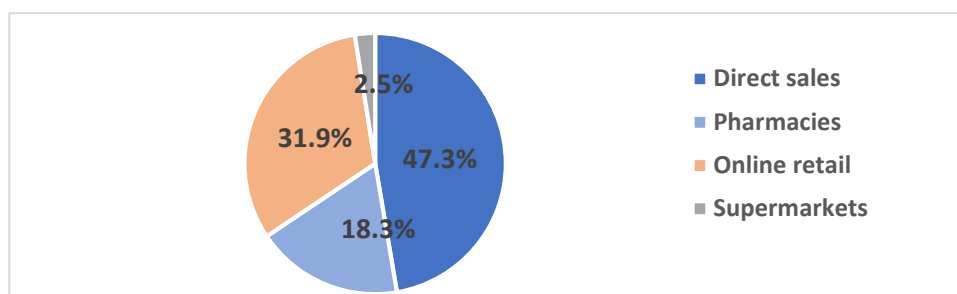
On 20 August 2019, State Administration for Market Regulation (SAMR) released the new Administrative Measures on Health Food Raw Material Directory and Function Directory. According to this regulation, **ANY UNIT OR**



4. SALES CHANNELS OF HEALTH FOOD PRODUCTS IN CHINA

The majority of health food sales in China are done through one of four sales channels: supermarkets, pharmacies, online retail, and direct sales. According to Euromonitor, in 2018, direct sales accounts for 47.3% of health food market in China, online retail 31.9%, pharmacies 18.3%, and supermarkets 2.5%.

2018 Chinese Health Food Market Share by Sales Channels



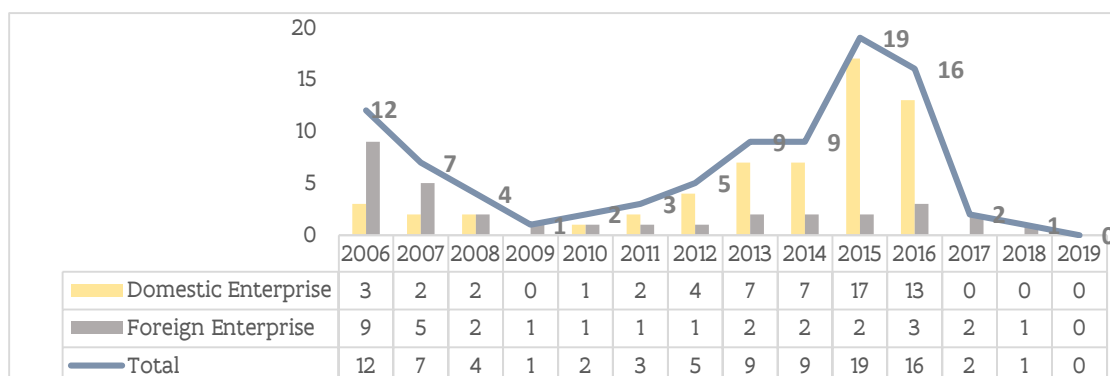
Source: Euromonitor, Northeast Securities 2019

Direct Sales

Due to the historical reasons of the development of the industry, the direct sales occupy the largest market share of health food products in China. In 1998, Amway China from the United States introduced a series of dietary supplements "Nutrilite" into the Chinese market. Before that, there was actually no complete concept of dietary supplements in China. In 2006, the Chinese government officially opened the license of direct sales. Since then, the direct sales enterprises of health food in China has entered the "golden decade" of development. And in the early stage, due to the lack of consumer awareness of health food, traditional channels such as pharmacies and supermarkets are difficult to effectively promote product sales. The direct sales mode, with its influential characteristics, stands out and quickly seizes the market share. According to the data on Aug 2020 from Ministry of Commerce People's Republic of China, there are 90 enterprises that have obtained the qualification of direct sales, among which around 80% enterprises are engaged in health food related business.

However, there is a high threshold for the application of direct sales license in China. The enterprises applying for direct selling license need strong financial strength, qualified production base and products, as well as direct sales experience. In January 2019, in order to strengthen the market management of health food, SAMR suspended the issuance of the license for direct sales.

2006-2019 Enterprises with License for Direct Sales



Source: Ministry of Commerce People 's Republic of China [Approved company list](#)

Pharmacies & Supermarkets

Pharmacies are specialized offline retailers of prescription and over the counter (OTC) medical and related products. They represent the most traditional sales channel for health supplements, and generally these products are bought by the person intending to use them, around the time when they really feel the need for them. Supermarkets expanded the scope of traditional smaller grocers and general stores to cover products such as health supplements decades ago, and so also represent a small but firmly established sales channel for health food market. Interestingly, unlike Pharmacies, products bought at supermarkets are mostly intended for use by someone other than the consumer, but as gifts, or bought for a family member.

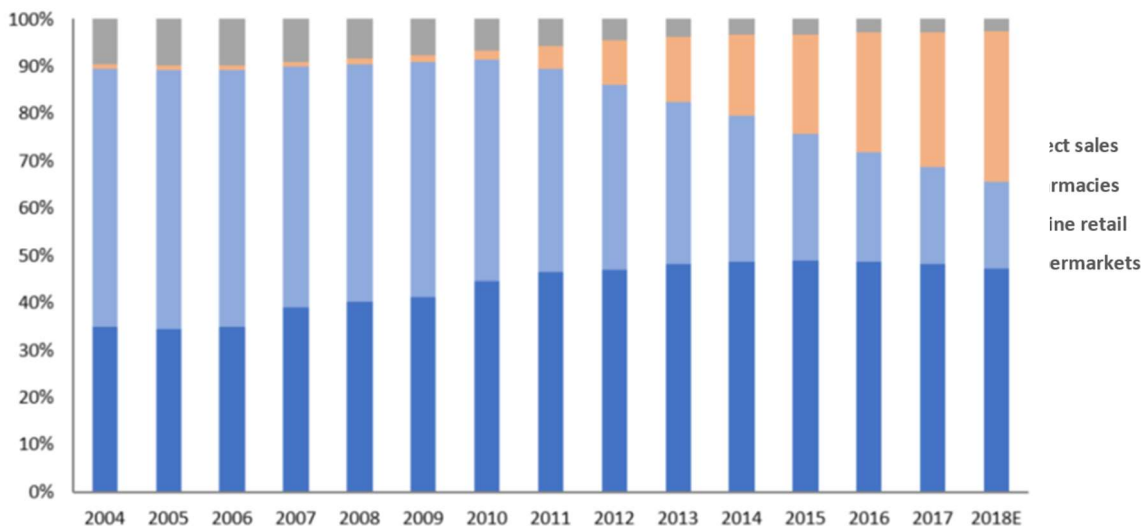
Traditional channels, with brick-and-mortar stores, have advantages in consumer recognition and acceptance. However, in order to enter the traditional retail channel, enterprises need to obtain the approval from SAMR for health food registration or filing. The process usually takes quite a long time and costs a lot of money. An approval would usually take over one million RMB and the whole process would need around three years. Therefore, only less than 5% of the approved health foods were imported from foreign enterprises. The vast majority of imported health food products are sold online through cross-border e-commerce and other channels.

Online retail

Since 2013, the proportion of direct sales has generally changed little and is becoming saturated. Online retail growth is strong, with the highest CAGR at 31.2% per cent. The share of pharmacy channel shrinks significantly, with CAGR showing the negative growth at -2.4% in five years from 2013 to 2018. The proportion of supermarket has been small. With the same downward trend, it grows slowly from 2013-2018. The compound growth rate is around 1.6%.

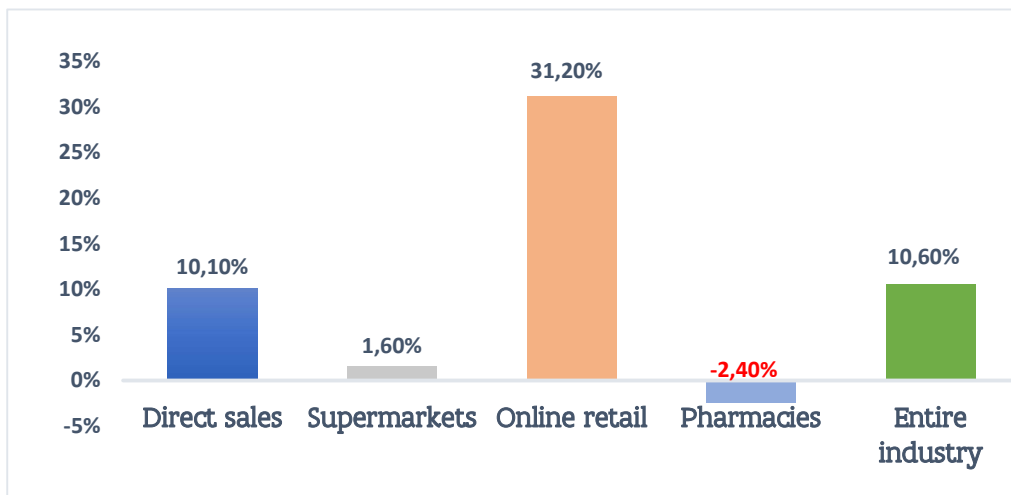
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2004-2018 Chinese Health Food Sales Channels Market Share



Source: Euromonitor, Northeast Securities 2019

2013-2018 Sales Channels CAGR



Source: Euromonitor, Northeast Securities 2019

Due to the limitation of traditional offline sales channels, online retail has become the main sales channel for foreign brands. There are three models of online channel: 1) tradition online channel: It provides a platform for the existing enterprises in Chinese market that have already obtained “blue hat” to develop online sales channels, while maintaining the advantages of the offline channels. This channel is mainly dominated by local health food companies. 2) “Dai Gou”: It is mostly sold by agents or individuals on Taobao and WeChat platforms, covering all foreign categories. This way is not a normal trading mode, and with the tightening of import policies, it could be recognized as illegal. 3) Cross border e-commerce (CBEC): At present, health food imports through cross-border e-commerce are subject to “supervision of personal items”. First import license approval, registration and filing requirements by general trade mode do not apply to this model. In recent years, many overseas products, especially the overseas health food which has not been registered or filed, have chosen to enter the Chinese market through cross-border e-commerce platforms to quickly seize the market share of China’s health food industry at the initial stage. Compared with other cross border channels such as Haitao or Daigou, CBEC can provide with wider category selection and better quality assurance. Its sales volume will continue to expand and squeeze other channels.

5. CHINA’S CROSS BORDER E-COMMERCE(CBEC)

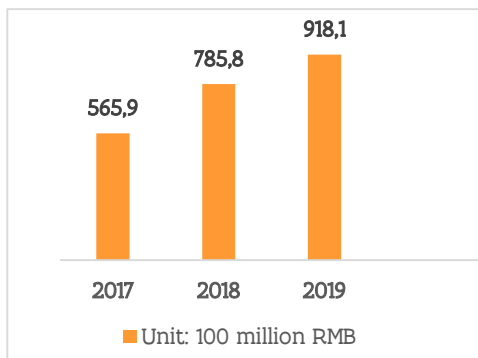
5.1 CBEC MARKET

Cross border e-commerce refers to an international commercial activity in which the trading entities belonging to different customs areas reach transactions, make payment and settlement through e-commerce platform, and deliver goods and complete transactions through cross-border logistics.

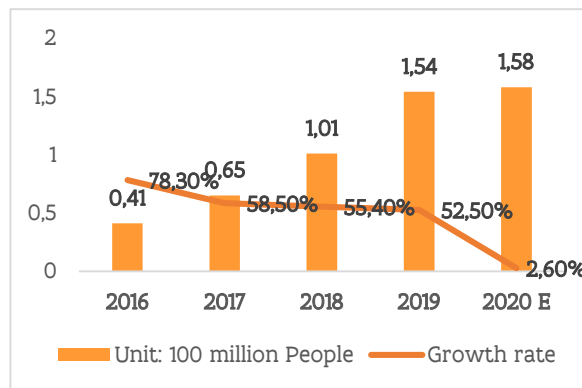
Cross border e-commerce has an increasing strategic significance. For enterprises, cross-border e-commerce has greatly broadened the path to enter the international market; for consumers, cross-border e-commerce makes it very easy for them to obtain information from other countries and buy high-quality goods at competitive prices. According to the data, China’s total CBEC imports have increased year by year from 56.59 billion RMB in 2017 to 91.81 billion RMB in 2019. The scale of China’s online shoppers has continued to grow. Among them, over 1/3 of Chinese consumers want to buy overseas health care products through online channels.



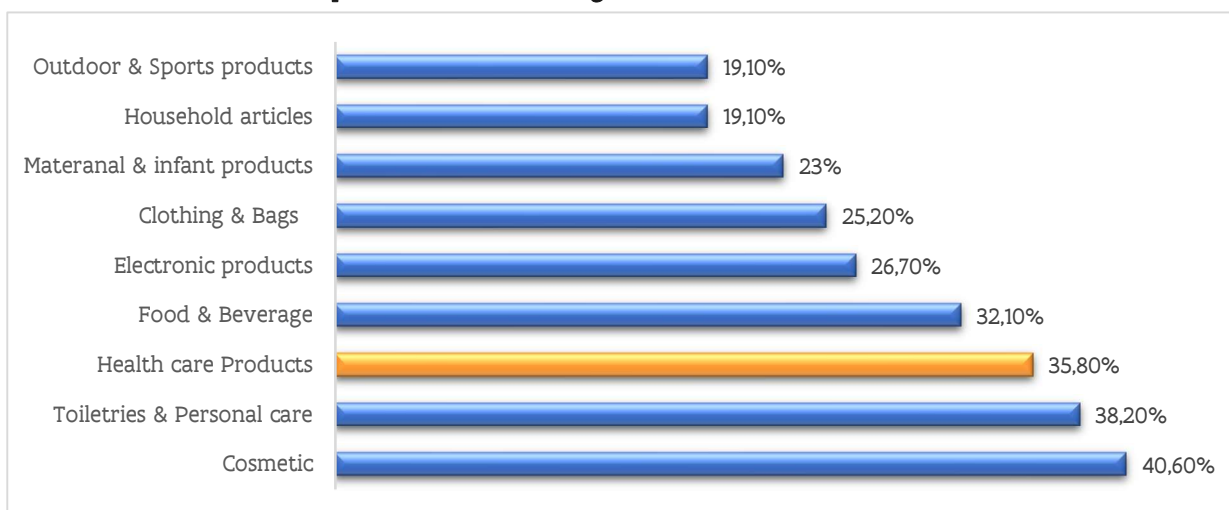
The Growth of China's CBEC Import Trade Volume



Number of China Cross-Border Shoppers from 2016 to 2020 E



2019 Most Wanted Imported Product Categories in Online Channel for Chinese Consumers



Source: iiMedia Resarch 2020

CBEC VS General Trade

The essential difference between CBEC and general trade is that CBEC is consumer oriented. Products are chosen in order to meet the demand of consumers. The sales model is similar to retail sales, with small quantities, while the general trade is mainly production oriented. The model is about looking for potential consumers according to the products, and the sales amount and scale can be large. The new import policy tends to regulate CBEC imports according to general trade, but it is not entirely electronic general trade, for example, taxation on CBEC is more favourable than general trade and the supervision is relatively light.

Comparison of General Trade and CBEC

Differences	General trade imports	Cross-border e-commerce imports
Property	Most are business practices , so basic business documents such as contracts, invoices, and a series of shipments such as bill of lading are required.	Cross-border e-commerce is generally faced with direct consumers. The purpose of CBEC is that the state wants to realize the effective supervision of CBEC and eliminate the impact of "overseas shopping" and "foreign agents" on the import market, and provide normative guidance.
Taxation	<p>General import taxes include: Tariff Value-added tax (VAT) Consumption tax (CT)</p> <p>Transaction limits: No limits</p>	<p>CBEC retail import taxes include:</p> <ul style="list-style-type: none"> ▪ Under Haitao <p>Parcel tax: 13% for health food for the moment</p> <p>Transaction limits: Single transaction: RMB 1,000 (RMB 800 for products delivered from HK, Macau and Taiwan, transaction under 50RMB, 0 tax would be collected. Annual transaction: no limits</p> <ul style="list-style-type: none"> ▪ Under CBEC Platform <p>CBEC comprehensive Tax: 70% of VAT & CT charged by general imports (0% of tariff for the moment);</p> <p>Transaction limits: Single transaction: RMB 5,000 Annual transaction: RMB 26,000 Applicable taxes for single transactions between RMB 5,000 to RMB 26,000: VAT & CT Applicable taxes for transactions over annual limits: Tariff, VAT and CT (refer to General Import Taxation).</p>
Local entity	The legal entity in China is compulsory. This can either be a subsidiary, a trade agent or the Chinese manufacturer of the foreign seller.	No need.
Supervision	"Blue Hat" Registration or Filing	No need "Blue Hat" Registration. The process is easier and faster compared to that under general trade.
Sales Channel	Products can be sold in brick-and-mortar shops or on e-commerce platforms.	Products can only be sold on e-commerce platforms.
Import cities	No limits.	CBEC is executed at cross border e-commerce retail import pilot cities (refer to http://www.gov.cn/xinwen/2020-01/17/content_5470348.htm)

5.2 CBEC MODELS

Foreign businesses that want to access the Chinese CBEC market first need to choose their entry models and platforms. Below is a table to compare the different kinds of CBEC models.

The Comparison of CBEC Models

Models	Daigou	Haitao	Cross Border E-commerce	
Meaning	Agents or individuals overseas purchase and take products to China	Purchase directory from overseas websites	Purchase on domestic B2C e-commerce websites	
Trading Model	C2C	B2C	B2C	
Commodity Category	No limits	No limits	CBEC positive list*	CBEC positive list*
Logistics Mode	Direct mail/Person	Direct mail	Direct shipping mode	Bonded Warehouse mode
Logistics Timeliness	Slow	Slow	Slow	Fast
Customs clearance	Spot check	Spot check	Customs declaration required	
Clearance speed	Slow if checked by customs	Slow if checked by customs	Customs digital system (EDI...), fast	
Trust model	Personal trust	Trust in overseas e-commerce platforms	Trust in domestic e-commerce platform	
Tax	Spot check and Parcel tax	Spot check and Parcel tax	CBEC comprehensive tax	
Regulation Trend	Illegal since 2019	More and more restrict on customs clearance and tax	Encouraged by 2019 policy	

*2020 positive list by MOF (Ministry of Finance of the People's Republic of China)

http://gss.mof.gov.cn/gzdt/zhengcefabu/201912/t20191227_3451448.htm?from=timeline&isappinstalled=0

Starting from 2019, CBEC actually only have 2 models: Direct Shipping Mode and Bonded Warehouse Mode. Direct Shipping Mode is quicker to start and test the market. Bonded Warehouse Mode can support big volume and cost per order is lower. According to the new CBEC regulation released at the end of 2018, the seller of CBEC must be a business entity "B", and can not be an individual "C". So the model of Daigou "consumer to consumer sell" (C2C) now is illegal in China.

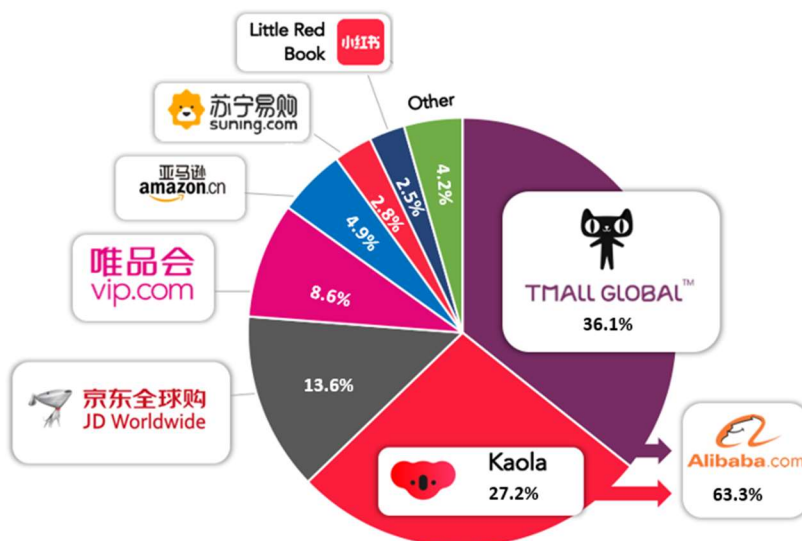
In addition, for overseas companies, to run cross border business through company standalone websites hosted outside China appears to be the most convenient and cost effective way to entry Chinese market. However, as the websites often have low web traffic and interest from potential consumers, and cannot provide customer supports that Chinese consumers demand, such as refunds, aftersales service, reliable delivery and more, the development space for the model of Haitao "overseas website shopping" is increasingly marginalized.

5.3 CBEC PLATFORMS

In the first quarter of 2020, Kaola, Tmall Global and JD Worldwide occupy the top three in the cross-border e-commerce market with a market share of 36.1%, 27.2% and 13.6%. Alibaba (Kaola and Tmall belong to Alibaba) and JD are the two biggest CBEC platforms, which accounts for about 76.9% of the whole CBEC market.

On top of Tmall and JD, VIP.com, Suning.com and new emerging platforms Amazon and Little Red Book are also taking on a significant share of the market.

2020 Q2 Market Share of Main CBEC players In China



Source: Analysis易观

CBEC seems to be a relatively low cost entry strategy compared to traditional general trade methods, in terms of trial-and-error costs and shorter value chains. In fact, selling cross-border still requires high investments, depending on which platforms you select.

For example, Tmall Global allows foreign brands without a Chinese business entity to sell to consumers directly by opening their exclusive flagship stores. Though, since 2015 brand flagship store registration for Tmall Global is on invitation-only basis, with the following admission priorities:

- A well-known international brand without official presence in China and search volume is large in China, especially on Taobao.
- Merchants with annual turnover of at least 100,000,000 US Dollars.

- Require to work with an authorized third party service providers, called Tmall Partner or TP who will help operate your store and of course charge you management fee and take a share of your revenue.

Suggested by TP experts, you also need to invest 1 million US Dollars of marketing expenses in the first year due to fierce competition in the e-commerce platform.


Therefore, the investment of CBEC is actually not very low.

It is recommended that foreign brands conduct a more in-depth market research on the general demand of their products, consumer buying behaviour, brand preferences, and competitive analysis in China's e-commerce market, before investing in establishing an e-commerce presence.

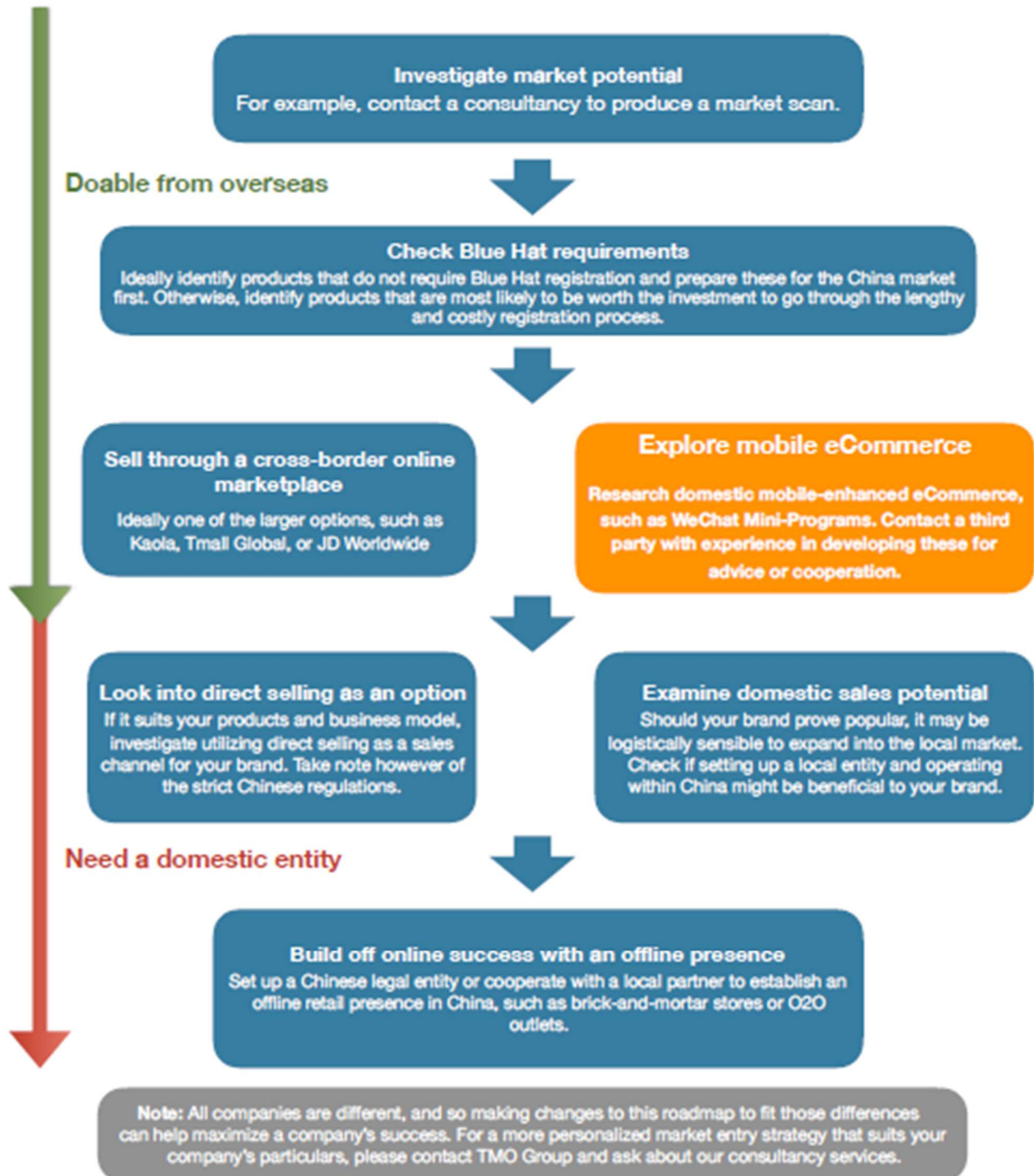
5.4 ENTRY STRATEGIES

Foreign businesses that want to access the Chinese CBEC market first need to choose their model and platforms. Due to the varied nature of CBEC models and platforms, this can be a challenging endeavour, particularly for those unfamiliar with the Chinese market. The final decision depends on a strategic analysis of each model, and a breakdown of the main advantages and disadvantages facing the company.

Entry Modes for Overseas Healthcare Grands to Enter the Chinese Market

Legal entity	Entry mode	Logistic	Sales channel	Remark	Easy  Difficult
Only with oversea entity	CBEC	Direct Shipping	WeChat or overseas websites	For CBEC, can apply for H5, but not allow "mini program" on WeChat platform for health food category. Website server can be located outside Chinese mainland, and ICP registration is not required.	
		Direct Shipping Bonded Warehouse	CBEC platform	Platforms such as Tmall global, JD and etc.	
With existing Chinese entity	CBEC	Bonded Warehouse Direct Mail	WeChat Platform	Both H5 and "mini program" are allowed for local Chinese entity	
			CBEC e-commerce website in China	Website server must be located in China, ICP must be registered.	
	General Trade	/	WeChat Platform	Both H5 and "mini program" are allowed for local Chinese entities	
			CBEC e-commerce website in China	Website server must be located in Chinese mainland, and ICP registration is required.	
			E-commerce platforms in China	E.g. Open flag shops at Tmall, JD	
			Direct sales		
Offline physical stores and O2O					

Entry Roadmap for Market Entry



Source: TMO Group

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