BUSINESS INSIDER

Scaling the digital wall of China

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Footwear manufacturer Feelgoodz had every reason to believe its comfortable flip-flops, made from sustainable materials, would be a big hit in China. The footwear was already generating strong sales in five other countries, and China's growing middle-class was hungry for foreign goods — online sales of physical products in the country jumped a whopping 31.6% last year.

The Raleigh, North Carolina-based company confidently placed its product on the Chinese mainland's Tmall shopping platform in April 2012 and waited for the orders to come in.

And waited, and waited, and waited.

After six months, a mere 50 pairs of the eco-friendly sandals were purchased, and sales fell quickly from that low point.

What happened? Feelgoodz, like many other US companies, discovered that scaling the digital wall of China isn't as easy as it seems at first glance. Many firms have a "post it and they will come" strategy, believing that they need only put their 10 biggest sellers online, and China consumers will flock to snap them up. But succeeding in China requires a deep understanding of this unique marketplace.

A different world

The 2016 China Business Climate Survey Report, from the American Chamber of Commerce in China (AmCham China), found that companies remain optimistic on domestic market growth potential, but they feel less welcome and are increasingly frustrated by China's unclear laws, inconsistent regulations, and required licenses that are hard to obtain.

These diverse challenges underscore the need to understand the market deeply before jumping in. “China isn’t really one country, but 30-plus provinces with distinct characteristics,” says Usha C. V. Haley, professor of management, West Virginia University, College of Business & Economics and author of *The Chinese Tao of Business*.

In the same way, ecommerce in China can be a world of its own, with many subtle differences from other areas in the globe. In the United States, for example, many companies operate independent ecommerce sites. In China, more than 75% of ecommerce is conducted through Alibaba's Tmall and Taobao’s site.

Digital consumers in China are savvy and demanding. The challenge companies face, then, is what to do *after* they get on the sites, such as differentiating themselves from the sea of competitors with unique products to shoppers.

“As for getting folks to your site, that’s another issue,” says Lou Hoffman, head of a communications consultancy that entered China in 1999, and now operates offices in Shanghai and Beijing. “Baidu dominates search in China. Unlike Google, there isn’t much of a line between natural/organic search and paid search on Baidu. As a result, what a company knows about search engine optimization (SEO) for Google has little relevance in China. It also places a premium on the paid side of search.”

Localizing products

The AmCham China survey found that an important part of a company’s Chinese game plan is adapting its services and products to the market. More than nine in 10 of respondents in the AmCham China survey said that innovation for China would be important to their company’s future growth. Indeed, 40% of respondents reported that more than half of their China revenues come from products that were locally designed, developed, or at least tailored to Chinese requirements.

For example, Pfizer found that health and wellness products are often given as gifts. As a result, it sold gift sets on Tmall Global on Singles Day — an online bargain shopping event. Blue Nile, an online jeweler, found that, unlike in the US, couples in China usually typically want matching wedding bands, so its website needed to be able to display men’s and women’s bands together.

Given such cultural variations, foreign companies — whether large or small —who enter China successfully start small and build on that success, Haley says. “They go step-by-step, with incremental expansion, rather than start with grandiose plans.”

Large companies build infrastructure. Pfizer, for example, has a team of about 17 in Shanghai dedicated to its ecommerce business. “There’s something to be said for spending time on the ground in China,” Hoffman says. “You can read books. You can talk to people on the phone. You can meet people who have worked there. But you need to actually spend time in China to get a sense of the market.”

Working with a guide

For mid-size companies, one way to get their feet on the ground quickly and firmly is to work with a third-party logistics provider (3PLs) that can help navigate the nuances of operating a supply chain, warehousing and distributing system in an area where practices are dramatically different than in many other parts of the world.

A competent 3PL with a first-rate global trade management group can steer a mid-size company through the web of complex government regulations, infrastructure, customs, and other issues, so their operations can run more smoothly. For example, companies that don’t have a deep understanding of China’s data management practices might inadvertently and unintentionally provide inaccurate product counts, causing them to draw unwanted attention from the authorities. A 3PL can help avoid those kinds of issues in a country, which, in Haley's words, "invented bureaucracy and is rampant in hidden costs."

China isn't an easy market to crack. But for companies that approach it strategically, smartly, and with the right partner, the payoff can be substantial.

To learn more, go back to the Unlocking Logistics Hub.

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