

Impacts of Domestic Cross-Border Online Shopping on Chinese Enterprises and Countermeasures

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Abstract- Over the past few years, the emergence of cross-border online shopping as a new mode of cross-border e-commerce transactions has not only satisfied Chinese consumers' needs for cross-border shopping, but also imposed relatively significant negative impacts upon Chinese native enterprises. After phenomena of cross-border online shopping are analyzed, their impacts on Chinese enterprises are pointed out, and effective solutions are thus put forward to promote sound development of cross-border online shopping in China, in order that a win-win situation may be realized between Chinese consumers and enterprises.

Keywords- Cross-border Shopping; Chinese Enterprises; Consumption; Online Shopping.

I. INTRODUCTION

Over the past few years, shopping websites both at home and abroad have paid attention to cross-border online shopping market and taken a range of measures to support Chinese cross-border shoppers in succession due to many factors such as increased economic strength of China and increasingly more popular online shopping, so that it has become more convenient for Chinese users to do cross-border online shopping in e-commerce websites. In cross-border shopping through e-commerce, Chinese users enjoy great advantages in price, which is also one of the reasons why cross-border e-commerce has emerged as a new model. However, substantial impacts have been imposed on development of Chinese enterprises with the prevalence of cross-border online shopping. Thus, how shall Chinese enterprises respond to "hot cross-border shopping" has become an important topic that is supposed to be considered by them. After current situation of cross-border online shopping in China, its impacts upon Chinese enterprises are pointed out and its causes are analyzed. Meanwhile, constructive suggestions are put forward for

Chinese enterprises, in order to maintain growth of sales and enhance international competitiveness of Chinese products.

II. CURRENT SITUATION OF CHINESE CROSS-BORDER ONLINE SHOPPING

A. Turnover of Chinese Cross-border Online Shopping

To do cross-border online shopping, shoppers need to search information about overseas commodities through the Internet, submit shopping requests via electronic orders and fill in credit card number. Subsequently, goods will be delivered by overseas shopping websites through international couriers or received by transport companies and subsequently sent to China. As various measures are taken for cross-border online shopping in recent years, such shopping has become fairly popular in first-tier cities and began to emerge in second or third-tier cities while maintaining stable growth. According to a data monitoring report about Chinese e-commerce market, it only cost several years for cross-border online shopping to get popular following its emergence. In 2008, market scale of cross-border online shopping merely amounted to RMB2.4 billion, whereas it dramatically increased to RMB70 in 2014, expected to rise to RMB240 billion in 2015.

B. Main Target Consumers and Destinations of Cross-border Online Shopping

At present, as main target consumers of cross-border online shopping, middle-class consumers have a common requirement for commodities, namely to buy commodities of relatively superior quality at cheap price. According to a survey of iResearch in 2013 (Fig. 2), Chinese consumers making cross-border payment are mostly 25-to-35-year-old undergraduates who are more proficient with English

and can complete all online shopping procedures on English websites. As English is getting popular among Chinese citizens whose English proficiency is constantly enhanced and Chinese websites are successively established by foreign e-commerce businessmen, language barriers will be gradually removed and cross-border online shopping will thus become prevalent among more audience. A recent survey of PayPal in 2014 suggested that, United States was still a destination that was the most popular among Chinese cross-border online shoppers. In the past 12 years, 14% Chinese consumers have purchased through cross-border shopping from the United States, followed by Hong Kong (9%), Britain and Japan (6%) respectively.

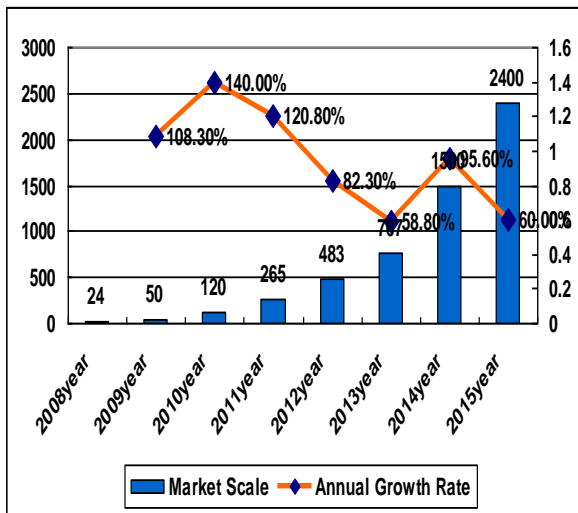


Figure 1. Trend of Market Scale of Chinese Cross-border Online Shopping

C. Product Categories of Cross-border Online Shopping

In terms of consumption structure, cross-border online shopping has presented two trends as follows. On one hand, consumption of necessities has been constantly upgraded. As shown in Fig. 3, maternal and child supplies as well as cosmetics, as necessary consumer goods, accounted for 4.8% and 5.6% of domestic online shopping respectively, but occupied 12.6% and 12.9% of cross-border online shopping, which reflects that it has become an inevitable trend to buy upgraded necessities. On the other hand, consumption of non-necessities has accounted for a growing proportion of personal expenditures. For instance, digital products occupied 4% and 7.7% of domestic and cross-border online shopping respectively, while luxuries accounted for 5.4% of cross-border online shopping. Digital products represent new experiences brought by technologies and luxuries are apparently non-necessities. Their higher proportion in cross-border online shopping indicates that Chinese consumption of non-necessities will gradually increase.

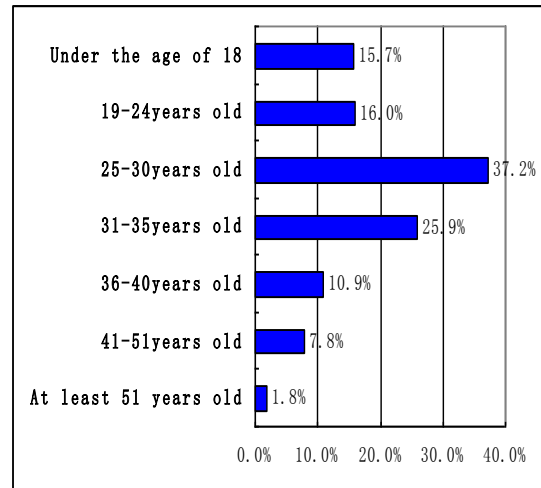


Figure 2. Age Distribution of Chinese Users Paying for Cross-border Online Shopping in 2013

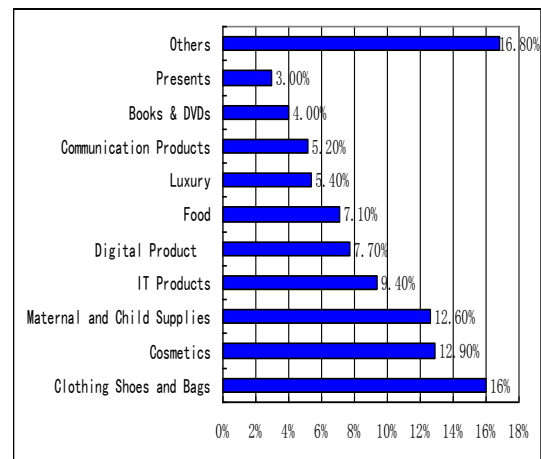


Figure 3. Varieties of Products Bought by Chinese Consumers through Cross-border Online Shopping in 2013

III. IMPACTS OF CROSS-BORDER ONLINE SHOPPING ON CHINESE ENTERPRISES

A. Enhanced Price Competition between Chinese and Foreign Manufacturers of Identical Products

In foreign countries, plenty of middle-grade products have been sold as brands and luxuries at high prices in China. However, online shopping may be widely accepted by Chinese consumers as it may greatly reduce product prices. In fact, the emergence of cross-border online shopping as a new model has led to competition between Chinese and foreign enterprises at the same horizontal. Before cross-border online shopping is prevalent, many Chinese consumers choose to buy identical domestic brands due to high prices of foreign brands. Nevertheless, more and more consumers directly turn to buy foreign brands online for price advantages of cross-border online shopping. As a result, huge pressure from price competition from foreign enterprises is exerted upon identical Chinese enterprises.

B. Impacts on Some Industries and National Brands

For many “cross-border shoppers”, overseas brands are symbols of products with guaranteed quality, which is particularly evident from purchasing infant products. As various safety events such as melamine event and baby shampoo containing cancer-causing substances have emerged one after another, consumers have nearly lost confidence in identical domestic commodities. It is even impossible to arouse Chinese consumers’ desires for buying despite that manufacturers promote products at prices lower than their costs. Lots of cross-border consumers purchase baby food and clothes from e-commerce platforms through cross-border online shopping. In particular, some overseas famous brands have become popular, on the grounds that their products are considered to be highly reliable and may be used at ease by many consumers. As a result, significant impacts have been imposed on some Chinese industries and national brands.

C. Great Impacts on Chinese Foreign Trade Enterprises

Undoubtedly, Chinese foreign enterprises, especially Chinese importers, have been impacted by cross-border shopping most significantly. Prior to the prevalence of cross-border shopping, Chinese importers had been developing at a pretty fast pace. After introducing high-quality products from foreign countries into China, importers directly sell them to Chinese consumers with demands and thereby make substantial profits. Nonetheless, more and more people turn to buy cheaper products with guaranteed quality via cross-border shopping after its emergence instead of purchasing foreign commodities imported by importers. Consequently, the entire import industry has been affected.

IV. CAUSES OF IMPACTS OF CROSS-BORDER ONLINE SHOPPING ON CHINESE ENTERPRISES

A. Price Advantages

Price advantage of cross-border online shopping is one of critical reasons why it has achieved rapid development over the past few years. Compared with domestic prices of identical brands and products, prices are generally 3/1 to 1/2 cheaper in cross-border online shopping, which is pretty attractive in terms of price. From Table 1, it may be observed that products are sold at lower prices in cross-border online shopping than those sold in China regardless of luxuries like Coach, electronic products like Apple cellphones or imported daily supplies like milk.

B. Quality Advantages

Quality is one of important elements that make consumers assured and cross-border shoppers are concerned about in shopping. For some foreign brands, product quality of original foreign manufacturers is usually better than that processed by domestic OEM, while the prices are also cheaper. For instance, electronic products such as watches and cameras produced by original Japanese enterprises are world-renowned with superior quality as compared with those manufactured by domestic OEM. Therefore, consumers are more inclined to cross-border online shopping in buying commodities from foreign brands.

TABLE I. TABLE 1. A PRICE COMPARISON OF PRODUCTS PURCHASED THROUGH CROSS-BORDER SHOPPING AND IN CHINA

Items (1 piece)	Price of Cross-border Shopping (\$)	Domestic Price (RMB)
Female Coach backpack of a series	498	6200
Iphone6 16G contract-free cellphone	700	5288
Imported milk of a German brand	9	80

C. Following Fashion Trends

New products of many fashion brands are firstly launched in other areas except for China. From Table 2, it may be found that all generations of iPhone cellphones were launched in the United States one week to three months earlier than the launch in Mainland China. Time difference of product launch has also become one of important reasons why cross-border shopping is popular. Additionally, some groups following fashion trends, including “Korean-style tribes” and “tribes adoring Japan” usually purchase foreign fashionable supplies through cross-border shopping to accommodate their needs for fashion, in order that they may keep in close pace with foreign life in terms of their costumes and daily supplies.

TABLE II. TABLE 2. A COMPARISON OF DATE OF LAUNCH FOR IPHONE CELLPHONES BETWEEN U.S. AND MAINLAND CHINA

Types	Date of Launch in U.S.	Date of Launch in Mainland China
Iphone4	25 th June, 2010	25 th September, 2010
Iphon4s	14 th October, 2011	13 th January, 2012
Iphone5	21 st September, 2012	14 th December, 2012
Iphone5s	13 th September, 2013	20 th September, 2013
Iphone6	19 th September, 2014	17 th October, 2014

D. Simplified Purchasing Procedures

It is possible for consumers to do shopping directly on foreign shopping websites and easily purchase what they need as long as they have a computer and a dual-currency credit card. Simplified purchasing procedures of foreign shopping websites have greatly stimulated consumers’ desires for cross-border shopping. Concerning currency exchange involved in payment, banks have launched their own multi-currency cards, which exempt users from commission charges for currency exchange. A card may make all currencies available, so cross-border shoppers’ desire for buying may be highly stimulated by such economical, convenient and fast way of consumption.

V. COUNTERMEASURES FOR CHINESE ENTERPRISES

A. To Lower Price of Identical Products

Price advantage is an important reason why cross-border online shopping is chosen by cross-border shoppers. To attract more consumers, Chinese enterprises shall use cheaper high-quality raw materials for production. Meanwhile, they shall keep on technological innovation, increase production efficiency, reduce costs of similar products and enhance price competitiveness. In terms of marketing, for daily supplies without remarkable differences in neither quality nor brands, Chinese enterprises shall promote products by appropriately lowering product price on the premise of guaranteeing product quality and arouse consumers' greater concern about domestic products.

B. To Attach Importance to Product Quality

As symbol of corporate image, quality determines the future of an enterprise. Enterprises paying no close attention to product quality are doomed to fail at last. Product quality may be improved by enterprises from following perspectives. Firstly, enterprises shall strictly develop a range of production standards to strengthen management and guarantee all parts of production may strictly comply with the standards that have been established. Reward and punishment measures may be adopted to make employees realize that they will be seriously punished in case of their failure to work according to standards. Distinct reward and punishment systems are utilized to remind them of working in strict compliance with production standards. Secondly, a certain amount of samples shall be sampled before products are delivered out of factories and their quality shall be inspected. Once any non-conforming products are discovered, they shall be recovered to find out problems. No defective products are allowed to flow into the market. Thirdly, efforts shall be made to improve criteria for inspecting product quality, so that products may have superior quality reaching international level.

C. To Catch Up with Fashion Trends and to Actively Innovate

To attract a group of consumers catching up with fashion trends, enterprises need to keep up with times, know about fashion trends and appropriately innovate. For example, it is inadvisable for Chinese native fashion enterprises to purely stick to conventional rules and manufacture the same styles of garments year after year or day after day, whereas they need to understand what the most popular is in a current season and then follow the fashion trends. For the purpose of understanding popular trends of that season, enterprises need to build a special team for market survey to know the latest popular fashion trends by browsing foreign garment websites or reading fashion magazines, etc. Next, designers may design garments consistent with public popular trends and put them into production, so that manufactured garments may really meet aesthetic standards of fashion followers.

D. To Actively Cooperate with Domestic E-commerce Enterprises

For better development, Chinese enterprises, particularly foreign trade importers, may actively cooperate with domestic e-commerce enterprises. It may not only attract more users, but also favorably promote products by cooperating with e-commerce enterprises and appropriately carrying out online promotions, in order that more users may know about their products. In addition, it will become more convenient for consumers to buy corporate products if enterprises actively cooperate with domestic e-commerce enterprises. In this way, it is easy for consumers to buy their favorite products from e-commerce websites at any time anywhere. Under this situation, a win-win situation may be realized among domestic enterprises, e-commerce enterprises and consumers.

VI. CONCLUSIONS

Flourishing cross-border shopping hasn't only satisfied demands of Chinese consumers, but also significantly impacted many Chinese enterprises. For Chinese enterprises, it is necessary to improve product quality, increase production efficiency, reduce production costs, cooperate with related domestic enterprises, keep on gaining competitive advantages, weaken negative impacts of cross-border online shopping and maintain sound stable development. These years, government has also proposed policies and rules to constantly improve regulations about cross-border online shopping, which is believed to achieve a win-win situation among consumers, enterprises and government with their joint efforts.

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