

SPRINGBOARD INTO CHINA

How to Make a Splash with China's Online Shoppers
Directly from Your Home Market



China E-Commerce: Opportunity and Challenge

CHINA OFFERS AN UNPRECEDENTED OPPORTUNITY

The internet has broken down borders to create a global marketplace. Today's consumers are no longer limited by geography: they want international products, but a local and familiar shopping and payment experience. Businesses with a global vision and local capabilities can now compete all around the world.

**THE KEY IS TO USE
INTERNET TECHNOLOGY
TO UNLOCK LOCAL
MARKETS.**

China has embraced online shopping faster and more completely than anywhere else. Stymied by the nation's rudimentary brick-and-mortar retail infrastructure, China's fast-growing middle class are taking their spending power online.

As a result, China's e-commerce market has grown exponentially in recent years.¹ In 2013, Chinese shoppers spent US \$33 billion on overseas websites², and China led the world for both B2C and C2C online purchases.³

But this is only the beginning for China. With more consumers now choosing to buy online and internet penetration continuing to rise rapidly

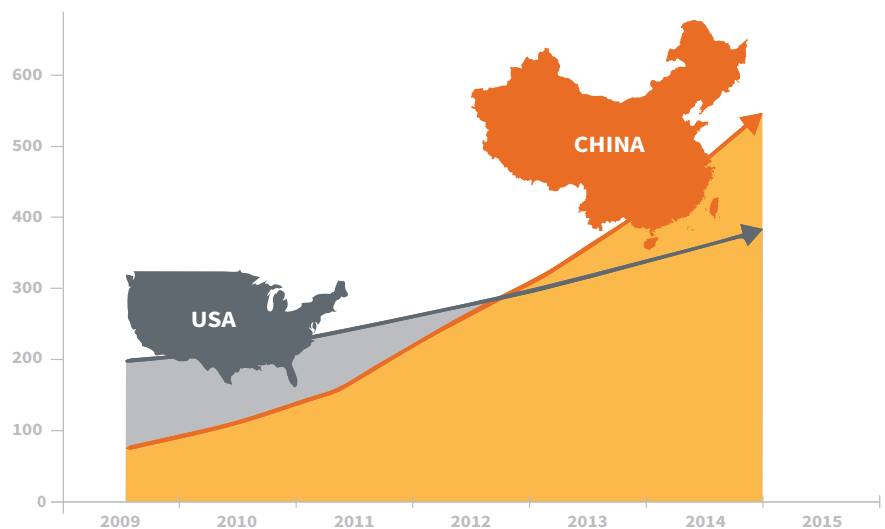
from 632 million users in June 2014, China's e-tail market could be worth between \$420 billion and \$650 billion in 2020⁴.

Chinese consumers are enthusiastic about online shopping and Western brands, but their needs remain largely unmet. This creates an astonishing opportunity for companies with a China-ready e-commerce strategy.

CHINA IS A DEMOGRAPHIC, NOT A GEOGRAPHY

- 67% of Chinese luxury spending happens outside China's borders
- Chinese travelers are the highest-spending tourists worldwide
- 62% y-o-y growth in cross-border online spending by Chinese shoppers in 2012

VALUE OF E-COMMERCE TRANSACTION IN THE U.S. AND CHINA, 2009-2015



Source: KPMG analysis of U.S. and Chinese e-commerce data from Statista, Bain & Company

¹ GroupM: http://v.youku.com/v_show/id_XNzI4NjkwODU2.html

² China CBEC Research Report 2012-2013. www.iresearch.com.cn

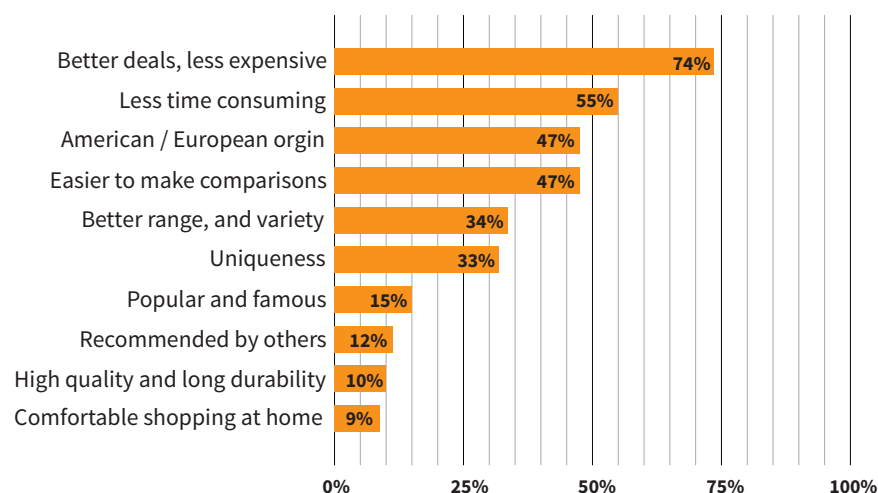
³ KPMG: <http://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Newsletters/China-360/Documents/China-360-Issue15-201401-E-commerce-in-China.pdf>

⁴ China's e-tail revolution: Online Shopping as a catalyst for growth, March 2013, McKinsey Global Institute

CHINA'S GLOBAL SHOPPING HABIT

China's consumers are now among the savviest in the world. With a preference for prestigious Western brands and the latest high-quality products, they compare prices and availability across markets and channels. They want authentic products from verifiable sources. And they value new or unique products that will enhance their personal and professional reputation.

DRIVERS FOR PURCHASING ONLINE



Source: Survey analysis, China's Connected Consumers, February 2014

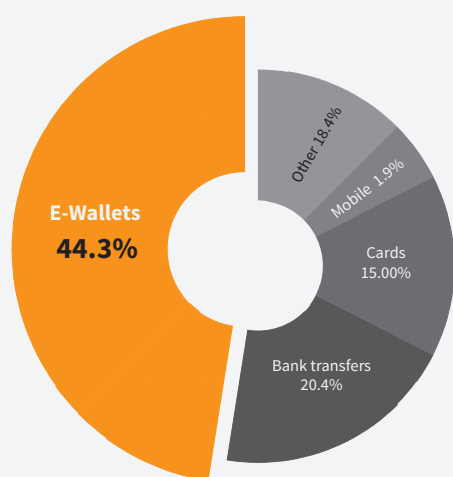
As a result, Chinese online shoppers who seek the hottest, hard-to-find imported items typically turn to the online gray market: third-party selling agents known as *daigou*. Although they provide an avenue for overseas purchasing, *daigou* leave customers at risk of inauthentic or irregular products, with unreliable after-sales service and quality control and inconsistent delivery.

KEEN SHOPPERS FACE TWO CRIPPLING CHALLENGES:

- LACK OF TRUST in unfamiliar international retailers
- PAYMENT ISSUES due to the difficulty of foreign currency payment

Obviously, this has a detrimental effect on the reputation and brand identity of overseas brands.

International Payment Problems



INTERNATIONAL CREDIT CARDS ARE NOT COMMON IN CHINA

In addition, China's most common credit cards are not widely accepted overseas and do not always work on international transaction platforms. Dual-currency credit cards issued by Chinese banks are also problematic, with low credit limits and frequent rejection by overseas merchants.

Chinese citizens are limited in the amount of Renminbi (RMB) they can convert each year⁵ and have difficulty opening international credit and bank accounts.

E-COMMERCE MIX BY PAYMENT TYPE

Worldpay® - Your Global Guide to Alternative Payments, Second Edition, 2013

⁵ HSBC: https://www.hsbc.com.cn/1/PA_ES_Content_Mgmt/content/china/generic/download/documents/mul_currencyaccount_en.pdf



CHINA PRESENTS COMPLEX CHALLENGES

Despite the attractiveness of China's e-commerce market, many Western brands have encountered significant roadblocks to success. Due to payment and fulfillment challenges, brands and retailers have had to physically enter the Mainland China market to sell to consumers online. But establishing operations in China is an all-consuming, resource-heavy undertaking.

STEPS TO TRADITIONAL E-COMMERCE MARKET ENTRY

- Set up a Chinese legal entity, bank accounts and other infrastructure
- Create a dedicated Chinese e-commerce site or build storefronts on Chinese e-commerce platforms
- Comply with Chinese government requirements, including trademarking, labeling and internet content provider licenses
- Establish reliable China-specific payment solutions
- Establish or outsource China warehousing, logistics and delivery
- Ship inventory to China
- Drive traffic and conversion to the China e-commerce site

OFF-THE-SHELF E-COMMERCE SOLUTIONS

Given these complexities, many global retailers have turned to off-the-shelf software and solutions that offer access to a large number of countries, including China, with language translations and shipping options.

Unfortunately, such multi-country systems may not be ideal for those wishing to enter the China market. They can frequently miscalculate prices and mistranslate copy. They also lack localized marketing platforms or reach into the China market to help retailers find customers. Most importantly, they do not provide relevant payment solutions for Chinese shoppers, who typically need to pay in RMB because they lack international credit cards. As a result, companies that adopt these off-the-shelf solutions often struggle to access sufficient Chinese customers and experience low conversion rates.

ALIPAY® ePASS

A new solution from Alipay, combining localized:

- **PAYMENT**
- **LOGISTICS**
- **MARKETING**

Making it easy for overseas brands and retailers to sell directly to Chinese consumers from their existing e-commerce websites.



Dive Into China E-Commerce From Your Home Market

China's vast and fast-growing e-commerce market is now offering astonishing opportunities for Western brands with authentic and high-quality products. More importantly, the many challenges that prevented overseas brands from achieving success here have now been overcome with the launch of Alipay® ePass.

Alipay ePass allows you to sell and deliver products directly to Chinese consumers through your existing e-commerce website. This new solution from Alipay ePass provides payment, logistics and marketing support to let you dive straight into this exciting market while retaining close control of your brand experience and giving Chinese consumers the convenience and trust they demand.



REACH CHINESE CUSTOMERS

Alipay ePass is the fastest and most direct channel to reach your target customers in the Alibaba® ecosystem of hundreds of millions of consumers, without the hassle and expense of building a physical presence in China.

STREAMLINE TRANSACTIONS

Alipay is the most trusted and most widely used payment service provider in China. It helps brands overcome the tricky payment challenges of legacy credit card, cash-on-delivery and international cross-border transaction systems.

ESTABLISH CRUCIAL TRUST

Trust is the Holy Grail of business in China. With Alipay ePass, brands retain control over the customer experience. They offer a trusted payment platform, authentic products, transparent pricing and fast and reliable delivery.

USE DATA TO WIN

Alipay ePass is built on the world's most innovative data platforms, allowing robust customer acquisition, promotion and loyalty programs – a huge competitive advantage for driving sales in China.

The Alipay[®] ePass Solution: Revolutionizing Global E-Commerce

ALIPAY ePASS IS A COMPLETE SOLUTION THAT COMBINES PAYMENT, LOGISTICS AND MARKETING SUPPORT TO ALLOW YOU TO DIRECTLY SERVE INDIVIDUAL CHINESE CONSUMERS FROM YOUR EXISTING E-COMMERCE SITE.

1 LOCAL PAYMENT SOLUTION

SECURE PAYMENT VIA ALIPAY

Adding an Alipay ePass payment option to your checkout gives you a secure cross-border payment solution. Alipay is China's most trusted and most widely used payment service provider with hundreds of millions of registered users in China. With Alipay ePass, Chinese shoppers pay in RMB using their Alipay account and Alipay remits payment to merchants in their choice of 13 major foreign currencies via more than 180 international financial institutions.



2 LOCAL LOGISTIC NETWORK

DOOR-TO-DOOR SHIPPING

Alipay ePass uses the China Smart Logistics[™] (Cainiao[™]) Network to give you a low-cost, hassle-free way to offer fast, efficient and reasonably priced door-to-door shipping to Chinese consumers. All customs duties are calculated at checkout to ensure efficient customs clearance.



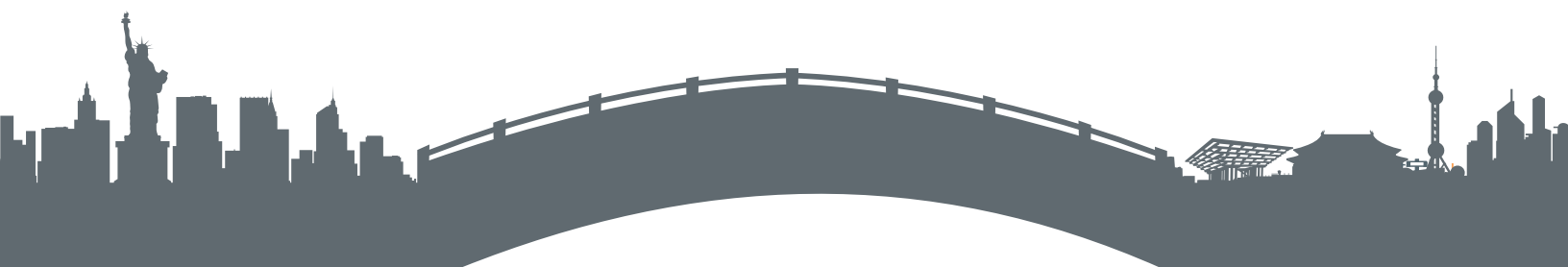
3 LOCAL MARKETING CHANNELS

EFFECTIVE MARKETING VIA THE ALIBABA[®] ECOSYSTEM

Alipay ePass helps Western brands and retailers cut through the clutter to reach their target customers in China. It offers a range of effective channels to help you raise your profile, find motivated shoppers and spread the word about sales, discounts and other promotions.



ALIPAY ePASS BRIDGES EAST AND WEST TO MAKE ONLINE SHOPPING EASY AND ENJOYABLE FOR THE CHINESE CONSUMER AND SIMPLE AND PROFITABLE FOR THE WESTERN RETAILERS.





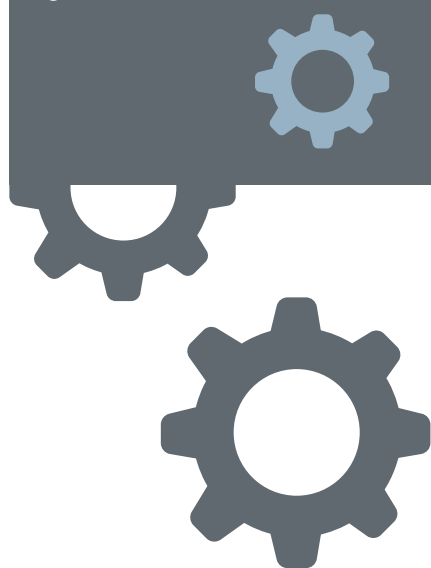
Alipay® ePass allows you to test the waters and establish a presence, without substantial investment or risk.

JUMP RIGHT INTO THE CHINA'S E-COMMERCE MARKET

To explore how your business could benefit from using Alipay ePass as your springboard to China, contact Alipay or your system integrator. We will evaluate your needs, recommend the best channel for integration, help you set up the required logistics, and then collaborate to design a co-marketing program.

Alipay® ePass Benefits

With Alipay ePass, you have the infrastructure, tools and support you need to overcome challenges and put your China business into high gear.



Alipay ePass revolutionizes Chinese online shopping through its innovative technology solutions and vast customer base. It reduces your operational burdens and costs, allowing you to build your reputation in China and offer local shoppers access to authentic products and a satisfying customer experience.

GENERATE TRAFFIC AND DRIVE CONVERSION

Alipay ePass allows you to directly connect with China's affluent and worldly middle class via the Alipay network. It also provides co-marketing opportunities designed to drive traffic and conversion, bringing greater predictability and focus to

your China expansion efforts. This is the first time that global brands have been given access to the marketing ecosystem that supports successful Alibaba® Group vendors in China.

SOLVE PAYMENT PROBLEMS

Alipay ePass integrates China's dominant online payment platform into your e-commerce website, allowing Chinese customers to use their preferred and trusted payment solution. This removes the primary roadblock to overseas e-commerce and reinforces the trustworthiness of your site. Customers pay in RMB, using their existing Alipay accounts, while you receive payment in your preferred currency, directly into your company's bank account, before goods are shipped.

PROTECT YOUR BRAND AND BUILD TRUST

Alipay ePass allows you to retain control over the customer experience. You can assure customers of the product's authenticity and protect your reputation for fast and reliable delivery.

Once the customer's payment is processed, you dispatch the goods to an agreed freight forwarder. Alipay's logistics partner China Smart Logistics™ (Cainiao™) Network will then handle labeling, customs clearance and delivery to the customer in China in as few as 10-12 days.

Your Chinese customers will pay for the product at standard retail prices and add payment for shipping and customs duties. This transparency enhances trust. Customers will also receive excellent value for money: prices will typically be lower than the brick-and-mortar equivalent in China, and competitive with third-party *daigou* agents.

AVOID SIGNIFICANT INVESTMENT

Alipay ePass gives international brands access to a vast and largely untapped market, without the need to carry inventory, set up a local company in China or make a significant infrastructure investment.



Access to the Alibaba® Ecosystem



Connect with existing Alipay® users through direct emails, banner promotions and more, use sophisticated targeted advertising technology on the Alimama™ online marketing technology platform.



Connect with shoppers seeking Western brands via prominent placement on comparison shopping site eTao™, which has millions of unique daily visits, and international shopping portal Global Taobao®.



Boost inbound leads through search bar channeling on Taobao®, China's consumer e-commerce leader with millions of registered users.



Best Practices for Achieving E-Commerce Success in China

Marketers can lay the foundation for a robust long-term China e-commerce strategy by quickly getting a few key pieces in place.

1 LOCAL LANGUAGE

BUILD A CHINESE LANGUAGE INTERFACE

Step One should always be building a full or partially translated simplified Chinese version of the e-commerce store, which includes payment, shipping and customer service information, as well as a store locator if you have physical stores (include overseas locations for traveling Chinese).

Remember that most Chinese consumers might be unfamiliar with your company, so include comprehensive background and brand information sections. If a full Chinese-language website is not within reach at first, don't worry – adding Alipay® ePass acceptance, simple navigation controls, and basic information in Chinese is a good start as you build your full site over time.

2 LOCAL DEVICE PREFERENCE

BUILD FOR MOBILE FIRST

Mobile rules the Internet in China – more than 78% of mobile subscribers in China use mobile Internet – so mobile-optimized sites (that also avoid use of Flash) are essential. Build for mobile first; then worry about features.



3 LOCAL SOCIAL MEDIA PRESENCE

BUILD A LOCAL SOCIAL MEDIA PRESENCE

An official account on Sina Weibo is a good starting point for any brand and provides an entry point to communicating brand heritage and products with China's large and active social media users.



Creating an Online Community to Build Trust in China

A popular U.S.-based online retailer saw a significant jump in orders from Chinese consumers after adding Chinese-language information and support on its site and Alipay payment acceptance.

The company then built on its initial success by increasing affinity and word-of-mouth among Chinese consumers. The company rolled out an online community that allowed customers to communicate, seek advice on products and create posts about their favorite items. It also set up a rewards and referral system, incentivizing its loyal users to spread the word and share their experience.

The community feature fostered a vigorous fan base, increasing brand loyalty and consumer engagement. This simple yet effective strategy leveraged one key commonality of consumers in China: greater trust in peer endorsements.



4 LOCAL SHOPPING EVENTS

LEVERAGE MAJOR SHOPPING EVENTS

China's e-commerce market has a unique calendar that highlights key promotion periods. Consumers will often delay online purchases close to a big shopping "holiday," and brands and retailers often use these dates to offer items at steep discounts to gain incremental purchases.

Popular online shopping periods include:

HAITAO JIE

This mid-year sales event for Western products takes place on the auspicious date of August 8.

SINGLES DAY

The most important date for online sales. Many consumers will wait months for Singles Day (11/11) to make long-desired purchases.

THANKSGIVING AND CHRISTMAS

Although not traditionally celebrated in Mainland China, (American) Thanksgiving and Christmas are popular periods for discount promotions.

SPRING CLEARANCE

March is a popular time for clearance sales.

SINGLES DAY 2013

ONE OF THE WORLD'S LARGEST ONLINE SHOPPING EVENT



\$5.8+ BILLION

3x the sales of Cyber Monday in the United States.

254 MILLION

orders successfully processed by our cloud computing platform.

156 MILLION

shipments generated, compared with a daily average of 13.7 million packages.

Frequently Asked Questions

WHAT IS ALIPAY® ePASS?

Alipay ePass is a solution offered by Alipay that combines payment, marketing and logistics support to make it easy for Western brands and retailers to sell directly to Chinese consumers from their existing e-commerce websites.

HOW DO WE INTEGRATE ALIPAY PAYMENT INTO OUR SITE?

There are multiple ways for merchants to integrate the Alipay payment option into their existing website. Your IT team can add the Alipay API to your checkout or engage a Payment Service Provider (PSP) to help you with the integration work.

HOW MUCH DOES THIS COST?

The integration cost varies and depends on whether you are integrating directly or through a PSP. A PSP will typically charge a percentage of transactions.

WILL YOU HANDLE SHIPMENT OF MERCHANDISE TO END CONSUMERS?

Merchants ship the merchandise to a designated local warehouse. The Alipay ePass logistics partner China Smart Logistics™ Network will be responsible for shipping the order directly to the Alipay customer's address. China Smart Logistics™ will handle addressing, which can be problematic in China, and customs clearance.

WHAT ARE THE BENEFITS OF INTEGRATING WITH ALIPAY PAYMENT SOLUTION?

Payment localization is vital to reach Chinese consumers. In China, nearly half of all transactions are made using e-wallets, the majority of them

on Alipay's e-wallet. Credit card users only account for 15% of the market and Chinese users need to apply for a dual-currency credit card to shop on a Western website.

HOW DO YOU HANDLE FRAUD?

Alipay payment solution has stringent controls to avoid fraud. In fact, consumer fraud is much lower on Alipay platform than with credit cards because of the stringent controls Alipay payment solution puts in place.

WHEN WILL MERCHANTS RECEIVE PAYMENT?

Alipay payment solution settles payment with merchants based on a mutually agreed timeframe.

HOW WILL ALIPAY PAYMENT SOLUTION HELP MERCHANTS TO MARKET MERCHANDISE TO MILLIONS OF ALIPAY USERS?

We work with our merchants on customized co-marketing programs to drive traffic and conversion.

DO I NEED TO HAVE CHINESE CONTENT ON MY WEBSITE?

Many Chinese shoppers who shop on Western websites have basic English knowledge, or use online translation tools. We suggest that merchants begin by translating important navigation tools, and gradually add on other sections, such as product and brand information.

DO WE NEED LOCALIZED CUSTOMER SERVICE?

The Alipay customer service team in China will help shoppers with order status and payment questions.

HOW DO I RESOLVE CUSTOMER COMPLAINTS AND DISPUTES?

Alipay will work with merchants to help customers resolve complaints and disputes that are related to merchants' orders. Alipay customer service team can help with complaints related with payment or logistics services that are provided by Alipay ePass.

WHAT IF I ALREADY SELL MY PRODUCTS IN CHINA? IS THIS A THREAT TO MY EXISTING BUSINESS?

With Internet access, the Chinese customer has quickly become a global customer. Today's Chinese consumer already shops online across borders.

HOW ARE DUTIES AND CUSTOMS HANDLED?

Customs duties are included in the final price of the order to ensure efficient customs clearance.

HOW ARE RETURNS HANDLED?

The Alipay payment system does not handle returns or exchanges. Customers need to contact merchants directly to request a return or exchange. Return / exchange policies will be different for each merchant.

For More Information:

alipayus@us.alibaba-inc.com

Alipay.com

August 2014

©Alipay