

**China’s E-commerce growth brings change to logistics**

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Electronic commerce (e-commerce) companies in China are facing a steady increase of on-line shoppers, which poses a challenge for their order fulfillment services and express delivery providers. China e-shoppers are clicking in urban and rural areas buying everything from luxury goods to organic groceries with logistics networks, supply chain solutions and delivery systems expanding rapidly to satisfy the growing on-line demand. Alibaba and JD.com (JingDong) hold a dominant share in the business-to-consumer (B2C) e-commerce market, but there are hundreds of other platforms for e-commerce companies vying for the various tastes and income levels of shoppers on the Internet and mobile devices.

Alibaba’s Tmall Global site is where famous United States brands such as Apple, Gap and Costco enable foreign retailers to enter the China B2C market and where Alibaba has half the market by volume. However, Alibaba’s logistics is outsourced whereas the next competitor JD.com has its own logistics network and, along with Tencent’s recent 15 percent stake of $215 million, holds 25 percent of the B2C market. Tencent is a social media provider of WeChat and QQ messaging which will enable access to the growing smartphone e-shopper markets for JD.com.

There are seven large national express third party logistics providers (3PL) in the China B2C market. They are part of a China logistics industry expected to show double digit growth for the next five years according to industry experts. One of the biggest issues is that “Alibaba is too big in that logistics companies such as STO Express, YTO Express and Yunda Express depend on them for sales and contributes more than half of total package volume,” according to Mr. Yu Zhou, Vice President of a Beijing software service provider to e-commerce companies in a recent interview with the *American Journal of Transportation.*

Some of the new efficiencies in the China logistics industry are owed to a growing segment of e-shoppers. They are Haitaoers for their higher socio-economic status to purchase foreign goods from the U.S., Canada and Europe. A recent report by Citi Research China estimates the Haitao market at $12 billion in 2013, 3.9 percent of the on-line market, but surged 90 percent this year to $22.8 billion. Vipshop ([http://www.vip.com](http://www.vip.com/)) just opened a new service named, Haitao, which allows Haitaoers to order products from overseas markets and Amazon set up a Haitao distribution center in the new Shanghai Free Trade Zone (FTZ). Recently, Guangzhou Customs office, International Air Freight Guangzhou, Vipshop and payment service provider 99bill.com signed a memorandum of understanding for cooperation in Customs clearing.

Under this program, on-line orders, payment receipts and waybills are electronically transmitted to Customs when customers order on-line for imported items. This will cut shipping times for Customs clearance by more than half, according to a *China Daily* article in September. Haitaoers will contribute to annual on-line purchases of overseas goods of 1 trillion Chinese yuan ($163 billion) in 2018 of 35.6 million customers. These types of programs will lower costs in the China logistics industry from the current 18 percent of China gross domestic product (GDP) compared to the 8-10 percent in developed countries and 11-15 percent in other developing countries. “The Haitao market is very new and no one has a perfect logistics solution for this new business model yet,” said Zhao.

Logistics costs and profits will be under scrutiny in the e-commerce marketplace since Alibaba’s largest initial public offering (IPO) on record of $25 billion on the New York Stock Exchange. JD.com has an “Asia One” fulfillment infrastructure expansion program spending $1-1.2 billion over the next three years to bolster its “last mile” delivery service with storage and processing facilities. Already, JD.com has 18,000 delivery people, 1,620 delivery stations in 475 Chinese cities, seven fulfillment centers, 97 warehouses in 39 cities and raised $1.8 billion on the NASDAQ in May.

Alibaba initiated a national on-line festival named 11.11 (November 11) or Single’s Day shopping when people buy gifts for single friends. JD.com is capitalizing on this opportunity as part of its expansion plan by opening a Shanghai automated warehouse to handle 16,000 packages per hour. This facility will streamline shipments for November 11th with same day or next day delivery services.

Jack Ma - CEO, Alibaba

The business models of these two differ in that JD.com is China’s version of Amazon takes inventories from manufacturers, mostly low margin electronics and home appliances, and sells them for a profit and Alibaba, like eBay, runs a platform for third-party transactions and tries to profit from advertising and commissions. JD.com sales in 2013 were $12.6 billion for 47 million active customers and Alibaba’s combined transaction volume of Taobao and Tmall in 2012 was $163 billion for 230 million active customers. JD.com’s logistics infrastructure costs caused a gross profit margin of only 9.8 percent in the first nine months of 2013 versus Alibaba’s 73 percent, according to the *Wall Street Journal* in March. The JD.com business model is to serve local suppliers that do not have logistics capacity. JD.com has TCs or transportation centers in key cities where suppliers make an appointment and hand over products to their local TC, then JD.com logistics team will send to JD.com distribution centers (DCs) all over China for fulfillment of customer orders. The TC service provides transport services, reverse and return and cost settlement.

The door to door express delivery service for e-commerce is causing difficulty for 3PLs and therefore, the pick-up point service is under consideration. In Hong Kong, the density of the population is much higher than mainland China and the use of convenience stores, pharmacies and department stores are possible for pick up services. In China, express couriers waste time contacting the package receiver and the last mile is a constant challenge. Pick up points will become more of a challenge as e-commerce spreads throughout China.

“Rural areas are turning into the next hot spot for e-commerce companies because the urban markets are getting saturated and some big e-commerce companies such as Alibaba and JD.com are investing in rural markets, but this will take time,” said Yu Zhou. Sophisticated urban buyers are concerned about the quality of their food and are resorting to on line platforms to buy organic produce from distant rural areas. As has been cited in articles published in the West, a virtuous circle is occurring as the rising incomes of the rural farmers result in their going on line for better quality branded products which also brings better logistics services by way of establishing drop off and pick up sites for merchandise in rural areas.

The PRC State Council is focusing more attention on logistics and released their logistics development in China report, recently. The express delivery business was worth $300 billion for on line purchases in China for 9.2 billion deliveries, last year. In September, the State Council opened up more foreign investment to the express delivery market for qualified foreign companies. The objective is to spur more competition among domestic and foreign providers and more choice and better services for customers. However, since 2009 and the new Postal Law, UPS and FedEx experienced difficulties in obtaining licenses for their 33 and 58 branches, respectively. The direction of express delivery service in China will depend on the urban and rural e-commerce customers and their awareness of quality service at an affordable price.