

WALKTHECHAT

ENTERING THE CHINESE MARKET THE LEAN WAY

A 3-STEPS GUIDE TO LAUNCHING
YOUR BRAND IN CHINA



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The challenges of the Chinese market

The Chinese market fascinates overseas retailers because of its size.

A few figures might help put it into perspective:

- 380 million online shoppers¹
- 53% year-over-year e-commerce growth¹
- 1,386,071,435 potential customers

However, there is one statistic which is not reflected in these figures: the number of foreign companies that fail and lose money when trying to enter the Chinese market. Some high-profile examples come to mind such as eBay or Uber, but countless other smaller companies struggle to make a dent in the world's largest market.

For all of its upsides, China is a competitive market, and a step-by-step approach is necessary in order to test it, develop it and succeed into it.

The purpose of this document is to lay a clear roadmap for success (and if not, to minimize the cost of failure) in China



Most businesses trying to enter China are not making the most of their attempt. They are:

- Failing where they could have succeeded
- Spending way too much money testing the market
- Taking way more time than they could have to enter the market
- Leaving money on the table where they could have made it much bigger

There is no fatality in these mistakes. **Let's dive in and learn how you can avoid them.**

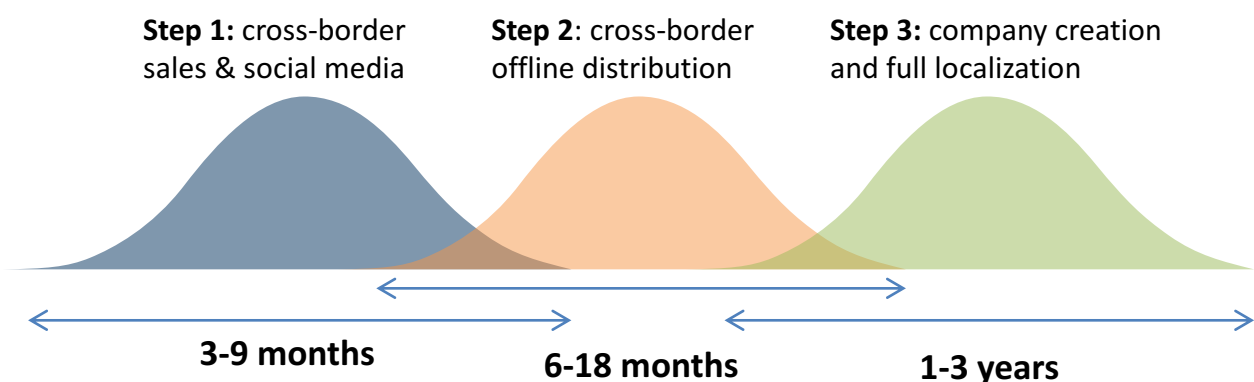
The lean approach to enter the Chinese market

There is an unfortunate tendency for foreign companies to start their foray into the Chinese market with the same ill-advised steps: setting up a legal entity in China, hiring local staff in China and then expecting them to deliver results within months. **This approach is based on the premise that companies can do in China what they used to do in their native geography and expect similar results. It is false.**

Truth is, launching a business in China is closer to starting a brand new startup than it is to launching just another branch in your home market. China market entry is a process of trial and error, and you will have to test your initial assumption.

If there is no magic formula to succeeding in the Chinese market, there is one in order to test the market and assess interest for your product and services:

- **Step 1: cross-border sales & social media** aims at testing the market within a frame of 3 to 9 months. It relies on direct sales through Key Opinion Leaders and lays down initial brand presence on the Chinese Internet
- **Step 2: finding local distributors in China** enables to leverage local third parties in order to extend product distribution. It also means consolidating logistics in order to make it more affordable and efficient
- **Step 3: company creation and full localization** consists in setting up a legal entity in China, hiring local staff and expending further brand recognition



These steps are not meant to be purely sequential. Actually, they are meant to overlap to some extent. But it is important to get initial feedback from the current step before moving to the next one.

Cross-border sales & social media

The first step to entering the Chinese market is understanding what's not going to work.

A few things will be very difficult to achieve as you get started:

- **Getting listed on the large cross-border e-commerce platforms** (Tmall cross-border, JD cross-border, XiaoHongShu) is going to be almost impossible. These large platforms tend to select the sellers with existing search volume in China. If your brand already is quite famous in China, they're perfect channels. But they're not the place to get started.
- **Hiring top-level local talent** won't be easy. China's job market is still very relationship-based, and salaries are going up across all industries. A foreign brand with uncertain prospects might not be able to put forward the right range of incentives in order to attract premium talent.
- **Instantly striking huge distribution deals** will also be challenging, as your brand recognition is still limited. Distributors will demand proof that your product can be a hit in China. This means a pre-existing volume of sales, and a presence on the Chinese Internet.

These challenges are bound by one specific common thread: you need to show some initial traction in the Chinese market before some large-scale channels open up to you.

Here are the steps to building this initial traction:

- **Creating a social media presence** is the first step to getting start in China, starting with Weibo and WeChat
- **Content production** is key to keeping users engaged. Having a WeChat and Weibo account isn't enough, you need to keep these channels alive
- **Setting up a cross-border e-commerce presence** is crucial in order to reach the only through metric of success: sales
- **Generating influencer campaigns** is the best way to kick-off both your sales and some initial PR visibility]

In the following sections, will break down these steps in more details and give practical insights on how to put them into practice.

Creating a social media presence

Whether you speak to a potential customer, hire or distributor, they are all likely to ask you the same question: what is your WeChat account?

There are a few social media accounts which you should have to get started in China:

- **Personal WeChat account** (must have)
- **WeChat Official Account**, similar to a Facebook page (must have)
- **Company Weibo account** (good to have)

Personal WeChat Account

Personal WeChat accounts are fairly easy to obtain. Simply download the WeChat APP on your APP store. Your personal WeChat account will be useful to handle 1-on-1 relationships with partners and suppliers, and even your end customers.



The English version of WeChat can be downloaded from most APP stores

WeChat Official Account (WeChat OA)

There are three ways to create a WeChat OA:

- 1. Using the English-language WeChat OA platform (admin.wechat.com).** This is usually the wrong way to go as the accounts created through this method are **only visible for users outside Mainland China**
- 2. Creating an account through the Chinese WeChat OA platform (<https://mp.weixin.qq.com>).** This process will provide you with a fully-functional account, but it will require a Business License (营业执照) from a company registered in Mainland China. Some third party providers can help you create an account with their license)
- 3. Going directly through Tencent** in order to create a WeChat Official Account visible from China but created with a foreign business license (this process is only available to a few agencies)

Company Weibo account

Weibo is the Chinese counterpart of Twitter. It was once the darling of Chinese social media and has since been overshadowed by WeChat, but it remains a strong tool.

Moreover, Weibo makes it easier for foreign brands to create verified accounts. Simply create an account on weibo.com and then head over to the specific page for foreign companies (<http://verified.weibo.com/verify/oversea>) to verify your account (Weibo will charge a \$1,000 USD application fee)

Content production

Social media accounts are of course just mediums to share content about your brand and product. Before promoting your account, it is essential for it to be "active". A clear strategy must be laid out in order to publish content on a regular basis.

There are key principles to keep in mind for your Chinese content strategy:

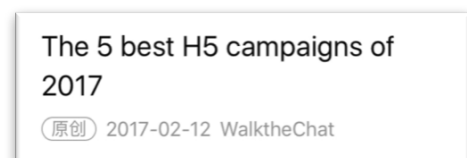
- **Direct translation usually doesn't work:** writing for China requires a specific tone and style which varies depending on target users age and location.
- **Content shouldn't be too promotional** as it is very frequent for Chinese users to unfollow or stop reading brand accounts. This is especially true for WeChat, where public accounts appear in the chat section of the APP.
- **Regularity is everything**, especially as platforms like WeChat require users to click into a specific folder to check their subscriptions. It is important to create a feeling of expectation for users.

How to optimize your content strategy for China social media?

Creating content for China can be extremely costly, especially if you are aiming for high-quality content able to generate significant levels of engagement.

There are however tips you to find affordable content on the Chinese Internet:

- **Weibo has a tool linking to its most popular accounts** (<http://bang.weibo.com>). Use it in order to find popular articles to re-share
- **Re-share content from WeChat accounts that allow it:** some WeChat accounts have a “原创” (Original content) icon next to their title. This means this content has been verified as unique, and users can allow other accounts to share it. You just have to copy-paste the content to your account, and Tencent will automatically credit the original author.
- **Choose the optimal time to post your content:** according to a survey of 100,000 WeChat accounts (<https://walkthechat.com/day-time-post-wechat-articles>), users are more prone to reading early morning around 6:30am or in the evening around 10pm. Weekends are also getting higher reading rates than weekdays.



The “原创” label indicates that an article can be shared on your own WeChat account without infringing on copyright

Of course, custom content will always get higher levels of engagement (for a similar level of quality). Because content has to be heavily localize, you should reach out to either trusted freelancers or local agencies who can help you deliver the right type of content for your target audience.

Setting up a cross-border e-commerce presence

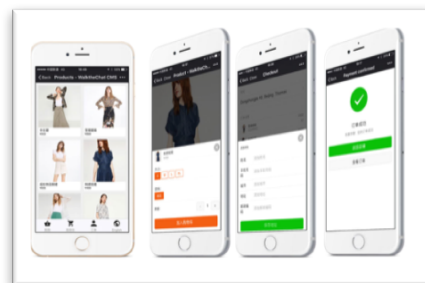
Once your company is visible on Chinese social media and has a solid content strategy set up, it will be time to take the next and set up your e-commerce presence.

As we discussed, China is very different from any other market. And **the only valid test of success in China is sales.**

Designing for China

A range of elements must be kept in mind when designing for China:

- Enabling **Chinese payment methods** (namely WeChat payment and Alipay)
- Using WeChat and other **Chinese services for social log-in**
- Ensuring that **speed is optimal in China**: this means if possible hosting the website in China, but also ensuring that the website doesn't contain scripts that are blocked in China, and using a Chinese CDN.
- Following **Chinese design and UX** guidelines from Tencent so that users feel safe (trust is a huge barrier to purchase in China). Tencent has put together some design guidelines for WeChat that you can use on your website (<https://weui.io>)



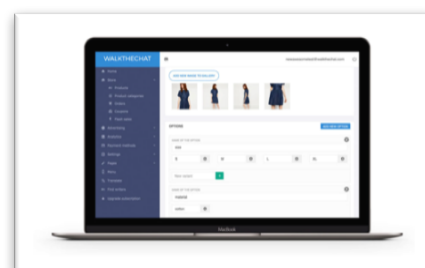
Localized China-friendly design is essential to gain users trust

Cross-border e-commerce platforms

It can be challenging to meet the above requirements, especially if you want to do so in a short timeframe in order to test the market.

Some platforms enable foreign businesses to set up stores easily with cross-border payments. The main player in this industry is WalktheChat (<https://walkthechat.com>)

Such software solutions enable you to create a store with just a click, and synchronize it with your Magento, Shopify, etc. store



Localized China-friendly design is essential to gain users trust

Cross-border payments

Payments are usually handled via Alipay Cross-border or WeChat payment cross-border. Both of these solutions will enable you to receive money directly in overseas currencies (USD, HKD, AUD, NZD, etc.) and usually charge a 3% transaction fee.

Generating influencer campaigns

The final block of your cross-border ecommerce strategy is influencers. Influencers are a powerful way to get started with marketing in China, especially for companies without significant pre-existing name recognition.

What is a typical Key Opinion Leader campaign?

A typical Key Opinion Leader (KOL) campaign consists in a “soft” article talking about your industry, which will end with a recommendation of your brand.

The final section of the article will often include a QR code to your WeChat Official Account, and a discount for one of your products.

This endorsement by the KOL will enable you to build trust around your brand and build a long-term following.

How do KOLs collaborate with brands?

Brands are usually eager to work on a pure “commission based” model with KOL. Of course, good KOL are very sought after, and it is unrealistic to expect them to take 100% of the risk from the campaigns.

Most KOL will therefore require a flat fee to be paid in order to promote your brand. The optimal model is usually to combine flat fees with a smaller commission.

What is the typical cost of a KOL campaign?

Good KOLs don't come cheap. Expect to spend at least \$2,000 USD for a message on a popular KOL account (above 50k followers with good levels of engagements), and maybe to throw in an extra 10% to 15% commission in sales.

Although these numbers may seem high, they bring much higher returns than Cost per Click (CPC), especially if users aren't aware of your brand yet. Expect to spend upward of \$10,000 USD in KOL campaigns during the first 3 months of promoting your brand in order to achieve significant results.

Why are influencers a good choice for your brand?

Key Opinion Leaders (KOL) are a perfect way for new brands to get started in the very competitive Chinese market.

The main barrier to success in the Chinese market is trust. And that's exactly what are KOLs: they are broker of trusts, gatekeepers to their own audience.

This also means that good KOL will go at great lengths to test your products before sharing about it with their followers. Sending samples is often a necessary part of a KOL campaign, even if your give the KOL a financial compensation.



Many KOL's in China generate tremendous sales via live streaming

Finding local distributors for your brand in China

Once you get your first results from cross-border sales (first sales, followers on your social media, user engagement), it will be time to increase your footprint in China.

Benefits of local distributors in China

Having local distributors in China will be essential in scaling your operations as it will enable you to:

- **Cover a larger portion of China**, including tier-3 or tier-4 cities where visibility might be more challenging
- **Outsource customer service and product returns** to local distributors, thus reducing your workload and increasing customer satisfaction
- **Fuel your online growth** by increasing brand recognition and providing offline conversion opportunities

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Local distributors are a powerful way to drive your sales expansion

How to find a local distributor in China?

The best place to find a distributor in China is to start by reaching out to your Chamber of Commerce. Chambers of Commerce will usually not directly help you find a distributor, but will point you to a specialized agency.

Chambers can also help you figure out the main issues that companies working in China might have to find, including trademark registration and contract negotiation.

Company creation and full localization

Once you established a strong online presence and powerful distribution network in China, it will be time to go fully local.

5 modes of business presence in China

- **Wholly Owned Foreign Enterprise (WFOE)** is a limited liability company wholly owned by the foreign investor. It enables to hire, issue official receipt and pay taxes in China.
- **Representative Office (RO)** is a liaison office of its parent company. Its activities are limited to: product or service promotion, market research of parent company's business, quality control or contact liaison in China. It can't generate revenues or enter into contracts.
- **Foreign Invested Partnership Enterprise (FIPE)** for foreign investor is a new type of business presence in China (since March 1, 2010). It is similar to the WFOE system but is designed to enable partnership between several companies,
- **Joint Venture (JV)** is a limited liability company formed between a Chinese company investor and a Foreign investor.
- **Hong Kong Company** it's often be used as a Special Purpose vehicle (SPV) to invest in Mainland China. It is often used as a holding which will then invest in a WFOE.

Company creation is the final touch of your Chinese entry. It is however a long and costly process. Setting up the company and hiring the right local staff will take at least 6 months to a year.

Having completed the previous steps (online presence & distribution) will go a long way in helping you recruit the right kind of talents and enable you to take your business to the next step in China.

What type of company to create in China?

The 5 different modes of business presence might meet different needs, and there is no general rule for picking a structure to enter China.

However, there is a strong tendency among foreign companies entering China to choose a WFOE (Wholly Owned Foreign Enterprise)

Joint Ventures used to be a popular legal setup when China was more regulated and careful about foreign investment. However, after several decades of successful track-record, WFOE are now a sensible choice for new actors in the Chinese market.

WFOE's also benefit from a large community of foreign WFOE owners able to share their personal experience.

Conclusion

Launching in China is not an easy achievement. In many respects, it is more similar to starting a brand new company than it is to opening a new branch.

Many companies fail by rushing into doing what they've always done elsewhere. Hopefully, this guide will have given you a clear action plan in order to do otherwise.

By first establishing an online presence, followed by a network of distributors, companies can take a step-by-step approach to entering the Chinese market. Just like in the Lean Startup methodology, quick experimentation is the key to success.

If you have any questions about the content of this ebook, feel free to reach out. We're here to help.

Thomas Graziani
Co-founder at WalktheChat

Thanks for reading!

WalktheChat is an e-commerce platform helping foreign businesses sell to China via WeChat.

Contact us at info@walkthechat.com