Five questions every brand holder needs to ask **before entering the Chinese market**

By Stuart Fuller

Stuart is the Group Commercial Director at CentralNic Group and has more than 10 years' experience in the Domain Name Industry.

The new gTLDs have completely revolutionised the domain name world. Not only have over 40% of all registrations been made by Chinese registrants, but there are more Chinese language IDNs released than any other language.

In our recession-fuelled quest for a bargain, consumers are today using the full power of the Internet to find the best deals. Brand holders not only have to compete with business rivals on and offline, but also those who produce substitute and counterfeit versions of their products. The concept of substitute goods has never been as prevalent than it is today when we consider purchases online. Savvy consumers often take products that "do the job" at a fraction of the cost, unbothered by the intrinsic value that the brand has developed and can offer. One only has to look at the UK Supermarket space where the relatively new entrants, Lidl and Aldi, have doubled their market share in just three years by offering substitute products at low prices.

> *China is the biggest potential market today for any ambitious brand. However, it is also the most challenging to enter, and remain competitive in.*

The growth in E-Commerce now means that the most ambitious brands rather than those with the biggest marketing budgets can compete globally with almost no barriers to entry and irrespective of need some form of language considerations. That's true for the majority of organisations and markets, but that view actually ignores the world's second largest and fastest growing economy, China. Despite the technological and cultural barriers that challenge the status quo, China is both the biggest opportunity and threat to any and every brand holder today, irrespective of if they have an e-Commerce strategy or not.

If anyone needs any further proof of the strength of the Chinese e-Commerce then just look at the stats from Singles Day (11th November) where sales this year were up nearly 26% to a staggering $38 billion. Black Friday has been the biggest day in the US retail calendar since it was "christened" in the early 1960's whilst Cyber Monday was dubbed the biggest day of online trading in 2005. However, Singles Day now dwarfs the US holiday weekend with revenues around five times the size and showing no signs of slowing down. Brand holders are now starting to understand the importance of having a strategy that encompasses the Chinese market. But what are the main lessons brand holders need to understand before they can successfully enter the Chinese market, and more importantly, combat the issues of their products being devalued by the presence of counterfeits and intellectual property infringement?

What does my brand translate to in China?

Translation and transliteration of brand, product and marketing names is often a tricky job. In most cultures, you simply cannot translate words and hope that consumers understand what the true meaning is. For example, when Kentucky Fried Chicken decided to open their first restaurant in China they initially neglected to consider what the real meaning of “Finger-lickin’ good”, their famous marketing slogan. The literal translation would have read “We’ll eat your fingers off”, whilst Pepsi’s slogan “We bring you back to life” translates to “We bring your ancestors back from the grave” – probably not quite the value proposition they wanted to convey for their brand. Brand rivals Coca-Cola had no reason to laugh as the brand’s initial translation actually meant “female horse stuffed with wax”. Changing just a few letters to “ko-kou-ko-le” （可口可乐） saw the Chinese refer to the product as “happiness in the mouth”, which is much more palatable in more ways than one.

It is essential that any brand serious about entering in the Chinese market works with local language experts who can explain the nuances and key facts about the behaviours of Chinese consumers. Chinese characters can portray a lot of meaning – a single Chinese character symbol can represent a word of significantly more characters. It is also important to remember the importance of numbers in the Chinese language – a single number is either viewed as auspicious or inauspicious. A combination of numbers changes the meaning dramatically – for instance the number 1 is seen as meaning strength, unity and concentration. The term “singles” can be represented by ‘11’ or ‘Yiyi’. Chinese Singles Day, the richest e-Commerce day annually anywhere in the world is written as ‘1111’ （11月11日).

The nature of the trademark system in China, which works on a first-come, first-serve basis, means that despite a global reputation, within China a brand holder may already be on the back foot before they have begun.

Chinese Internet users are used to searching for specific terms and using abbreviations – for instance Online Shopping – 网络购物 will become 网购. Due to the use of the pin-yin system (Latin based characters), a lot of search phrases will be in a form of the first two letters of each characters whilst it’s important to know if your brand has a ‘nickname’ in China.

It is also important to see what other brands have already established themselves in China using similar (or even exact match) terms.

Finally, it is worth checking whether any of the brand names or keywords that you use appear on the Chinese government’s list of blacklisted words. Using those words in any search or digital asset strategy will see your website disappear very quickly.

The lessons here are that a brand should seek to understand the official Chinese translation and what is exactly means, the shorter variant which is often used in social media and Chinese search engines, and the shortest version based on pin-yin which is the term used by the latest digital generation. Finally, do not forget to ensure that any marketing slogans or strap lines are also understood and that your brand does not go into the hall of unfortunate names like KFC, Pepsi and Coca-Cola.

How will consumers find me online in the Chinese market?

It is anticipated that over 566 million people regularly use search engines in China. Whilst everywhere else in the world is dominated by Google, in China the US giant hardly gets a look in, with an estimated market share of less than 1%. Therefore it is important that you understand how the Chinese search and act online. The main search tools used by the Chinese is Baidu（百度), the fourth most visited website in the world, which today has a market share of around 66% of the search market. Other key search engines are Sogou and Shenma, both of whom have grown significantly over the last few years off the back of the increase in mobile e-commerce.

Nine of the twenty-five most trafficked websites in the world today are Chinese language websites. Whilst Amazon sits in the top twenty (in 13th place), they have now been overtaken by Tmall.com (3rd) and Taobao in

8th place that is likely to be keeping Jeff Bezos awake at night. Owned by Alibaba who can boast revenues of 14.5 billion dollars, Taobao and its sister sites AliExpress and Tmall have revolutionised e-Commerce in China and now have global ambitions.

Any brand that doesn't have a strategy as to how to work with these online marketplaces will find trying to break into the Chinese market very hard indeed.

According to market research company Nielsen, around 90% of Chinese e-Commerce sales come through marketplaces, with the vast majority (around 75%) flowing from Alibaba's various websites.

Alibaba have also developed their own payment mechanism, Alipay, which works similar to PayPal and is now the second most popular payment mechanism in China. All of the Alibaba websites actively promote Alipay as a recommended payment mechanism which uses a unique QR-code based approach. The most popular by some way is Tenpay, developed by Tencent who also own WeChat, the biggest Social Media network in China and is integrated within the application meaning that more than 900 million monthly users pay for goods and services using the app.

However, Alibaba isn't the only consideration for brand holders in China. Jingdong (京东), often referred to as JD.com, have recently announced a tie-up with Walmart and are seen as the second biggest online marketplace company in China. Tencent is also growing in popularity, thanks to the WeChat messaging application it hosts, with the younger generation, whilst Amazon China is now seen as a place where most retailers should also be considering as a channel to the Chinese market.

Many consumers in China do not search the same way we do in the West. For instance, we may search for 'cheap Nike shoes,' but within Chinese online markets that search term won't exist, and thus the use of keyword-rich domain names will be very different.

Retailers need to be consistent, ensuring that external search terms are aligned with how the products appear in Chinese marketplace listings. When retailers list items for sale online, they must make it very clear that they are genuine branded products — perhaps even offer an authentication mechanism.

It is important to understand what competitive products have already been sold on the most popular online marketplaces and how consumers are directed to those relevant pages. The search strategy for any ambitious brand wanting success in China needs to be prepared to compete not only on search terms, keywords and price but also on a value proposition that tries to reduce the appeal of "substitute" and counterfeit goods that infringe on brand holders intellectual property.

Alibaba spends in excess of $160 million per annum on anti-counterfeiting measures, according to Fortune.com an in February 2016 punished 220,000 sellers for creating fake orders, including closing 6,000 stores and deleting sales records for 390,000 products for which there were suspect orders but many still feel that the firm could and should be doing more to help brand holders. The company has since formed the Alibaba Anti-counterfeiting Alliance, which in the words of the organisation, is a fully-fledged IP protection ecosystem with 155 members, representing some of the world's biggest brands, today

Besides a dotCN domain and having your website server based in China, every website needs to have a Government-issued Internet Content Publishing License (ICP), which permits the website to be used in China. Unless your brand has a physical presence in China, obtaining one is impossible, although Chinese-based ISPs can make the application on your behalf. The final consideration is how the Chinese interact with brands online through their mobile devices.

China is the world's largest smartphone market, with around 60% of the population today using a smartphone.

It is predicted that nearly 55% of all sales made online, or $1.94 trillion, in China in 2019 will be made through mobile and smart devices, again a percentage that will only increase with device sales over the next few years. Four out of five e-commerce dollars are being generated from mobile devices in the country in 2019 – or 80% – versus the 64.4% global average. Consequently, any search considerations need to take mobile SEO into account when creating a strategy for success.

What are the relevant TLDs to use for the Chinese market?

Whilst Google have always said that they treat all Top Level Domains the same way, we know that the new gTLD programme is starting to have a slight impact on how websites utilising them are ranking in search. However, within the Chinese market, the situation is much clearer. Baidu, with over half of the search traffic in China, prefers websites that use a dotCN domain name. Whilst there are still websites ranked that use dotCom or dotNet, there does seem to be an advantage of using dotCN. However, do not be tempted to use local language variants under a dotCN subdomain – Baidu will penalise any site that does this.

In Google's eyes whilst domain names play a very small part in search ranking results, they do need to be readable, meaningful and memorable. That's difficult when we are looking at Internationalised Domain Names (IDNs) which are not readable for many search indexing crawlers.

Only around 10% of the 1.357 billion people in China understand English to an extent that they would be able to use it for search. **The important point to remember with any domain names that are used in China is that the syntax must not be mixed.** There is very little point in having a domain name registered using ASCII for the keyword and then punycode to the right of the dot for the TLD. Think about this from a user's point of view – you cannot expect them to change using the input keyboard halfway through the search query. In addition, the Chinese government have mandated that all national websites must be using a Chinese IDN with many organisations using the IDN as their second domain name rather than the main one.

The use of keywords to the left and right of the dot may give a brand holder an advantage in the eyes of Baidu and Qihoo 360 although due to a number of extenuating factors, we have not seen any evidence of that yet. Keywords such as Online, Network, Business, Website, Webstore, Trademark, World, Group and Mobile now existing as IDN domain names in Chinese, with the most popular so far being the IDN for website, which has over 165.000 registrations as at the end of December 2019.

Whilst there have been some huge registration numbers in China in 2019, in part to aggressive pricing promotions offered by a number of registries, businesses cannot actively use the domain names unless the registry has a licence to operate from the Ministry of Industry and Information Technology (MIIT).

Many Registry operators have successfully applied for their MIIT licence whilst in 2018, dotCO became the first ccTLD to be given a licence.

If the plan is to launch a new brand in China then it is prudent to look at a mixture of existing TLDs such as dotCom and dotCN, as well as mix of IDNs that are relevant to the brand including dotCN in local language. Based on the trademark registration rules in China, which operates on a first-come, first-serve basis, if you are moving into the market then it is important to register your digital assets as soon as your clarify plans for the region. It is important to understand what registrations for any new or existing brands currently exist and determine whether any acquisitions are required to protect your brand strategy and presence in China.

What are the biggest opportunities for my brand in China?

The current trends in the Chinese e-Commerce economy represent a massive opportunity for retailers across the globe. Chinese consumers spent $100.2 billion on goods from sellers in other countries in 2017, with the average spend per buyer at $882, according to research firm eMarketer.

It is estimated that around 25% of the population will shop online with foreign-based websites – combined with Forrester's prediction that the amount spent online in China by consumers will reach $1 trillion by the end of 2020.

Hard as it may seem to acknowledge, but Social Media drives consumer behaviour more than anywhere else in the world and this is despite giants such as Facebook and Twitter being officially blocked by the Chinese Government Instead, Chinese consumers use the likes of WeChat (1.15 billion users) and Sina Weibo (480 million users). WeChat is the fastest growing of these and is one that influences online behaviours the most as it not only offers messaging between users but also mobile payment capabilities that allow seamless online purchasing.

What are the main dangers to my brand in China?

Apart from the fear of the unknown, there are a few obstacles that any brand holder has to be aware of before they roll out a strategy for the Chinese market. It is essential that thorough research on the brand, it's messaging and supply chain is fully understood. Many organisations have come unstuck by simply not changing their existing channels to market when they have entered China and, not understanding the key lessons we've covered in the previous topics on the registration of digital assets and trademarks. In addition, it is impractical that any brand can expect to be taken seriously if they have no presence in China.

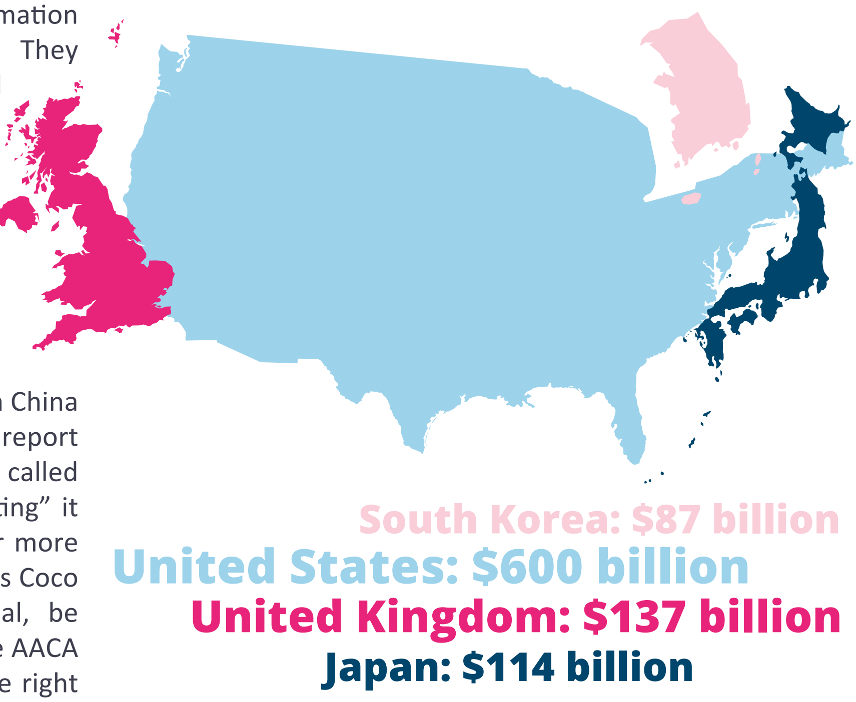
The influence of the Ministry of Industry and Information Technology (MIIT) cannot be underestimated. They have responsibility for regulation and development of the postal service, Internet, wireless, broadcasting, communications, production of electronic and information goods, software industry and the promotion of the national knowledge economy, which sounds scary. Essentially what they say goes, especially within the online environment.

The main danger to virtually every brand holder in China is the pervasiveness of counterfeit items. In a report issued by the US Chamber of Commerce in 2016 called "Measuring the Magnitude of Global Counterfeiting" it was estimated that China alone is the source for more than 70% of the world's counterfeiting activity. As Coco Chanel once said, "If you want to be original, be prepared to be copied". At least the growth in the AACA (Alibaba Anti-Counterfeit Alliance) is a step in the right direction for brand holders.

Another consideration for any successful launch into the Chinese market is not adapting the online user experience accordingly. Most major brands have a presence on Tmall, one of the subsidiaries of the Alibaba Group. Its concept is a virtual shopping mall but before you get too excited, you need to understand how Chinese online shoppers act. Most retailers who are on Tmall have integrated their back end so that a consumer has a central shopping basket, with one user account and one check out process irrespective one check out process irrespective of the retailer. Social Media may hold the key to the future of e-Commerce in China. WeChat allows users to get product recommendations from peers, then purchase those products directly from the site, whilst Weibo now has more actively daily users than Twitter.

"Online reviews heavily influence customers' purchasing decisions," said Ben-Shabat. "For example, 40% of online shoppers in China want instant 'buy or don't buy' advice and reviews; a much higher rate than in other countries. Online retailers, notably Taobao, have review systems for users; dianping.com has become a popular online review site for Chinese consumers."

The 451 Research Global Unified Commerce Forecast report predicts that China will become the world's first $2 trillion digital commerce market in 2020. If you're not ready for China, or feel you've conquered it, it is certainly worthwhile to explore and plan for other international e-Commerce markets. Here is a peek at projected e-Commerce revenue for 2020 around the world:



In January 2020 it was announced that Indian retail giant Reliance Industries had launched an ecommerce platform to challenge the likes of Taobao, Amazon and Flipkart with their JioMart brand, connecting local stores to shoppers via an app.

The lure of Chinese e-Commerce is great, and though there are major hurdles to clear, the promise of tapping into a multi-trillion-dollar economy is reason enough for any retailer that has the desire and resources to join in. It is essential to bring together all you can from the collective knowledge of competitors, customers, friends, industry players, vendors and anyone else with significant experience selling in China. **Understanding the consumers you are trying to reach is the first step in getting into this promising market.** Whether you tough it out on a self-created path or participate in an existing marketplace, it is most certainly an opportune time to dive in.

Whilst the issues surrounding the Black Market are widely reported, the Grey Market is also a major challenge for some brand holders. There is a practice known as 代购 or shopping on behalf of a consumer where some popular products that are not officially distributed in China, but can be bought through a shopping agents. For instance, certain brands of English Breakfast Tea can be bought through some of the more popular Chinese marketplace websites through agents who source the products from overseas. These items are not counterfeits – they are genuine products but being sold in markets not necessarily authorised by the brand holder. Obviously, if a brand is looking to move into China, an examination of this Grey Market is very important.

2020 Perspective

China still remains the biggest opportunity and threat to most brand holders when considering their digital objectives for 2020. The rapid growth of the digital economy is underlined by the eye-watering spend on events such as Chinese Singles Day (11th November) where revenues in 2019 topped $38 billion. For those brands with a strategy and resources in place for the Chinese market it is worth understanding what major trends we may see in 2020.

It is worth saying that the Chinese market is one of the most fluid in the world and that change is a given, which is why it is important to have someone based locally within country who is able to interpret changes to legislation and contextualise them accordingly.

The Chinese Government will continue to tighten up on counterfeit activities and IP protection strategy will become more and more important in Chinese market for corporates;

Below are the main themes that BrandShelter believes will be major talking points in the Chinese digital economy in 2020:

- DotCN and DotCOM registrations will continue to increase in 2020, whilst growth of new gTLDs will remain relatively slow. This is because the number of new gTLD Registries who either have existing or are applying for MIIT accreditation has slowed down. Unless a registry has a MIIT accreditation then it cannot sell domain names through Chinese registrars. In 2019 the number of new gTLD registrations soared in China, thanks in part to the phenomenal growth of .ICU which now has around 3.6 million domain names registered to Chinese registrants. Whilst a small number of TLDs will continue to buck the trend, the remainder of the gTLDs will remain relatively static. In 2018 we saw the first ccTLD receive their MIIT licence (.CO) and it is hoped that this trend may continue in 2020.

- Still concerned with the reputation of issues relating to Intellectual Property abuse, the Chinese Government will continue to tighten up on counterfeit activities, putting pressure on major market place sites to increase their own monitoring services. The Alibaba Anti-Counterfeit Alliance (AACA) now has over 450 members, from nearly 20 countries and continues to create best practices and processes for foreign brand holders wanting to be able to grow their revenues whilst reducing infringements. The Chinese Government banned all foreign Crypto-Currency from being used in-country a few years ago but it appears they are warming to the idea of creating their own technology, using BlockChain once again. As of the 1st January, a new law came into effect that has facilitated the "development of cryptography business and ensuring the security of cyberspace and information". It is rumoured that this will lay the foundations for the launch of a state-backed cryptocurrency later in the year.

- 5G mobile infrastructure roll out will continue at a pace, with more and more mobile devices adopting 5G in 2020, which will lead to service providers launching new complimentary services. The three state-run telecoms companies (China Mobile, China Telecom and China Unicom) have already launched services in over 50 cities. From a brand-holder point of view this will mean new regional markets will open up, with users being able to access content, sometimes for the first time – currently China has over 850 million people using smartphones – over 60% of the population.

Understanding the Chinese market, consumer behaviour and local culture will continue to be very important for any foreign company or brand who does not have any experience in Chinese market. Working with local partners or hiring a trustworthy consulting company will be seen as the essential first step to enter the market.

Final Thought

China is the biggest potential market today for any ambitious brand. However, it is also the most challenging to enter, and remain competitive in. There are a number of obstacles that any organisation needs to overcome before they can start legally trading online in China and it is important to work with an expert, such as BrandShelter, who has locally-based experts in the domain name and IP market, who can give the right advice in line with the latest Government legislation.

Why use BrandShelter?

For over a decade, BrandShelter has been working with some of the most recognisable brands on the planet, to deliver domain name, security and brand protection solutions, advice, and create effective and risk mitigating policies. Our priority is to help our clients meet their digital and business objectives, using our industry expertise and knowledgeable staff to craft solutions that deliver.

Our staff based in China are able to provide all BrandShelter clients with strategic advice and guidance with their plans to enter or grow their presence in one of the world's fastest growing economies. Being present in country means we understand and can react quickly to any changes in legislation and regulation, a key consideration for choosing your partner in China.

About the Author

Stuart has been working in the domain name industry for over a decade, providing guidance and advice on domain name policy and brand protection strategies for some of the world's largest organisations.

About BrandShelter

BrandShelter manages hundreds of thousands of domain names for organizations across the world, providing expert guidance and a range of value-added products including SSL, Registry Locks and Brand Protection services. With global customer support desks, enterprise and premium DNS solutions and flexible billing options, BrandShelter is the natural choice for ambitious brands wanting to secure their online presence whilst taking advantage of the opportunities the global digital economy brings.

To find out more, contact:

Bonnie Wittenburg
Executive Vice President
Tel.: +1 703 297 8152
Email: bwittenburg@brandshelter.com

Andreas Soll
Business Unit Manager
Tel.: +49 (0) 6894 9396 883
Email: asoll@brandshelter.com

Web: www.BrandShelter.com

Social: LinkedIn | Twitter