DRUG STORE NEWS
dsn
The Business of Retail Pharmacy November 29, 2017

Rules of the Road: Learning from China's trade structure

Jack Ma, the founder of Alibaba once said, "You should learn from your competitor, but never copy. Copy and you die." As the Chinese consumer healthcare market continues to rocket forward, what can we learn from them? For my dollar — or yuan — quite a bit.

In some ways, China is moving toward a U.S. trade structure although the emergence of traditional retail has been in the large shadow of e-commerce. Global powerhouses like Watson's or Walmart have had different levels of success. Don't underestimate some of the homegrown chains (Nepstar comes to mind) nor the uniqueness of the Chinese consumer. I am always amazed by the space allotted to traditional Chinese medicine vs. western brands. Chinese retail is deftly combining both. Their ability to readjust store space and globally source products is admirable. And who knew that Wisconsin produces some of the most prized ginseng? Ginseng-heads at a Green Bay Packers game doesn't fit.

China also has forged a new world. Ma's Alibaba is exhibit A with its two e-commerce divisions, TMall and Taobao, which we would recognize as Amazon and E-bay respectively. It's a game-changer having these two under one roof. Having negotiated in setting up e-commerce consumer healthcare brand flagship stores (and not just TMall), I am struck by the interplay of pricing information between the two platforms. Taobao can and does feature branded product, bought on deal in the United States by aggressive small operators. The structured TMall trade promotion "requirements" coupled with the holiday price discounts is complicated. November 11, known as Double 11, is huge. The United States has nothing that matches the discounting depth. We could learn from this.

China's Google is Baidu. (Or is it the United States' Baidu is Google?) Given restrictions placed on the Internet, Chinese consumer healthcare e-commerce content is critical as a trusted source of product information. TMall, JD, Koala and many other e-commerce platforms have developed excellent product content out of necessity; we can learn from that.

The frantic pace of parallel growth of traditional and e-commerce consumer health care has also spawned some fascinating hybrids and governmental creativity. Known by several names, cross-border trade has fostered industry/tax authority cooperation.

Think of it as a special tax zone; instead of smuggling to avoid a standard 17% import duty a compromise of an 11.9% tax rate has aligned all parties. The government heavily punishes any smugglers attempting complete tax avoidance and the companies have a more even playing field while paying a lower tax rate. It also ensures that knockoffs don't make it as all companies value consumer trust.

Perhaps more unique are the so-called Demonstration Stores found in the Cross-Border areas. Consumers can sample products and then immediately go to a computer and order online for home delivery. Traditional Retail meets E-commerce and both win. How would a market research firm classify that revenue?

What can US companies learn from China's consumer healthcare trade structure? Here's a partial list:

1. Content delivery. China's e-commerce platforms are quite good given their realities.
2. Logistics of HUGE temporary price discounts. Understand Double 11.
3. Hybrid structures where e-commerce and traditional blur.

Long before Jack Ma, the famous Chinese military philosopher Sun Tzu wrote, "Know the enemy and know yourself; in a hundred battles you will never be in peril." The Chinese Trade isn't an enemy, but we can learn from them.

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