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Using E-Commerce and Growth Hacking to Enter the Chinese Market

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<p>The Chinese e-commerce market has the potential to become one of the largest online markets in the world. Current Chinese regulations and bureaucracy are favouring cross border e-commerce between companies and consumers. Over the last decade, there has been a profound cultural shift, where the young Chinese population are spending an ever-increasing amount of time and money online. To fully benefit from this new trend, growth hacking and lean start-up methods can be used. These methods allow companies to create interest and new routes to market. Specific focus on data and experimentation has allowed companies to save resources.</p> <p>The main purpose of this thesis is to gain theoretical insights into efficient experiment based marketing and business operation methods, that aim to help companies expand their businesses within the Chinese market. The framework will be built from various relevant literature sources and qualitative interviews. This framework will show relevant information about the special characteristics of the Chinese online market, supply chain distribution channels, Lean startup methodologies and growth hacking marketing approaches. Qualitative long form interviews from Chinese online shoppers are also used to validate the framework.</p> <p>The results of this study will aim to indicate the most efficient entry approach into the Chinese market. Creating trust between the company and the Chinese consumers is of key importance. This can be achieved by having a quality online presence and by collaborating with key Chinese opinion leaders. Distribution of physical goods can most efficiently be achieved through direct business to consumer shipping.</p>	
Keywords	China, cross-border e-commerce, Taobao, Lean startup, B2C, WFOE, MSP, distribution channel, Chinese consumer, Chinese city Tier, key opinion leader, growth hacking, marketing tactics, market entry model, social media, marketing, mobile payments.

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Definitions

Electronic commerce

Electronic commerce or e-commerce is a subsection of e-business that involves the business-to-business (B2B) and business-to-consumer (B2C) service exchange relationships (Meier and Stormer, 2009).

Multi-sided platform

An organization that creates value primarily by enabling direct interactions between two (or more) distinct types of affiliated customers is called a multi-sided platform (MSP). (Hagiu, A et al., 2011)

Cross-Border E-Commerce

International e-commerce is called cross-border e-commerce, when consumers buy online from merchants, located in other countries and jurisdictions. Online trade between consumers and merchants which share one common language and border or which make use of the same currency are not always perceived as cross-border by consumers. (Crossborder-ecommerce.com, 2017)

Startup

A startup is a human institution designed to deliver a new product or service under conditions of extreme uncertainty. (Ries, 2011)

Lean

The concept of lean means the goal to maximize customer value while minimizing waste. Simply, lean means creating more value for customers with fewer resources (Ries, 2011).

Wholly Foreign Owned Enterprise

The Wholly Foreign Owned Enterprise (WFOE or WOFE) is a limited liability company wholly owned by a foreign investor(s). In China, WFOEs were originally conceived for encouraging manufacturing activities that were either export orientated or were introduced through advanced technology. (Wfoe.org, 2017)

Search engine optimization (SEO)

Search Engine Optimization is fundamentally the art, craft and science of driving traffic to websites through various techniques and methods. (Davis, 2006)

1 Introduction

E-commerce has existed since the late 80's/early 90's, and in recent years has been having a profound effect on the way that both businesses and consumers interact worldwide. Within the last ten years, the Chinese e-commerce market has become one of the largest online markets in the world, with one of the largest potentials. Particularly in the last decade, there has been a profound cultural shift, whereby the young Chinese population are spending an ever-increasing amount of time online. They are also spending more of their money online. In 2017, more than 300 million Chinese people are now considered as being in the middle-class demographic, and all of these potential consumers are keen to buy quality foreign products. Much of this purchasing is now done online through a variety of different platforms, including such orientations as C2C and B2C. The new and competitive market place doesn't work well with the old-fashioned marketing tactics, and may lead to wasted resources and time. (Iskyan, 2016)

China is becoming an ever increasingly important partner in terms of aggregate trade and investment. For example, when observing the influence of the Chinese economy from the Finnish perspective, the Chinese economy is equally as important to Finland as the entire EU trade is combined. In 2015, Finnish exports to China were valued at 2.535 billion euros. In the same year, China was also Finland's largest trading partner in Asia, with China representing 4.7% of all Finnish exports. (Kauppayhdistykset, 2017)

The purpose of this research is to study and evaluate the application of lean startup principles (proposed by Eric Ries in his 2011 book lean startup) for a situation when a company is planning to enter the Chinese market. According to World Bank's Ease of Doing Business Report (Export.gov., 2016), China ranks 84th (out of 189 countries) concerning opening and running a business while complying with local regulations. For starting a business, the World Bank ranked China in 136th place (between Paraguay and Cameroon), reporting that starting a business requires at least 11 procedures in Shanghai and Beijing, that averaged more than 30 days to complete. This level of bureaucracy can create a great deal of wasted capital and time. Since 2016, in order to establish a wholly foreign owned enterprise (WFOE) there has been no minimum capital requirement in certain business fields - particularly in consulting & high technology.

Although in most cases, an investment of 15 000 – 75 000 USD is required to have a foreign profit generating business entity in China (Pathtochina.com, 2017). Also, without having an existing recognized brand in China, it can be challenging to find a Chinese business entity to partner with. Traditional means of promotion and marketing can become quite costly, and without cultural sensitivity, companies may face expensive failures such as that with Home Depot, whilst they were attempting to penetrate the Chinese market (Bhasin, 2012). Therefore, many small and medium sized companies facing these barriers to entry may be deterred from trying out their full potential. The popularity of e-commerce in China and especially multi-sided online platforms (MSP), such as Tmall, JD, and various online MSP start-ups, could help small and medium sized companies to start learning about their market potential. The artificial barriers created by the Chinese government for foreign companies are not such an issue when selling directly through cross borders e-commerce.

The World trade organization's and United Nations' joint agency – The International Trade Center, has publicly expressed the importance of e-commerce for small and medium-sized businesses. The executive director of the International Trade Center, Arancha Gonzálezhas, has commented on the subject:

This growth in connectivity has led to the rise of e-commerce. E-commerce helps level the playing field especially for micro, small and medium-sized enterprises (MSMEs) who, through the click of a button, can be exposed to a new customer base, new markets [syc], and new value chains. (e-commerce in china opportunities for asian firms, 2016)

Growth hacking and lean startup methods and tactics, allow companies to create new scalable marketing projects that create both interest and also new routes to market, for their business. These new methods of specific focus on data and experimentation have allowed companies to save resources, by abandoning quickly something that doesn't work, and recognising more easily what is generating results. Historically it has been a relatively costly and bureaucratic process for a foreign company to establish both a business and also a brand presence in China in these traditional, offline ways. However, over recent years, the Chinese government has made substantial efforts to change this. Subsequently, Chinese consumers are increasingly buying goods using e-commerce.

Online e-commerce platforms can allow companies to reach Chinese customers without the need for high capital investments. Moreover, the Chinese government does not regulate cross-border e-commerce as much as they do traditional sales channels.

1.1 Early history of e-commerce

The history of e-commerce dates back to EDI (Electronic data interchange) in the 1960s and 1970s, where these technologies allowed companies to send and receive documents electronically (Mohapatra, 2013; p3). Widespread online multi-sided platforms (MSP) for e-commerce use can be traced back to the early 1980s. The company Boston Computer Exchange operated successfully by utilizing the precursors of the internet BBS (bulletin board systems) to offer fast and reliable information about the used computer market. They implemented an escrow service to their business, which – perhaps surprisingly, has not yet been replicated by larger companies such as eBay (Randall, 2008). Boston Computer exchange is an early example of how a C2C online platform can create channel value that would be hard and complicated to replicate in an offline model. Alex Randall points out in his video (Randall, 2008) that his first online customer was from Chile. Boston Computer exchange served as a non-partisan party for financial transactions, and helped to connect the buyers and the sellers on a worldwide basis. Similarly, today's online e-commerce platform can easily connect international buying and selling parties.

The beginning of this computer exchange platform was originally derived by first listening to the customer base. After developing multiple iterations, a new direction was found. This solved the problems that the original customer base used to have. The company started as a dedicated C2C platform. However, Randall quickly realized that customers appreciated exchanging goods more locally. The business eventually evolved towards a franchising model, where Randall would help to establish similar computer exchange platforms in other U.S cities. Eric Ries – the author of lean startup, would consider that the new change in direction of Boston Computer Exchange acted as a pivot that ultimately served as a successful way to further expand their business. (Ries, 2011:164).

The internet as we know it now, started to enable commercial transactions online in 1991. Since that time, e-commerce has slowly begun to gain more and more traction. By the end of the 1990s secure online payments became possible. This is in contrast to the Boston computer exchange model where payments were made by mailed checks or

escrowed bank transfers (Randall, 2008). All the transactions could now be entirely completed through a computer.

People began to define the term e-commerce as the process of purchasing of available goods and services over the Internet using secure connections and electronic payment services. This era came to be known as dot-com era. (Mohapatra, 2013:4)

1.2 Research objectives and methodology

The method for this research is to take the chosen questions as below, to formulate answers from these questions, and then from these answers conclude a relevant conceptual model for businesses that wish to expand into China. This research will be done using both inductive and qualitative methods.

Qualitative research is research that uses methods such as participant observation or case studies which result in a narrative, descriptive account of a setting or practice. (Parkinson & Drislane, 2011)

The justification for these chosen research methods, is to create a hypothesis that could then at a later date be verified in a deductive and quantitative study. This could also be used for market entry purposes. The primary approach to this thesis is to gain theoretical insight into efficient experiment based marketing and business operation methods. This will be achieved by learning from the tactics and concepts described in various relevant literature sources. The next aim will be to obtain the information from qualitative interviews with young female Chinese consumers. This thesis aims to answer the following research questions (RQ):

RQ1. Which efficient modern marketing methods and e-commerce platforms, can be used for marketing to Chinese consumers?

RQ2. Why are some young female Chinese consumers choosing to purchase internationally rather than domestically?

RQ3. What kind of a model can be created, based on the answers of the previous two questions.

To further develop the framework, both waste reducing logistical models and also business operational concepts, will be included in this research. These types of literature serve as support in learning about the supply-chain, the multi-sided platform theory and sales as well as distribution channels for cross borders e-commerce. This study aims to understand which of the sales and distribution channels can also be valuable testing laboratories for companies to gain data for Chinese market entry. Additionally, the study will examine the factors that drive Chinese consumers to buy goods from foreign countries online.

2 Lean startup entrepreneurship

A lean startup approach to entering new markets can work best when uncertainties are high. Traditional ways of product development and marketing can have systematic business field related biases which can then lead to wasted efforts (Ries, 2011:272-275). Lean startup entrepreneurship has its roots in the Toyota production system and lean management, where wasted work and time are the main enemy. Applying the principle of continued improvement and experimentation such as that in the Toyota production system, for example, could quickly reveal if the product can succeed in Chinese markets. The Lean startup protocol starts with a leap of faith that should be verified as soon as possible by means of obtaining customer feedback. The Toyota production system, which is the original foundation of lean thinking uses a method called the Genchi Genbutsu (Ries, 2011:86-88). It means "go and have a look yourself" in the context of a companies' customer base, and then shows which ideas and products should then proceed forward. The members of that potential niche audience should be interviewed, and underlying motivations uncovered.

Once a reasonable hypothesis can be made from the collected information, then a test that can falsify the suggested hypothesis should be conducted. The hypothesis should create a minimum viable product. The minimum viable product in an export situation could for example be a single product from a company. For instance, for a food producer it could be a chocolate bar, or for a cosmetic company an eyeliner.

Ries, recommends an A/B type of testing (Ries, 2011:137, 152) where two similar groups of individuals will receive slightly different product or marketing. These tests should then create data that is auditable, actionable and accessible. Auditable means that the numbers are from a master source without significant filters or modifications. It can prevent a wrong conclusion due to technical errors. False findings can lower morale significantly, so the data should therefore be easily verifiable. Actionable data is data that can quickly be used to form a conclusion. Time and resources can be readily wasted on arguments on how to interpret unclear causal factors. Accessible means that anyone can access the data and understand it. If the data is kept secret (inaccessible), obscure (inaudible) and interpretable in many ways (not actionable), people responsible for presenting current progress may end up using vanity metrics. By vanity metrics, Ries

means numbers and statistics which create the illusion of progress and growth, although through closer inspection the numbers would prove otherwise. A typical case in the online world would be an increased number of page visitors, but zero increases in sales or registered users. (Ries, 2011:143-146)

Once an appropriate hypothesis, test, and valid data set have been agreed upon, a start-up cycle of a continues improvement can then be achieved. The ultimate goal is the decrease of time spent in each cycle. This method is called the build-measure-learn feedback cycle (Ries, 2011:75). The result of each cycle is validated learning, which will guide actions taken for the marketing or product development.

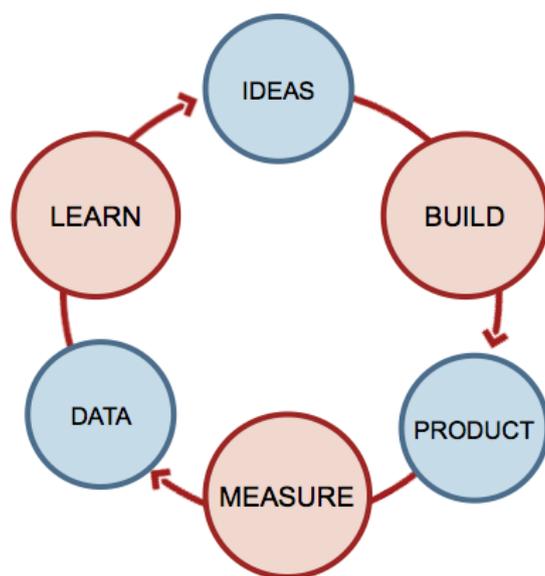


Figure 1. Build-Measure-Learn feedback cycle (Ries, 2011:75)

Startups can face a situation where a complete shift in direction is needed. Eric Ries classifies the pivots in the following manner:

- Zoom-in pivot
- Zoom-out pivot
- Customer Segment pivot
- Customer need pivot
- Platform pivot
- Business architecture pivot
- Value capture pivot
- Engine of growth pivot
- Channel pivot
- Technology pivot

By going through the process of a Build-Measure-Learn feedback cycle, companies can learn that their current operating hypothesis is not yielding the desired progress. The above pivots represent alternative directions that the business could choose to start testing, and to find out which best suits the future plans of the company (Ries, 2001:172-176).

2.1 Lean startup principles applied to marketing

Bernard Calisti (Wieser, Perret and Jaffeux, 2013) writes,

Managers and entrepreneurs of the 21st century are increasingly reluctant to use exclusively the well-known recipes of the Marketing-Mix. They seek out innovation in products and services; and they are looking for new ways to market their own offerings, as well. This needs to be considered in the context of an increasingly competitive and disruptive business environment. The uncertainty impacting their businesses is raising new issues and new managerial behaviours. All this leads to value innovation and to value-ambidextrous managers who are capable of following the rules of regular good management but also sometimes of leaving this familiar frame to be more entrepreneurial and risk-taking.

When a business is expanding its services to new unknown markets, this situation can be compared with that of a startup which is operating under conditions of extreme uncertainty. Companies use marketing to generate growth. According to Ries, sustainable growth can be summarized by a rule; "new customers come from the actions of past customers." (Ries, 2011:207). Firstly, enthusiastic customers can spread the information about a product through word of mouth. Secondly, just by using the product, a customer can drive the awareness; this is typical with luxury goods such as top end cars and clothes, which represent a high status. Seeing these products being used by one person, can then influence another person's buying decision. Online products can similarly spread virally with users exposing their friends automatically to the product, for example through Facebook and PayPal. Thirdly, through paid advertising which most companies rely on at least on some level. For paid advertising to be a source of sustainable growth, the overall benefits of bringing in a new customer should be greater than the overall cost of acquiring them. Finally, past customers can drive growth through continual use and or repeat purchases. For instance, loyal customers buying consumables such as a favourite brand of milk every week, or monthly subscription plans purchased from telephone operators, can be considered as repeated use products.

These four past customer actions can then be applied to create an engine of growth. Ries considers the word engine applicable to this situation since it describes the customer feedback loops. For example, a working engine acceleration of growth could come from more paid advertising which would then generate new customers, therefore bringing more marginal profits. A different type of engine, could be a system of sales of a product that leads to a need for others to also buy that product in order for it to be fully utilised (Ries, 2011:209-222).

Ries writes about engines of growth for startups. These are:

- Sticky engine of growth
- Viral engine of growth
- Paid engine of growth

The sticky engine of growth focuses on customer retention. The primary goal for this type of growth is to keep the customer attrition or churn rate low as they are bringing

in new customers. The churn rate is the fraction of customers who fail to remain engaged with the product. The viral engine of growth is dependent on each customer bringing in more customers. A viral coefficient K describes this transaction. If the coefficient K is higher than one, the company will grow exponentially. The paid engine of growth is depended upon the lifetime value (LTV), which means the money that the customer will pay for the product over time. LTV will guide how much cash can then be spent on advertising. (Ries, 2011:209-222).

When selecting the engine of growth, the product qualities and the customer base are important factors. Regarding the customer base, successful entrepreneur Tim Ferriss argues that from experience, the marketing of a product to a particular niche of customers from the offset can be far more efficient than just trying to please large crowds (Ferriss, 2017). Many companies have wasted time and resources by trying to market to everyone. According to Ferriss (2017), it is better to be loved by some and hated by others, than have a lukewarm customer base. When selecting the niche group, certain initial assumptions are useful, based on the following considerations (Warren, 2017):

- Market Size
- Market Wealth
- Market Competition
- Value Proposition

Market size refers to the region, age and sex of the potential customers. Market wealth refers to the spending power. Market competition should be studied to measure how saturated the marketplace is, and who are the main competitors. Value proposition means the company's ability to differentiate itself and its ability to create interest for new customers (Warren, 2017).

2.2 Lean marketing project management

Companies such as Hub Spot (a developer and marketer of software products for inbound marketing and sales) have chosen to apply the Lean startup product development model to marketing. Ellie Mirman, ex-marketing director of Hub Spot, writes:

The lean start-up movement isn't actually a marketing industry movement. Rather, it's a methodology pioneered by entrepreneur and author Eric Ries as it relates to product development at start-ups. The lean start-up methodology is all about iterative shortened product releases and scientific experimentation. (Mirman, 2017)

However, our adoption at HubSpot didn't stop there -- our marketing team watched this methodology in action on our product development team and recognized the impact it could have on our team and our marketing results. (Mirman, 2017)

Ellie Mirman recommends using either 1 monthly or 2 monthly marketing cycles. Short marketing or project cycles allow companies to quickly adapt to changing market conditions. Mirman makes references to examples where Hub Spot was able to utilize trendy topics to create a significant amount of visibility and inbound leads. She also describes how she and her team made an ebook on how to use new social media platforms for business and how they made a music video parody of popular song Gangnam style (Mirman, 2017).

Moving fast doesn't mean that a marketing team should jump from idea to another. Utilizing a Lean startup model allows marketing teams to focus on one project at a time and to prioritize projects also. Mirman says that marketing teams should be relatively small and explains it from the startup perspective in the following way:

"Scrum" (a rugby term that describes how the team huddles together to move a ball across the field) is used to describe the small, focused team that goes through iterative "sprints" (in sports, a short, quick run). To

organize a sprint, pick the top projects from your backlog, and specifically focus on projects that can be completed in the timeframe of a single sprint. That doesn't mean you have to sacrifice big projects -- you just need to break them down into bite-sized pieces. That keeps you incrementally moving forward toward accomplishing the ultimate goal. (Mirman, 2017)

The scrum team consists of two parts - a product owner (PO) and also the team members. A PO makes sure that all the relevant parts for the project's success are included, so that it meets the interest of the stakeholders, for example in Hub Spot's marketing teams case this would be their sales team. The team themselves should be self-organized to make sure they are accomplishing their goals. The team should be able to complete its task without outside members because otherwise these outside people could be blocking progress.

According to Mirman, the lean marketing team scrum should be able to create user stories.

The user story should also define success criteria/metrics (e.g. a new lead scoring system rolled out to the whole sales team) that must be met in order to consider the project complete. (Mirman, 2017)

Projects should be selected by playing so-called planning poker, where previously backlogged ideas are then valued from 0-100 on their importance and difficulty to complete. The projects should be numbered using Fibonacci numbering since it makes the estimate valuations wider, by having a longer distance between numbers, and therefore greater differentiation. Marketing teams will learn over time if they can handle projects with 50 or 20 as a value per cycle. (Mirman, 2017)

It is essential to ask for commitment and transparency from the marketing teams. Mirman suggests that the teams should publicly express to other teams or even to the whole company what they are going to achieve during a marketing cycle. When goals are met the Scrum marketing teams will earn the recognition within the company. Additionally, quick stand-up meetings can be a helpful process to monitor and evaluate the current position of the marketing project. In these meetings, the participants won't be sitting down, and they will share both what they achieved yesterday and also what

they are going to accomplish today. These meetings can help to share lessons learned and the also allow teams to help each other to circumvent possible blocks in their progress. Mirman adds:

When the HubSpot marketing team first adopted the scrum process, this was the piece that truly made each team member feel accountable for accomplishing something every single day. (Mirman, 2017)

Progress of completing tasks should be charted for everyone to see. Mirman (2017) writes that this will allow the scrum team to see if they are completing the tasks at the required phase. In figure 2 the X Axis is showing the selected project value, and the Y axis is representing the date. You can observe that the value assigned for the number of outstanding tasks, is decreasing over time.

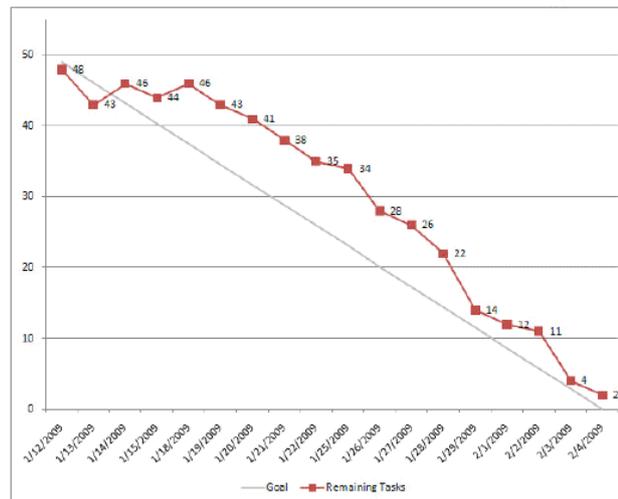


Figure 2. Chart of Hub Spot's scrum marketing team's completed tasks (Mirman, 2017)

3 Growth hacking

This chapter about growth hacking is based on a guidebook written by successful internet entrepreneur Neil Patel and his partner Bronson Taylor (2017). Neil Patel is the cofounder of many renowned web based analytics companies. He has also helped companies like Amazon and HP to grow their revenue. He has been consistently named for top awards, such as one by Barack Obama - where he was named as being one of the top entrepreneurs, under the age of 30, and also in a similar list for one of the top entrepreneurs under the age of 35, by the United Nations. (Patel et. al, 2017)

Growth hacking was first named by internet guru Sean Ellis in 2010. Ellis helped several internet companies to achieve significant growth. Once he had gained enough wealth and success with his methods, he then decided to appoint a replacement for him in his consulting business. It proved to be quite a difficult task since the marketers in his field didn't have the appropriate skill set to fill his position. For startups ability to "manage a marketing team" or "manage outside vendors" or even "establish a strategic marketing plan to achieve corporate objectives" might not be that useful. For startups, growth can be of the highest concern. For companies interested in an overseas expansion, these similar tactics can be used as fuel for an appropriate engine of growth. For any engine of growth operated by a growth hacker, it is quite essential to understand the movement of people; moviegoers could be on a certain highway when traversing to a local movie theater or instead they could be getting their entertainment by staying at home and watching YouTube or Netflix. It is therefore imperative to realize where the potential customer resides or will reside. (Patel et al., 2017)

Growth hacking is fundamentally explained as a marketing method of utilizing technical and marketing know-how, in order to grow a business. Craigslist is a widely used U.S company which provides city-specific online bulletin boards for goods and services, and is a standard form of a multi-sided Platform. One famous example of growth hacking could be when Airbnb had created a method of allowing their users to simultaneously post their Airbnb services on Craigslist, at a push of a button. This resulted in free visibility for Airbnb, unknown at that time to Craigslist. This simultaneous posting was later made not possible by Craigslist. In this situation Airbnb could rely on a "free" viral engine of growth.

However, companies that plan to export physical goods to China are more likely to succeed with the sticky growth of engine of repeat customers, and not the viral engine of growth. According to the interviews conducted for this thesis with the members of the potential female Chinese customer base, repeated purchases in Chinese MSPs can be seen by the user base and ultimately create more trust. In the Airbnb example, growth was tied to the product itself. Airbnb didn't run magazine ads, instead they integrated a technology-based solution, which then yielded excellent results. At the same time, Airbnb employees took a calculated risk and pushed the boundaries of what is acceptable, since Craigslist didn't officially give them any permission to make such marketing effort. (Patel et al., 2017)

Growth hacking process

Neil Patel argues that growth hacking should be done through six steps as follow

1. Define actionable goals.
2. Implement analytics to track goals
3. Leverage your existing strengths
4. Execute the experiment
5. Optimize experiments
6. Repeat

Define actionable goals; the actionable goals should not be too broad or unclear. For example, a suitable target for a website offering online picture galleries, could be to have a goal to increase by 200% the number of users posting pictures, instead of just having an unclear and undefined goal of increasing the active user base. So, the latter could raise the question - what precisely is an active user on an internet platform, and in which ways could an active user be interpreted. Content creation can be measured and can be associated with active users, so, therefore, it is an excellent metric to keep track.

Neil writes "When a goal can be found a part of the hierarchy that can be checked off as done, then you've narrowed your goal appropriately." (Patel et al., 2017)

Implement analytics to track goals; once a goal has been set Neil Patel (2017) recommends being 100% certain that it is possible to know that the end goal has been

reached. Concerning the previous content creation example, questions should be asked such as; are the content creation metrics tracked at all, and are the different devices being used for content creation, being registered. Patel also notes that goals and analytics create something called a reflexive equilibrium, where both the goals and analytics will refine each other. In practice, the purpose of doubling content creation could lead to the tracking of the types of content being created. Then through the analytics, a growth hacker on a video sharing platform would find out that only the created content which is more than 3 minutes in length, will retain the creator to stay with the platform for future sessions. Then, with the retention rate improvement in mind, the goal should be refined to be double the 3-minute-long content creation.

Additionally, to track goals it is useful to understand the key performance indicator (KPI) which is a number that helps you to measure the progress of the companies' growth. Businesses can have various KPIs. A company selling software subscriptions should focus on the number of new subscriptions sold per day and also how many subscriptions were cancelled. KPI should be an obvious number which will relate to the company's health and also current issues within the company. (Patel et al., 2017)

It is important to leverage your existing strengths, and projects should be chosen according to how effortlessly they can be implemented. Neil Patel (2017) gives an example case of a company choosing whether to add a "what's new" section to the service or just to send an educational email about the changes to the platform. Adding a new section could require a considerable amount of engineering power to implement, whilst sending a simple email direct to the users could be relatively easy and fast to do, if a robust system of email distribution is already in place. The current know-how and resources within the company can and should be used fully, to help to direct the decision-making process so that it acts as a leverage.

Execute the experiment; after a project aim to achieve a target goal has been carefully selected with existing strengths in mind, a hypothesis should be formed for the next experiment. Neil Patel (2017) recommends calling projects "experiments" since one cannot be fully sure from the offset what exactly a project will later yield. He also stresses that the benefits of stating a hypothesis in advance is crucial so that the assumptions about an experiment can be accurately reflected at a later time. There can be a

temptation of fitting the results to the original plan retrospectively, if no public hypothesis was made prior to creating the original plan. The timing of the experiment should be considered carefully. If an email about a new feature will create a sudden surge of users, the email should not be sent at a time when the servers are already experiencing high traffic.

Neil Patel also advises to follow Hofstadter's Law: "It always takes longer than you expect, even when you take into account Hofstadter's Law." It is useful to remember this law, when implementing anything new. Experiments can fail and not yield the desired results. It is, therefore essential to learn from failure and formulate new tests.

Optimize experiments; An experiment should not be abandoned quickly. Neil Patel writes (Patel et al., 2017) that the only time he gives up on an experiment is when the original leverage has proven to be weaker than he thought it would be at the beginning. Another reason to give up on an experiment could be, for example, because to make an experiment work would require an inordinate amount of resources to complete it.

Neil Patel (2017) and Eric Ries (2011) are in favor of A/B tests. Group A gets a tweak A and group B gets a tweak B. From there on the results are compared and the appropriate actions performed. These A/B tests should be taken into account in the planning phases of an experiment since the user base can't be recreated. Therefore, an experimental email or any implemented change should be received only by a specific portion of the user base, never everyone at once. This protocol will allow the needed tweaking if it is necessary.

Repeat; Neil Patel (2017), considers that tenacity and perseverance are important factors for any growth-oriented experiment. Luck can also play a role in a success of an experiment, however repetition and tweaking will help the growth hacker to be even more likely to be successful.

3.1 Growth hacking funnel

Neil Patel (2017) writes in detail about the growth hacking funnel. He explains in detail about how the three steps in the growth hacking funnel can help to identify how to get visitors, to activate members and also to retain users. The funnel can be understood as

a process of identifying the stages that are required to direct a visitor or customer through to a purchasing decision and then onto retained use. Neil Patel describes these three steps of the growth hacking funnel to be similar to relationship building. Getting visitors is the superficial step where the interaction deepens to activated members and then finally to retained users. One central rule that Neil Patel argues for the funnel is that the numbers should always keep increasing, as the time passes. If this is not happening, correction measures would need to be taken. Although, Neil Patel (2017) also reminds the reader that in a situation where the website visitor count increases rapidly, yet the conversion rate falls, e.g., 0.5% it is not anything to worry about as long as the amount of paying customers increases overall. Good conversion rates can be hard to define, since they differ from industry to industry. For SaaS (Software as a Service) providers, a study of 100 companies made by Totanga (2012 SaaS Conversions Benchmark, 2017) suggests the following; from an initial 2% of a website's overall visitors, 50% would then go on to do a free sign up. 50% of that amount will then become paying customers. Of that 50% of first time paying customers, a further 60% will then go on to be retained, and therefore continue to be actively paying customers into the future.

3.2 Three p's of getting visitors

The three P's of increasing traffic to a website, according to Neil Patel are Pull, Push and Product. Pull means that the website's content is interesting or relevant enough for the visitor to look for the site. Push is referring to the outbound marketing efforts such as ads or web presence (location). It is essential to be where the potential customer is, not just wait that they will come to you. The final P is the product. The product in Neil Patel's three P's (2017) means the product in itself will attract automatic referrals. Customers tend to recommend a product they use to other people if they find it great. The longing for sharing is a core human character. Neil Patel stresses to first find the highest concentrations of your desired group of online visitors in various places, and then use that information to target push and pull tactics towards those people. Pulling them in with enticing content or strong-arming them to a website is impossible if there is no accurate information on where to find these visitors. Pull tactics don't necessarily have direct costs other than those of personnel and time. As the old online saying goes "content is the king!". If a service provider or growth hacker stops providing value, then visitors will stop coming.

3.2.1 Pull tactics

Neil Patel argues (2017) that there are only two kinds of Search engine optimization (SEO) strategies; code and content. By providing content, the growth hacker will be able to be noticed by search engines even without optimizing for it. With enough content, the compounding effect will get the attention of search engines. When it comes to the coder approach, there are a few things to pay attention to. Correctly key worded links, H1 tags [describing the website inside the HTML code (H1tag.org, 2017)] labelled in a good manner, specific schema.org tags [standard ways to structure website data for search engines (Schema.org, 2017)] and having an up-to-date sitemap are all of fundamental importance. Neil Patel suggests, (2017), "SEO is important, and for many businesses it's the primary way they gain traffic at the top of their funnel." Therefore, a growth hacker should always do at least the code, the content-based SEO, or even better both.

Blogs can be found through google and are often very helpful with search engine optimization. A blog that is written for growth hacking purposes should never be a direct advertisement of a product. A smart blogger will instead subtly direct the reader towards his or her website/product. Guest blogging can be a smoother way to begin the blogging "career" since it uses much less resources and time to simply use another person's audience, than it does to create a new one. According to Neil Patel (2017) bloggers are also usually quite open to the idea of new content from guest bloggers so that blogging can be a real low hanging fruit for any growth-oriented marketing hacker. For added exposure, it is important to add information about the product to a writer's biography. Patel writes, "Also, the blog posts that get read and shared are the ones that tap into something emotional, trendy, educational, enjoyable, or surprising (amongst others)." (Patel et al., 2017). Blogs tend to be published through RSS feeds but the blogs are also sharable through social media.

Podcasting is not as SEO friendly as blogging, Neil Patel (2017) argues however that it does still have inherent inbound properties. Hearing the speakers voice can give a more accurate window to his or her mind than anything written possibly could. Podcasting done right and regularly can be quite time-consuming; therefore, it might be a good idea to limit the number of episodes right from the start to a certain amount. Guest podcasting

is a great idea as well. Aesthetically pleasing artwork and well written intros can create interest so that people are willing to give the podcast a try.

Large written documents have many advantages in comparison to short blogs. They offer a more significant impact if targeted correctly. Ebooks have a higher perceived value since it is possible to ask for an email address in exchange of a free ebook. The gained emails could then be used to help to build an email database of an appropriate audience for a product growth hacking funnel. Ebooks can educate a reader to a certain product or service. The disadvantage in this kind of approach is, of course, the time commitment, which might pose a challenge for some individuals.

An infographic is a mixture of both data and visual aesthetics, which can also spread easily on social media. Adam Breckler, of Visual.ly, provides the following advice when creating an infographic (Patel et al., 2017):

- Select a suitable topic: important to choose creatively and with an intent to create excitement.
- Find the right data: There is seldom a need to create a new data set, instead it is more economical to search for an existing one and use that instead.
- Analyse the data: Important not to distort the data to fit the indented narrative
- Build the narrative: Important to find the connecting story linking the numbers together, so that the infographic is not just a random collection of facts.
- Create a professional looking design
- Polish and refine the created design
- Distributing the infographic

(See Appendix 2 for an example of an effective infographic)

The offline world has seminars, and the online world has webinars. Webinars can be hugely successful in bringing in visitors to the website funnel. There are a few reasons for this. Webinars cannot be watched at one's leisure. Webinars are usually live, and they are events that must be attended. People tend to take something that has been set in their calendar more seriously and therefore to pay more attention to what is spoken in a seminar. Usually, customers are told that there are a limited number of seats in

webinars, even though this technically isn't the case. This faux scarcity will create the perception that the content is more exclusive, and therefore it is vital to attend that particular webinar. Webinars can be interactive, and the activity of the participants can then carry over to the product or the solution as well. The more the webinar is useful in an educational and informative way, the more the audience will feel the need to reciprocate in different ways. By having a special promotion for the product in the webinar, this requisite can then be taken advantage of, ultimately for an increase in traffic in the growth hacking funnel. Webinars can be done in conjunction with other influencers and companies which can then help to utilize their audiences, who may have not heard about the product before. (Patel et al., 2017).

One way to gain traffic to the growth hacking funnel is through social media, such as Twitter, Facebook, Minds or Steemit. There are many practices that one should not do when it comes to trying to gain traffic growth in social media:

- One should not follow and unfollow people on social media just for attention. There is no sense doing this if there is no intention for a relationship.
- Paid followers do not help or amplify the company's message. Paid followers are a waste of money.
- Bothering people can have adverse effects, so the messaging should be discreet enough.

It is critical to engage with people who actually use the product and also to give them helpful tips. It is essential to provide value as much as possible. Neil Patel writes, "be a giver. Not just a taker." Social media is a long marathon. Usually, large amounts of traffic will not happen instantly. Having a large number of followers that are doing regular retweets and shares will not lead to much of an increase in visitors, if their friend circle that see those retweets and shares, are not interested in the product. It is therefore imperative to have demographics that are interested in the product, and will create an ongoing ripple effect to drive more traffic. By providing great content or by curating interesting posts, people will pay more attention and become loyal, if they find the posts to be of interest. Social media is also about customer support, which if done right can attract new customers, due to the public nature of Social media. Creativity is also important on social media. (Patel et al., 2017).

A contest can be one of the most effective ways to drive traffic. Neil Patel writes that "Many are unaware how well a contest works." Many internet companies such as Airbnb have used contests quite successfully. There are a few important factors that can help to create a successful contest. For example, these could be give away prizes that are meaningful to the audience. Airbnb does this by giving away housing; this will help to create an audience of potential customers. Housing is relevant to Airbnb, and it would therefore be less appropriate to give away a bottle of beer or an iPad, for example (Patel et al., 2017).

Marketplaces can be divided into two different categories – B2B and B2C. In B2C marketplaces for a mobile app, would be most suited in places such as Google Play or Apple App Store. Neil Patel suggests taking a few things into account when having an app in these marketplaces. He suggests that reviews matter immensely, and that it is advisable to avoid having a bad review. If the worst were to happen, the best course of action is to try to encourage customers to change their rating from poor to more decent. Potential customers or users love to see screenshots or preview videos to help their decision-making process. Popular marketplaces are saturated, so companies can't solely rely on having an app in a marketplace for their traffic. The product and app marketplaces tend to be over-saturated, so additional growth hacking tactics are needed in order to remain competitive (Patel et al., 2017).

Deal sites can also bring a lot of traffic to a website. Making agreements with deal sites can also be relatively simple. Generally, a customer would be offered an initial discount on a deal site, and then afterwards the company would start to receive potentially interested customers. Taking into account how simple it is to set up a deal, it can be beneficial to try this approach. Neil Patel also describes a perhaps surprising finding, that sometimes visitors will end up buying a full priced product from the company's website directly, as a direct result of seeing a discounted product on the deal website. (Patel et al., 2017). Price checking websites can also bring customers and some websites like Estonian home appliance stores, which market to Finland, use it as their sole marketing platform. Giving deep discounts and selling at a loss can be dangerous in the long run though. This is known as offering a loss leader, and is a commonly used market practice in some industries (Saarinen, 2014).

Building an audience can be incredibly hard. Therefore, it can be quite beneficial and time-saving to find other people who already have a similar audience. This approach is called LOPA (leverage of other people's audiences). Guest blogging, guest podcasting, and even marketplaces are a form of LOPA (Patel et al., 2017). Other examples how to use LOPA:

- Special give away in a guest blog, which has the appropriate target audience.
- Finding influential group leaders from meet up websites
- Free products and accounts for thought leaders, there is a chance that these persons will share their experience with their audience.

There are many ways of utilizing other people's audiences. One can be quite creative in this field, as Airbnb was with their Craigslist add-on.

3.2.2 Push tactics

Since money is involved, it is essential to understand the lifetime value of a customer. Neil Patel (Patel et al., 2017), defines lifetime value of a customer (LTV) as follows.

the amount of money that you are going to make from a customer throughout their life. If you built an e-commerce app and you profit an average of \$100 per customer, per year, and they typically buy for 5 [sic] consecutive years before they get bored with your inventory and stop shopping with you, then your LTV is \$500.

It would be foolish to spend more than what is earned per customer. This idea should always be considered when making push decisions. Purchasing ads without a defined strategy is not growth hacking. It is essential to be creative, to use multi-variety (A/B) testing and to find a way to get an edge over the competition. There are many ways to purchase an ad. There are many platforms other than Google, Twitter and Facebook. LinkedIn for example is an excellent platform for reaching corporate customers. The Chinese environment is a lot different, and according to the interviewees Weibo, Youko, Wechat and Chinese live-streaming apps such as Inke are the primary sources of information for young Chinese consumers. Online customers are usually on many various

platforms. For example, they are often on Facebook and LinkedIn. The customer's online persona is a crucial thing to take into account, when choosing the best platform that would be ideal for engaging with that customer. For instance, on Facebook, a person could be in the mind-set of the likes and dislikes of their family and friends. Facebook users are often glancing at pictures of other Facebook users' experiences, when looking through their news feed. The same users on LinkedIn are thinking about advancing their career and how networking with others can help them to reach their goals. If company A's product is for project management in an agile environment, then Facebook would not necessarily be the best place to engage, even though technically the company A could reach their target demographic there. Facebook users would see a company's ad, but their mind-set would be incorrect because the product is being introduced in the wrong place. (Patel et al., 2017).

Neil Patel suggests that the most advanced and complicated platform to use is Google AdWords (the Chinese search engine Baidu has a similar tool), however this could take a few months to be able to do. Most other platforms can be learned within a weekend. The platform needs to be mastered since knowing the technicalities can make the difference between losing money or making money from an ad campaign (Patel et al., 2017). Some of the platforms are dedicated to retargeting ads. Retargeting means an ability to track website users and show relevant ads from a company's products whilst the users browse other parts of the web (Patel et al., 2017).

According to Neil Patel companies often find it difficult to know exactly how much they should spend for a single click or a set of impressions. The answer however is actually a resulting factor of a company's business model. An example of this situation could be where company A is trying to reach the same audience as its rival, company B. If the business model of company A is more efficient than company B, and company A's customer LTV is higher. Therefore, company A can afford to pay more for the ad traffic without the risk of losing a lot of money, or even going bankrupt. So perhaps the best thing a company can do to win customers by using ads, is to have a great business model. It's almost an unfair advantage because there are no number of easy tactics, tricks or tips or that are able to break this one stronghold. If company A can pay twice as much as their competitor to acquire a customer, then company A has a very defensible strategy. However, cost aware growth hackers should circumvent the ad networks when

possible. It is worth considering contacting platform owners and content creators directly. Buying from a middle man such as BuySellAds, can result in a higher price than when you are buying the space directly from, for example, a blog owner. Secondly, communicating directly to a content creator allows room for negotiation. Neil Patel writes that "Very rarely is the lowest price and the advertised price the same thing. You can ask for a lower rate and often close a deal relatively simply." (Patel et al., 2017).

It is important not to waste money on unintentional clicks. A good growth hacker will qualify every paid click, and the goal is to have only those that are seriously interested, to become activated enough to click. Perhaps one of the few things to consider when qualifying the potential customer in advance before the click, could be having a price in the ad, so that only people willing to spend money are going to click. Another key point is to remember that having misleading emotional imagery or wording might be successful to pull a customer in, however it would not cause the customer to buy from the site. Neil Patel, gives an example "Don't put a picture of cute cat on your ad, just to get cat lovers to click on it, if your product doesn't have something to do with cats." (Patel et al., 2017). A good growth hacker will admit that they have little idea of what their audience will respond to. Therefore, multiple versions of the add text copy and imagery should be tested in different combinations. Later the numbers will tell which ads are doing the best and which should be promoted.

A promo swap can be useful to exchange promotional efforts between companies, which have similar audiences. Both businesses can benefit from the increased exposure. The promo swap company should be carefully considered so that it doesn't pose a direct threat to the company that is initiating the exchange. There are different swap opportunities such as Facebook posts, Twitter tweets, mentions in a company's blog, discount codes, giveaways, etc. (Patel et al., 2017).

Another way to gain visitors to a website is by hiring affiliates. This is an arrangement where a company pays someone every time they reach a specific goal for the company. The goal for the affiliate could be forwarding visitors to company's website, getting an activated member or in other words getting a customer to buy a product. An affiliate can use the same growth hacking methods to achieve the goals and by doing this allowing a company to outsource the growth hacking process. Neil Patel recommends paying

attention to three factors when creating an affiliate program: Incentives, affiliate solutions, and vetting. Regarding incentives, he writes

If you give an affiliate \$100 for every new signup, but there is no clause that says the new signup has to stick around for a certain number of months, then you could find yourself in a situation with misaligned incentives (Patel et al., 2017).

Having misaligned incentives can lead to low-quality customers, which may not result in monetary gains for a company. In the example case that Patel wrote, the affiliate would be rewarded more for the number of customers, and not the quality. It is therefore vital to create a goal where the affiliate benefits whilst at the same time the paying company benefits as well. Third-party companies, such as commission junction, provide affiliate platforms which can be used to set up a system of tracking and pay-outs, saving the time of having to create a proprietary system. Finally, Neil Patel writes how critical it is to vet affiliates very carefully. The language, the tactics and also how the affiliate generally acts can all have an influence how potential customers perceive the paying company. Affiliates will represent a company's brand, and careless vetting may lead to PR-catastrophes.

Direct sales may not seem like a viable growth hacking method; however, it can work quite well. Many start-ups have used direct sales to increase their revenues considerably. Direct sales can be especially useful for B2B growth hackers. Direct telephone sales can also be helpful yet will demand an excellent team to be able to succeed. Certain portions of the direct sales funnel can be outsourced. One example of this could be to create business meetings at a specified time with a potential customer. This efficiency through optimized time management will mean that salespeople can visit more potential business customers due to structuring their day. It is essential to educate the outsourced team in a similar way as the affiliates would be, since they represent the company and every small direct contact can be a brand-building moment. (Patel et al., 2017)

3.2.3 Product tactics

Neil Patel explains (Patel et al., 2017) "It's possible, using the product itself, that each time someone comes to your site they bring their own network of relationships into your funnel as well." As with the previously mentioned methods of viral engine of growth, the goal is to create a product that has a high viral coefficient, that snowballs into exponentially increasing visitors. If the viral coefficient, also called K , is more than 1, then exponential growth has been achieved. Neil Patel also reminds that most products do not go viral, so a K value of 0.5 can still be regarded as reasonable. Having a good K value can then save a lot of money from advertising or to help raise the budget to outbid the competitors.

Network invitation can consist of phone contacts, email contacts, and social contacts. These can use each person's contacts can help to grow the possible user base significantly. People are quite willing to share the things that are useful, and something that they might feel passionate about. Historically, online platforms and social media have grown virally whilst using these invitation models, and in many ways, they still do. Facebook used this approach quite successfully, as in the beginning; it was invite-only and for university students. This false scarcity helped to make the platform a more intriguing place for users to be (Patel et al., 2017). Online entrepreneur Tim Ferris (2017) also speaks highly of this type of selective marketing for a very particular group of people. His target audience was, in the beginning, efficiency-minded office workers striving to become self-employed. Later he expanded his business to consist of cooking, fitness, and self-improvement. In comparison, LinkedIn used a quite aggressive strategy of asking permission to check their users' contact lists, for other possible contacts. By doing this, they were also able to find new users for their platforms. LinkedIn sent these newly discovered potential users multiple emails, in which contained messages that would say that a friend or colleague is already using this service, and recommended to come and join for free (Patel et al., 2017).

Nowadays, social media sites are also a place where users can be pushed to provide their friends' information. If the marketed products or platform is compatible with for example a Facebook audience, then a Facebook sign up should be enabled, since this will allow the company access to the user's friends list. It also makes a convenient

method whereby an invitation for a logged in user's friends to try out the product or platform can be easily send. A company can include social sharing options to areas of its website, or product pages etc. Social sharing however, is not only about having users directly inviting people into your product via their connections or friends list. Social sharing tactics are more about allowing anyone to express their feeling about a product on their social network for whomever. If the user has a public profile, then the post can be seen by anyone, not only the people from the friend list, therefore increasing the company's visibility.

An application product interface (API) is a step beyond social sharing. Users can through an API not just share, but they can have a seamless experience where the sharing happens silently in the background without requiring the users to approve each share. Neil Patel highlights Spotify as a great example. Spotify extensively used Facebook to grow their user base, and this was done through an API integration. As a user logs in to Spotify using Facebook Connect and gives Spotify the required permission, then the user's activity is automatically shared to his or her Facebook feed. At the same time the activity also published to the Spotify app to anyone that the user is friends with on Facebook. (Patel et al., 2017).

Back-linking is one of the first tactics that was used to create a viral engine of growth (Ries 2011:212). An example of this could be from the year 1996, when the free email provider Hotmail did something that was simple, but which drastically increased their customer base. Hotmail was working with a limited ad budget, so they decided to include a link at the bottom of emails that were sent each time the service was used by the sending of an email. The message read "Get your free email at Hotmail." This back-linking enabled exponential growth with a viral coefficient K value higher than 1. This tactic is still being used to this day, for example there are currently services that allow the embedding of a popup on a website. Video services such as Vimeo and YouTube often use this embedding tactic (Patel et al., 2017).

Sometimes companies can create products which lend themselves readily to creating incentives for users to bring new people into the product. Neil Patel highlights the classic example from the famous cloud storage company Dropbox, how they use this tactic. To do this, Dropbox offers several incentives for users for various actions that they can take.

This tactic works if the company has something low cost which users will value. For Dropbox storage space is not that expensive, and they can use it as a currency for their users. The cloud storage company hands this currency in exchange for their users' contacts. New users are precious to Dropbox. For the user, the opposite is true. Their contacts don't seem that valuable compared to the storage space. This exchange helped to make Dropbox's viral growth success (Patel et al., 2017).

Organic word of mouth is a powerful marketing tool. Patel has recognized several product characteristics which will help to spread the word. Products with these adjectives will have a high word of mouth rating: simple, beautiful, emotional, fun, unique and surprising. Products that relieve pain and make their users look cool (i.e., have higher status), will also spread organically.

3.3 Activating and retaining customers

Having a high number of new users is not the only factor for successful growth. Activating and then turning the activated users into repeated customers can be equally or even more important for operations. Ries would consider activation and retention to be an integral part of a sticky engine of growth (Ries, 2011:209).

Pricing also can be an effective marketing tool of activation. Price is one of the four P's of the marketing mix (Wieser, et al., 2013: 23). Neil Patel lists effective pricing strategies that will help with the activation of potential customers. Perfect price discrimination means that the company's offering is priced according to the purchasing power of the customer base. According to the interviewees with the young Chinese online shoppers, a price can determine the quality expectations, and if the product is too competitively priced it may drive away some potential customers. Multiple increasing price tiers can allow deal seeking customers to choose the cheapest one allow them to feel that they are not wasting their money. For another example, a customer may feel more comfortable buying a mid or high-range option, if they wouldn't normally want to choose to buy the cheapest option. Suggestive tier naming such as starter, professional and team (in contrast to bronze, silver and gold) can guide the customer to a buying action, since they can better recognize the correct tier they belong to.

Free trials will help to dispel the fears of wasted money and irreversible mistakes. Free trials and money back guarantees transfer the risk to the company making the offer, away from the customer. Discount codes can be an extremely effective way of enticing a buying decision. According to the interviews with the Chinese focus group, discounts and discount codes can really drive a purchasing decision. Discount codes can be made even more effective by adding a limited time window for the offer. By bundling multiple products together in order to create a sense of overwhelming value, a customer could then be influenced into buying. In the end, the pricing strategies are meant to create confidence that customer is going to get value for their purchase.

Creating a sense of community can be useful when aiming to retain a customer. If the user feels that he or she is a part of a close commune, it will be harder for him or her to stop using the product or service. L'Oréal's brand Lacoste was able to create a lasting community of cosmetics and beauty product enthusiasts in China. The igniting spark for this was when the company noticed that one of their customers had posted an online a poem which described how Lacoste's products enrich and make her life more beautiful. Unfortunately, the thankful customer vanished and could not be reached online before L'Oréal had a chance to thank the person for their kind words. The company then asked publicly for help from Chinese netizens to find this Lancôme fan. A discussion forum called Rosebeauty was initially created for this purpose. Now, this e-community site Rosebeauty is the third-largest beauty discussion forum in China, and one of Lancôme's biggest e-commerce point-of-sale venues, reaching over 1,000 cities in China (Lamy, 2017).

According to the interviews made for this thesis, customer support is essential to Chinese customers, since they can be quite interested in asking many specifics and requiring extensive documentation. The product should have at least promotional integration and social features with popular messaging and social media Chinese app WeChat and microblogging platform Weibo. If a customer were to stop using a product, then having an exit interview could be beneficial. This is so that the causes which lead to this decision, which may not have been otherwise known, can be discovered and then used to modify situations to reduce the chance of others leaving in the future. The ultimate goal is to make and keep customers happy, and then to retain them into the future (Patel et al., 2017).

4 Supply chain, distribution channels and multi-sided platforms

To understand how to successfully operate in the Chinese market's various supply chains, distribution and marketplace aspects alongside modern marketing approaches need to be taken into account. For the goal of this thesis, these concepts will help to form a framework, which can later be used for deductive research. Understanding the fundamentals will allow companies to form testable approaches to correctly phase their logistical export operations efficiently without wasting financial resources.

4.1 Supply chain

A supply chain should not be attempted to be explained with only a simple sentence, rather it should be understood as a concept which involves several different key points (Wieser, et al., 2013). Generally, a supply chain can be understood as the management of goods and services beginning with the procurement of raw materials and coming to an end with the sale of finished products to consumers. Flows of information in a supply chain can be understood in two ways. Firstly, as the upstream flow of information from the point of sale to the raw material supplier, and secondly the downstream flow of goods from suppliers to retailers and to final consumers.

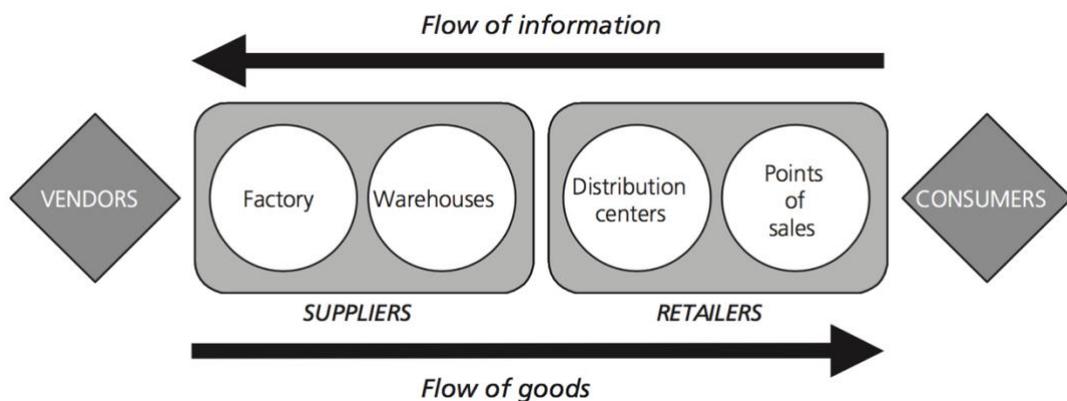


Figure 3. Supply chain - flow of goods and information (Wieser, et al., 2013)

An efficient supply chain orientation attempts to minimize the overall costs of the chain, with focus on the system's speed and timeliness being a secondary focus. A common example of an efficient supply chain can be found in the field of fast moving consumer food products, such as soft drinks, toiletries, dry pasta, tinned goods etc. Usually, these

product categories have low margins, and the direct costs of operations and interactions along the supply chain represent a very significant share of the total cost. It is therefore of key priority to orientate the entire chain towards an efficient model with the objective of achieving top savings on overall operations for the goal of having minimum costs. (Wieser, et al., 2013).

A responsive supply chain orientation, instead focuses on the speed, responsiveness, and flexibility of the supply chain. A responsive supply chain can require significant investments concerning both time and money. Therefore, margins of contribution should be high (e.g., 85% for few luxury products), and the costs of operations (inventory, warehousing, transport, order processing, etc.) should remain proportionally low. The primary focus should be given at matching supply and demand under uncertain conditions. In such a scenario, the supply chain must be reactive, able to respond to unpredictable demand variability "to minimize stock outs, forced markdowns, and obsolete inventory." (Wieser, et al., 2013).

4.2 Distribution channels

The selection of a distribution channel is key for a company offering either physical goods or even services. This thesis is concentrating on the distribution of physical goods, rather than focussing on immaterial goods or services. In regard to the delivery of physical goods, a physical distribution channel needs to be selected. The physical distribution channel can be defined to describe the method and means by which a product or products are physically transferred, or distributed, from their point of production to the point at which they are made available to the final customer. Typically for many companies, the customer tends to be a retail outlet, shop or a factory. Increasingly e-commerce has allowed start-up companies and SMEs to bypass a physical store, and then to directly sell to the consumers. (Rushton et al., 2010)

Regarding consumer products, distributions channels can be broadly understood in two ways; the manufacturer shipping goods to the retail store through intermediaries, or secondly, for direct deliveries to the final customers. The first mentioned channel can have multitudes of intermediaries - in other words channel members, such as brokers or wholesalers. These channel members are operating in the supply chain before the

product reaches the retail store. From the manufacturer's perspective, the most efficient way to deliver thousands of products, could be instead to deliver to just a few intermediaries who would then sell to further along the supply chain, as opposed to the manufacturer by themselves delivering the products to all the thousands of individual customers directly. In many situations, the costs that are involved when solving the logistical complexity of delivering high demand items directly to customers, outweighs the profits lost when operating with intermediaries. Direct delivery flows are sometimes referred to as business to consumer (B2C). A direct delivery channel is linked with consumer e-commerce. Online businesses commonly outsource the deliveries and use parcel carriers and third-party logistics companies to complete distribution fulfilment (Rushton, et al., 2010).

Electronic physical distribution service quality (e-PDSQ) is a useful framework for online businesses fulfilling the flow of physical goods towards to their customers. When a company chooses to develop towards a more responsive supply chain, these variables are needed to validate success regarding the customer satisfaction (Waters, 2017:119-120). e-PDSQ variables need to be understood in the light of the cost of this distribution fulfilment. The higher the price of the product and delivery, the more is expected from timeliness, availability, condition and return. See variables listed in the Table 1 below.

Table 1. Framework of electronic physical distribution service quality (e-PDSQ) (Waters, 2017:119-120)

Variables	
Timeliness (T)	Choice of delivery date; Choice of delivery time slot; Deliver on the first date arranged; Deliver within specified time slot; Can deliver quickly
Availability (A)	Confirmation of availability; Substitute or alternative offer; Order tracking and tracing system; Waiting time in case of out-of-stock situation
Condition (C)	Order accuracy; Order completeness; Order damage in-transit
Return (R)	Ease of return and return channel options; promptness of collection; promptness of replacement

A formalized approach to a channel structure can be used to guide the decision making of an appropriate distribution channel. Figure 5 shows a possible approach to this decision making process (Rushton, et al., 2010)

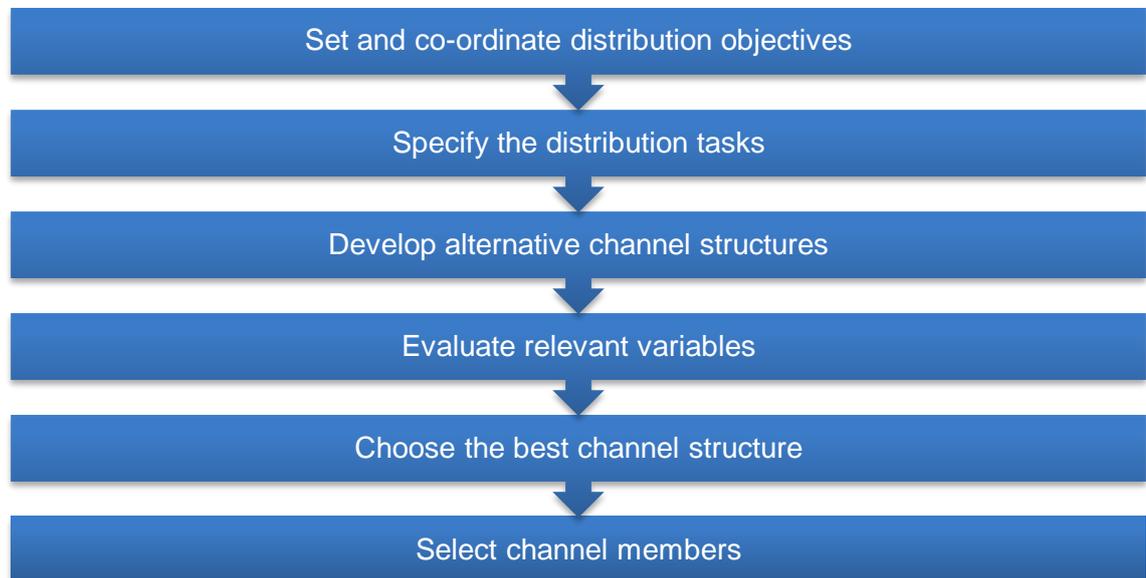


Figure 4. Distribution channel decision making process (Rushton, et al., 2010)

Besides the physical distribution channel there is another important channel which is called a trading or transactional channel. This channel pays particular attention with the non-physical aspects of the distribution; the sequence of negotiation, the buying and selling of the product, and the ownership of the goods as they are transferred through a physical distribution channel. (Rushton, et al., 2010)

4.3 Multi-sided platforms

The e-commerce platforms and their operating model (presented in chapter 5) can be interpreted as multi-sided platforms (MSPs) and resellers. An MSP can be understood as a common marketplace, where a minimum of two parties – for example a buyer and a seller, operate with an affiliation with the marketplace operator (See figure 5). (Hagiu, 2011).

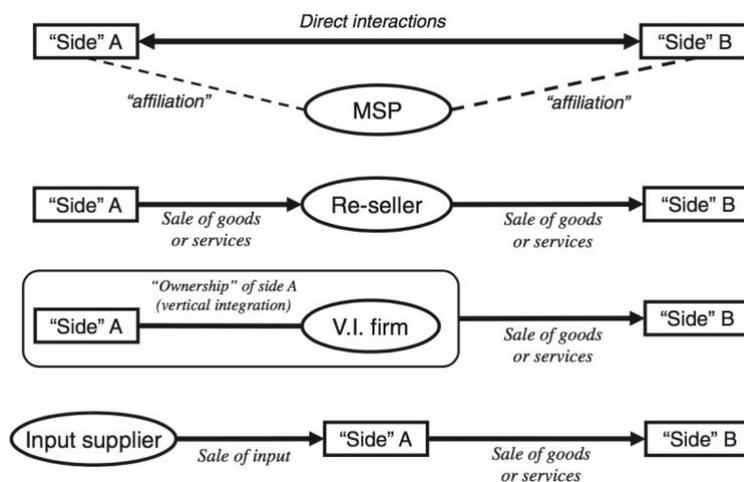


Figure 5. Interactions between different operating models. (Hagiu, 2011)

The multisided platform can also be an offline and or online model. An environment such as a tradeshow could be technically regarded as an MSP since in this context, a tradeshow organizer can work with a venue party to organize an event which then leads to the situation where event participators will have independent interactions. Also, a hair salon with independent contractors could be seen as an MSP, since customers interact with the salon leasers directly. Hagiu and Wright (2011) elaborate and make a clear distinction that old-fashioned retailers and supermarkets can't be MSP's since they hold the decision-making capability for key factors such as marketing activities and prices. Good online examples of online MSPs could be Apple's Appstore or Google's Play store. (Hagiu, 2011)

An MSP provides an excellent place to write reviews of the seller. It can also offer financial interactions. The platform can help with the discovery of goods for the buyer. The discoverability is one of the most important factors which can benefit company

participating on an MSP. The seller might not directly get information about their customer, as they would if the customer visited a sales page which they directly operated. MSP providers do not always provide customer data and sometimes will give penalties for companies that try to extract in-depth data from the customers that come through MSPs. This is understandable, since MSPs can have buyers and sellers which may perform unfavorable activities, given the freedom to do so. Undesirable activities may include pirated goods, scams or other illegal activities. More developed online MSPs have created countermeasures for these challenges in the e-commerce environment. This can be achieved through ways such as Artificial Intelligence technologies and by having quality assurance personnel. (Hagiu, 2011)

5 E-commerce in China

The following information about the Chinese market applied to previously described concepts will allow the formation of specific testable approaches for companies, which is the goal of this thesis.

A few numbers to put in place the e-commerce potential in China are listed here:

- 500 million online shoppers (Team, 2017)
- 53% year-over-year e-commerce growth (News Center | Nielsen, 2016)
- By the year 2022, there will be more than 550 million Chinese earning between 9 000 and 34 000 USD per year income (Iskyan, 2016)
- China's e-commerce market will be 1.1 trillion USD by 2020. (Yu, 2017)

Figure 6 below presents the projected growth of the Chinese middle class

China's Middle Class as Percent of Urban Households

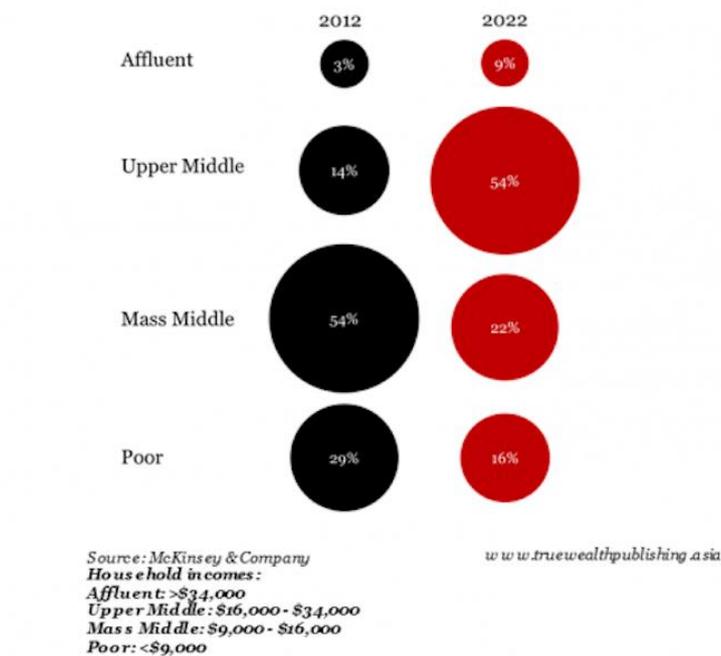


Figure 6. Projected growth of Chinese middle-class (Iskyan, 2016)

Few large companies mainly dominate Chinese e-commerce. The leading company in China is by far Alibaba Group (Team, 2017). They started with humble beginnings from Jack Ma's vision of how the internet is going to change all business (Clark, 2016: 20). Alibaba has become probably the most prominent MSP platform provider in the B2B, B2C and C2C sides of the online trade. For B2B services and products, the leading platform is Alibaba.com. For C2C it is Taobao, and for B2C it is Tmall. (Aliresearch.com, 2016)

Tmall's biggest competitor is JD. The difference with JD is that it keeps its inventory which it then profits from, in a similar way to Amazon. Alibaba's platforms, on the other hand, are sales platforms that are created for both individuals and also companies to sell (Wibelius, 2015). There are limitations on Taobao and Tmall, which instead favor domestic Chinese individuals and businesses to start selling. Alibaba's research subsidiary has summarized this worldwide potential in a good manner;

Cross-border e-commerce has established a free and open, universal and inclusive global trade platform, on which millions upon millions of consumers can buy worldwide, while [sic] small and medium-sized enterprises can sell worldwide, truly realizing global connection and linkage. Through cross-border e-commerce big data from Alibaba's platforms, we see that new connections are being built between China and the world via cross-border e-commerce (Aliresearch.com, 2016).

5.1 Alibaba and Taobao

Alibaba Group, which owns Taobao (largest C2C online trade platform), operates with a mission: make it easy to do business anywhere (Aliresearch.com, 2016). Small and medium-sized enterprises (SMEs) have always been at the heart of Alibaba's operations. It has built a comprehensive ecosystem for SME e-commerce, and the services cover virtually all key areas essential for SMEs. These include; financing options, payment, shipping, delivery choices and logistics solutions. Alibaba's platforms help SMEs to scale up and grow. For instance, to help overcome challenges such as access to finance, Alibaba provides SMEs operating on its e-commerce platforms with microloans. To help increase trust between suppliers and buyers, the company launched a free product called

Trade Assurance. According to Aliresearch (2016), Alibaba could provide an amount of assurance up to US\$ 1 million.

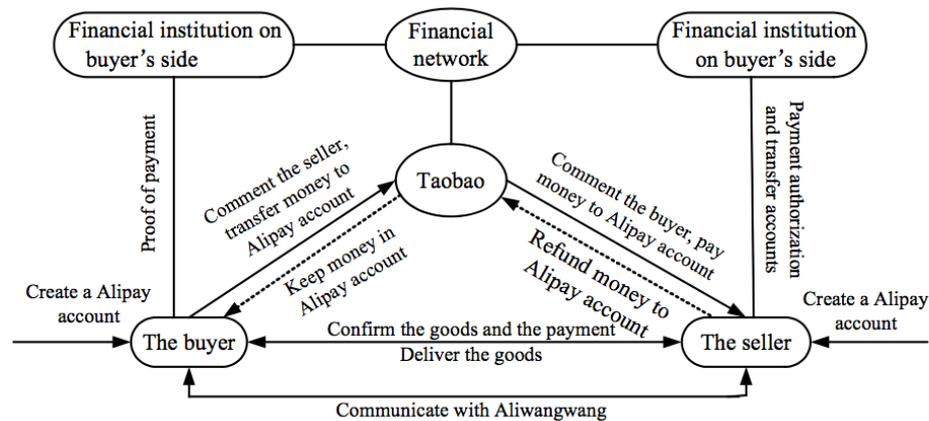


Figure 7. The business model of Taobao (Qin et al., 2014)

Alibaba's Taobao business model can be summarized in Figure 7, which is a good representation of an MSP. With the business model and e-commerce strategy, Taobao has developed well since its establishment in 2003. Taobao has 500 million active accounts (Businesswire.com, 2017). It has allowed many individual sellers and mainly Chinese small and medium companies to enter the e-commerce field with low cost and high efficiency. (Qin et al., 2014)

Registering with Taobao doesn't cost anything. The requirement to use Chinese Language both written and spoken, and therefore a fluent ability to be able to communicate effectively can be a barrier to many companies, yet there are companies such as Euroeat which provides the technical knowledge of for the platform and the needed translation services, combined in one package. The costs vary from around a few thousand euros to around ten thousand. (Euroeat, 2017)

At the same time, there are numerous Chinese individuals around the world which act as small-scale agents. Many companies could find themselves already on Taobao, thanks to these entrepreneurial Chinese individuals. The demand for good quality products is so high that these middlemen can make a profit of 2-3 times the retail price (Taobao.com, 2017). Using the principle of Genchi Genbutsu which was mentioned in

the chapter 2, existence of agents can be seen in the Taobao platform. From a Company's perspective, these agents can be understood as a free and sales generating intermediaries. Using the terminology from Ries (2011) for a company planning Chinese market entry, the previously mentioned Taobao agents can be seen as minimum viable product. See visual example of a Taobao reseller in appendix 3.

5.2 City Tiers

To be able to successfully understand and differentiate the market areas in China, it is first important to find different ways to approach each market area individually. Therefore, cities can be classified in 5 tiers. Although these terms are not absolute in their definitions. It can be quite useful to categorize the cities for marketing purposes since tiers tend to signify the annual spending and other important factors (Sambi.co, 2017).

Tier 1 cities such as Shanghai, Beijing, Guangzhou, and Shenzhen are usually characterized by economic development and the relatively high purchasing power of the consumer. These cities were amongst the first to have had foreign enterprises and investments. There is therefore an increased danger of too many competitors in Tier 1 Cities, due to market saturation. The majority of the economic activity is centered around these cities. There is little debate about the first-tier cities. They always tend to be referred to the four big metropolises. Tier 2 cities have a much wider and varied classification than those of Tier 1. These tiers aren't official classifications, so each source tends to have their own view on the matter. There are generally few characteristics that have been affected. There are following six criteria to determine Tier cities:

- Population of more than five million people
- Provincial GDP of at least RMB 250 billion, or RMB 350 billion in more prosperous provinces
- Cities with strong economic growth
- Geography, i.e., cities which are the most significant in their area, like Xiamen (even though it only has around 2.5 million people)
- Advanced transportation infrastructure
- Historical and cultural significance (Sambi.co, 2017)

Chinese city clusters with average populations of 60M

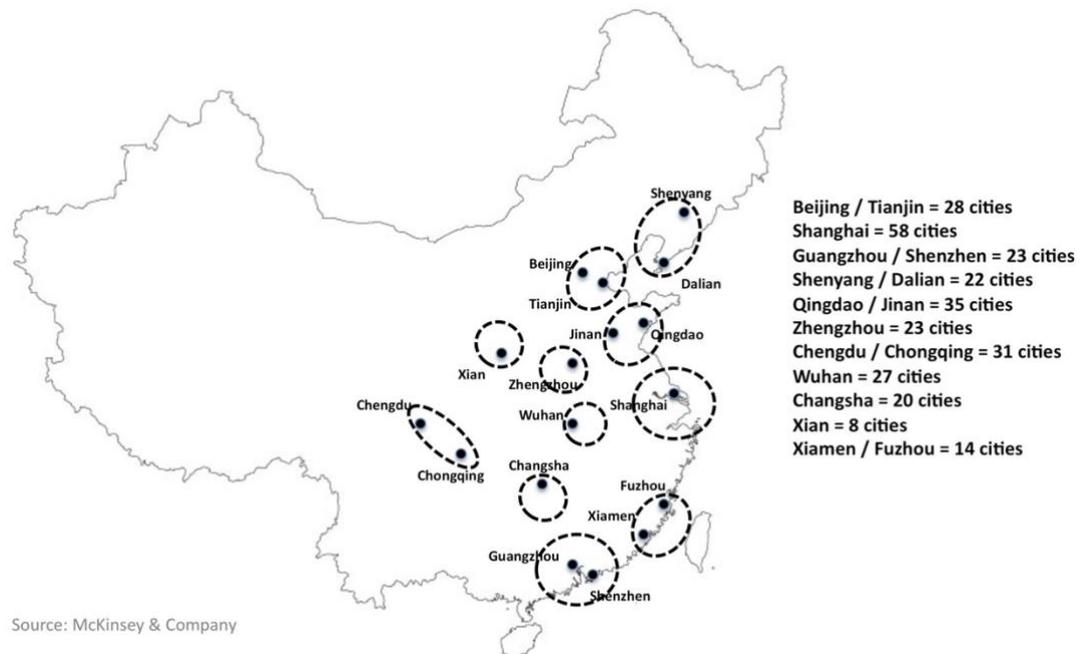


Figure 8. Map of China's city clusters with an average population of 60M (Towson, 2015)

Tier 3 cities usually tend to lag behind the development and economic growth of Tier 1 and Tier 2. Many of the Tier 3 cities can be historically and economically important. Tiers 3, 4 and 5 cities are still quite important for business purposes because according to Forbes (Hsu, 2017) they house more than 257 million e-shoppers. In 2016 the internet penetration rate was only 67%. According to Nielsen 2011 study, Tier 1 consists of 16 million households, tier 2 has 32 million households, tier 3 has 75 million households, tier 4 has 86 million households and tier 5 has 169 million households. (Sampi.co, 2017). Figure 8 shows a map of the city clusters in China that have average populations of 60 million.

Alibaba is currently setting up its logistics arm Cainiao express delivery stations in the tier 4 and 5 cities and rural areas. As of 2016, Cainiao owned 180,000 stations. This rapid expansion was actioned, to try to deal with the issues surrounding the last mile delivery. Many of the people in the countryside are thirsty for quality products and foreign goods, although their spending power is still quite limited. (Hsu, 2017)

5.3 The role of the Chinese government in e-commerce

When doing business in China, it is essential to note that the government can play a huge role in any business field, and e-commerce is no exception. The Chinese government has started to pay more attention to the e-commerce trade due to its rapid growth. The government has put forward its intention to limit the overseas shipments that go directly to the individuals. Instead, there is a plan to favour bonded warehouses and special tax-free import areas and where foreign companies can store their goods. Additionally, from these specified locations Chinese customers can then order their desired products. The government has implemented a whitelist for goods that may be imported. These twists and turns in policies have caused a lot of complaints by Chinese and foreign companies due in part to its confusing nature. This "Positive List" includes 1142 different tariff articles covering cosmetics, hats, clothing, footwear, food and beverages, diapers, home appliances, children's toys and other items commonly purchased by Chinese consumers on e-commerce platforms. (WANG, 2016)

Some business areas in China cause a company to be trapped in a situation where growth is impaired directly or indirectly by the government. The Chinese government has interests in many IT business fields. The cultural heritage and "morals" of the people are an ongoing relevant concern for the Chinese political leaders. Streaming apps and many other communication devices can be quite restricted from free use for the Chinese consumer. Sexually explicit content is a taboo that the government actively upholds. Other fields of businesses such as banking and funeral services are also quite tightly controlled due to government restrictions. Some areas of business such as solar panels have been heavily subsidized by the government, and therefore do not work with market logic. In these fields overproduction is rampant, and quality can also be a secondary issue. (Towson and Woetzel, n.d.)

5.4 The cross-border e-commerce to China

The Chinese government has favored foreign exporters that directly ship to the consumer. In contrast, the wholesale and retail level exporters have increased special testing and permits, in order to operate legally. This creates an excellent opportunity for companies to expand their business to China's markets, through cross border e-commerce. E-commerce to China can act as a training platform for foreign business to identify the needs and latent needs of Chinese customers. Finnish companies like Euroeat offer consultation on how to sell their products on Chinese e-commerce sites (Euroeat, 2017).

A successful marketing campaign requires Chinese social media influencers or key opinion leaders. This is perhaps the most cost-efficient way to get trust with the young Chinese online shoppers. Influencers have more power in China than they would have in the West. Because of this power, influencers can be quite choosy with the products they are willing to promote. Also, they can be quite business oriented and require a certain share of income of the sales that come through from their promotions. Besides the marketing campaigns led by the key opinion leaders, the online presence can also be enhanced by posting quality content regularly to Wechat and Weibu. The use of Chinese servers and versions of these platforms is required. The main reason for using Chinese servers is because online material not stored in mainland China loads slowly for Chinese users. A Weibo verified account is easy to create for a foreign company. One can 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 the account. Weibo will charge a \$1,000 USD application fee for this service (Graziani, 2017).

Then again, sometimes companies do not need to market their products in order to create a demand. UK company Base Formula managed to create a demand for their products by accident. They were surprised that there was a need for their cosmetics product in China. They learned this through Chinese who were contacting the company and asking the rights to act as wholesaler in China. This company decided to expand their business to through e-commerce using platforms like Taobao. They have personnel working in their company who feels passionate to their product line and has a Chinese

background. This kind of business approach has worked quite well and helped to get Base Formula's brand quite well known in China. (Grandage, 2017)

5.5 Recent development in Chinese e-commerce

The government has recently planned to restrict many of the liberties that cross border e-commerce has had in the past. There can be a tendency for the Chinese government to often change direction in their approach. This can have the effect of preventing many foreign companies from expanding in the Chinese e-commerce market. It should be noted that for services such as Alibaba's Taobao the investment amount is quite minimal compared to B2C services such as from Tmall. For services such as Alibaba's Tmall there are specific barriers of entry. The company needs to be recognizable by the Chinese online shoppers, and also to have a large enough turnover to join. Alibaba also requires a substantial 25000 USD investment from companies. Tmall is a trusted brand in China although it doesn't have as a big of a share as e-commerce transactions, as that of Alibaba's C2C platform Taobao (Wibelius, 2015).

Alibaba has integrated augmented reality apps to its Tmall service. This has transferred online shoppers to offline shoppers and vice versa. Customers can browse the products they like in a store and buy what they want just with one click, and then have it delivered direct to their door. Tmall customers can also experience shopping in a virtual reality where they can see the products in a real-life store setting. Tmall has integrated timed offers which apply only to brick-and-mortar stores. These are designed to direct the online users to physical stores (Helsel, 2017).

There is one major way to reach Chinese online shopper customers other than through Alibaba's platforms. Tencent is actively developing its WeChat platform to become a shopping platform. It has online wallet features and allows foreign businesses to build their shopfronts. This new shopping option enables cross borders to e-commerce possibilities and even the option for startups to reach Chinese customers. The language differences, shipping costs, and possible import duties might be quite a high barrier for an average Chinese consumer to give a new product a try (Graziani, 2017), (Hlavac, 2017).

5.6 Popular Chinese e-commerce payment methods

Alipay is by far the most popular payment platform in China. Alipay is integrated into the Alibabas Group's Tmall and Taobao platforms, and is also a popular method for payment in physical stores in Tier 1 cities in China. Alipay is owned by a separate company called Ant finances, which is then owned by Alibaba group. (China Internet Watch, 2017). The biggest competitor to Alipay in China is the Chinese technology giant Tencent's Tenpay which automatically integrates with its popular Wechat messaging and social media app. (China Internet Watch, 2017).

Wechat and Alipay have started to change the dynamics of the traditionally cash-based Chinese society. Government-backed banks have historically had minimal incentives to please regular consumers. According to former Morgan Stanley investment banker Duncan Clarke "The "big four" state-owned banks—the Industrial and Commercial Bank of China (ICBC), Construction Bank, Bank of China, and Agricultural Bank of China—control about 70 percent of the market." (Clark, 2016). Alipay in 2015 launched my bank, which has gathered lots attention from Chinese consumers who are seeking for better interest rates from their cash deposits. This demand by the Chinese consumer for better interest rates, has led the government-backed banks to limit the amount of money that can be transferred to a digital wallet in China. (Clark, 2016). The common thought after conducting the interviews was that Online payments in China are currently simple and convenient. They are done through QR codes, and the following transactions are almost instant. Tencent's Wechat is gaining ground from Alipay thanks to a more streamlined approach. According to the interviews that the author gathered for this Thesis, users in cities often tend to buy things from friends and acquaintances through WeChat. Tencent and Alibaba offer global payment solutions for international companies.

6 Cross-border e-commerce distribution to China

As mentioned in the introduction, foreign companies face multiple bureaucratic obstacles in China. Establishing a new business in China can require some startup capital – commonly around 15 000 USD. The process could take several months to complete (Path to China, 2017). The term wholly foreign owned enterprise (WFOE) is commonly used with companies when the owners are not Chinese citizens (Hlavac, 2017). Entrepreneur Luca Hlavac operates a WFOE company which sells unique clothes to Chinese customers. Hlavac has identified five main options for importing goods to China, as an operating cross-border e-commerce business.

These are the main options for WFOE to import goods to China:

1. Direct import to mainland warehouse
2. Direct shipping from supplier to final customer in China
3. Import through bonded warehouse in FTZ (Free Trade Zone)
4. Direct shipping through Free Trade Zone
5. Shipping through Hong Kong warehouse using Hong Kong Post or Business Express Delivery

This chapter will concentrate on the process of direct shipping, from the supplier to the final customer in China. This distribution channel would be the most likely starting approach by a company that is considering starting the practice of cross border e-commerce. The cost, the taxes and the pros and cons of these distribution channels according to Luca Hlavac (2017) are summarized in tables 2 and 3 on pages 48 and 49.

Table 2. Taxes, costs and limitation for distribution options (Hlavac, 2017)

	Costs and taxes	Limitations
Direct import to mainland warehouse	<ul style="list-style-type: none"> • WFOE establishing cost; 15 000USD • 17% VAT + category tax 	<ul style="list-style-type: none"> • need to obtain import license or employ specialized import agency
Direct shipping from foreign merchant to final customer in China	<ul style="list-style-type: none"> • None 	<ul style="list-style-type: none"> • WOFE international payment restrictions
Import through bonded warehouse in FTZ (Free Trade Zone)	<ul style="list-style-type: none"> • Comprehensive tax rates according to the imported article • Lower than in direct import to mainland • 23 USD/sq. m/month for the warehouse space • 0.8 -1.2 USD fee per shipment 	<ul style="list-style-type: none"> • Business presence • Requires high software integration with Chinese customs. • Set number of companies can settle e-commerce payments.
Direct shipping through Free Trade Zone	<ul style="list-style-type: none"> • Comprehensive tax rates according to the imported article • 	<ul style="list-style-type: none"> • Requires high software integration with Chinese customs
Shipping through Hong Kong warehouse using Hong Kong Post or Business Express Delivery	<ul style="list-style-type: none"> • Companies operating in Hong Kong have a lower corporate tax rate than companies in mainland (16,5% instead of 25%) • 30% import tax rate for all shipped goods. 	<ul style="list-style-type: none"> • Need to establish a Hong Kong company

Table 3. Pros and cons of different distribution options (Hlavac, 2017)

	Pros	Cons
Direct import to mainland warehouse	<ul style="list-style-type: none"> • Relatively easy to handle • Possibility to use cheaper mainland warehouse 	<ul style="list-style-type: none"> • Highest tax and duty burden on the imported product
Direct shipping from foreign merchant to final customer in China	<ul style="list-style-type: none"> • No duty or tax paid unless package is randomly checked by the customs • Easy to handle for foreign merchants 	<ul style="list-style-type: none"> • Poor service for customer, as some of them will need to deal with customs and pay duty • Frequent difficulties with last mile delivery in China
Import through bonded warehouse in FTZ (Free Trade Zone)	<ul style="list-style-type: none"> • Fast Shipping: 2-3 for the customer • Most convenient for the customer 	<ul style="list-style-type: none"> • Requires more expensive bonded warehouse • Requires e-commerce platform to keep stocks
Direct shipping through Free Trade Zone	<ul style="list-style-type: none"> • No stocks held by the e-commerce platform in the bonded warehouse • Stable and predictable service for the customer 	<ul style="list-style-type: none"> • Highest shipping and processing cost • Longer delivery times 7-15 days
Shipping through Hong Kong warehouse using Hong Kong Post or Business Express Delivery	<ul style="list-style-type: none"> • Lowest initial set-up cost • Possibility to settle payments through Hong Kong company 	<ul style="list-style-type: none"> • Not suitable for larger scale operations, because the % of checked packages will increase and the tax is relatively high for the Business Express.

A lower barrier of entry in direct shipping allows the Chinese Taobao resellers to exist and operate in the e-commerce market space. Many smaller e-commerce shops targeting Chinese consumers, choose to directly ship a product from abroad to the end user in mainland China. Typically, these companies use EMS (Posti in Finland), or express shipping services such as TNT or DHL. Delivery times and costs tend to be high for the customer depending on where the product is shipped from and to. 2-3-Week delivery times are the norm. Doing this can create customs problems for the customer since the payment of duties and taxes will be his or her responsibility. If the customs fees are not explained to the customer in advance, the company may receive negative customer feedback. At the moment, direct shipments to customers are randomly inspected by the Chinese customs and in the instance of a check taking place, if required the tax duty would be liable for the customer. According to Hlavac (2017), EMS shipments have a likelihood of 5-10%, of being checked. Express shipping however, is inspected more often. The Chinese government is developing procedures, so that Chinese customs have more sophisticated and automated inspections, that intercept directly with shipments that are liable for duties and taxes. It will be impossible to use WFOE business entity to pay suppliers abroad since international payments made by Chinese banks require documentation of paid taxes.

The SAFE (State Administration of Foreign Exchange) would not approve international payments unless import documents and contracts are submitted, which is impossible as it would legally be a "grey" import. Therefore, most platforms using this mode will use a foreign entity (very often Hong Kong company) to handle all their transactions. Customers would usually pay the overseas company directly, online using Alipay Global. The foreign company can then easily settle payments with its suppliers worldwide. (Hlavac, 2017).

Despite these limitations, direct shipping distribution channel can be considered as a part of a minimum viable product (as defined on page 7) for most companies starting cross border e-commerce to China. Once a company has gained some experience and demand for their products, then more official distribution channels could be considered. Direct shipping through a Chinese Free Trade Zone (FTZ) could allow a legal, and less taxed option than a traditional import model. Immediate shipping through FTZ models can be flexible and will enable companies to scale quickly without

having large amounts of stock. Once the order has been placed, products are directly mailed to the FTZ, the custom clearance and document check is processed electronically, and then the product is shipped to the final customer in mainland China. The Chinese customer will need to go through an electronic identification but doesn't need to worry about paying the taxes since it is taken care of by the foreign company. Some software know-how is required to set up this international customs payment with the Chinese customs. The delivery time will be around 7-15 days (or longer) depending on the shipping method. The comprehensive tax rate is 11.9% for clothes, food and food supplements, electronic appliances, and watches. For beauty products, a tax duty rate of 32.9% is applied. The rate however differs for each product category. The tax rates are the same as when importing through the bonded warehouse in a Free Trade Zone (Hlavac, 2017).

7 Interview analysis and results

The interviews were consisting of mainly young (aged 20-22) female Chinese tourists, who were coming to Finland. The relatively small sample size of seven interviews should be taken into account when considering the results of the interviews. Interviews were conducted in a semi-structured manner, having a few consistent background questions (see Appendix 1), progressing towards a discussion about online shopping habits. The interviewees were from Tier 1 and Tier 2 cities; two from Hongkong, two from Shanghai, one from Peking, one from Shenzhen, and one from Guangzhou. A semi-structured manner allowed spontaneous follow up questions to be asked. These questions then led to a hands-on demonstration of mobile shopping apps. The spontaneous follow up questions also allowed an opportunity to share stories and experiences about the Chinese online culture. Free flowing discussions allowed for the recognition of the aspects that Chinese e-commerce shoppers value, when they are making their purchasing decisions. These interviews lasted from 30 minutes to 1 hour.

During these in-depth interviews, common themes tended to emerge. These young shoppers understood how the platforms, especially Taobao, could be taken advantage of, due to for example from pictures, reviews or number of shopping purchases, from bogus buyers. Therefore, the threshold to buy from new online merchants can be high. The presence of merchants showing good customer service activity, and generous return policies can help to mitigate the suspicions of the customer.

When Chinese female online shoppers are making their purchase choices, safety, trustworthiness and authenticity are key. When asked about Finnish products, the interview group mainly recognized Finland for its educational excellence. All of the interviewees use Taobao actively, although only for small items. For the purchase of electronics, another e-commerce platform JD was favoured for both their electronics and larger home appliances. Smaller platforms such as Dangdang would typically be used to buy books. Groceries were purchased using city-centric local mobile apps. One interviewee explained how in Shanghai there are 7-8 city zones with each of them using a different app. Products that would be ordered from outside of China tended to be clothes and skincare products. Some had ordered vitamins, shoes, headphones, and comics. Especially for skincare products interviewees were willing to pay much higher

prices for perceived authenticity and safety. The main reasons for the interviewees to buy these products outside of China, was mostly due to the trust for authenticity. Recommendations from key opinion leaders and friends are a main motivation for the purchasing decision.

All of the interviewees suggested that they study word of mouth, through the reading of reviews and online posts carefully online, before making a purchase. Price can be an influential motivating factor to purchase. Motivation to buy a product abroad can be discouraged by high shipping fees. One interviewee showed how on Taobao for one agent, a shipping fee for a cup from Finland to China would be 38 USD, with a shipping time of 2-3 weeks. She said that this would be too much for her. Another interviewee described why she decided to purchase a pair of headphones from Amazon US, instead of domestically – which would have in total had a lower price for the same product. The US option came with shipping, a relatively affordable price and one week delivery. She mentioned that ordering the product from a foreign e-commerce platform like the US, increased the authenticity in her opinion. She felt that the increased authenticity was a justification for not buying domestically. This was regardless of the slightly higher price and slightly slower delivery options.

Collectively, the interviewees had a broad knowledge of various purchasing options, as between them, they had purchased products from Japan, South-Korea, and the US, with South Korea being the majority option for their cross-border e-commerce purchases. Findings on shopping activity of the interview group can be found in table 4.

Table 4. Online shopping habits of the seven interviewees

<i>Number of interviewees that have:</i>	<i>No.</i>	<i>%</i>
<i>Shopped using online platforms for buying goods</i>	7	100
<i>Purchased goods from an online store at least once per week</i>	6	86
<i>Purchased goods from foreign online platforms</i>	3	43

Table 4 shows that a significant amount of the interviewees have purchased goods from online platforms – at least once a week, and have experience of purchasing from foreign online platforms. Additionally, almost all the interviewees regularly shop for online goods, with the majority buying at least once a week on average. This shows that there is a

great potential to influence Chinese shoppers to purchase goods internationally through e-commerce, and likewise there is a potential for increased cross-border e-commerce, from companies hoping to expand to the Chinese consumer market. Although all the interviewees had not bought from another country, the majority did show great interest in doing so and would likely do so in the future. Companies can choose to operate through MSP platforms such as Taobao or Tmall for consumer familiarity. One interviewee suggested that she was motivated to buy an authentic Japanese Cosplay costume direct from Japan through a separate foreign shopping platform, instead of a domestic app such as Taobao. This is likely because niche markets such as this one would encourage loyal consumers such as the interviewee to purchase only authentic products from a separate foreign online shopping platform, due to fears of receiving a sub-standard product. As explained in page 11 of the thesis, this is a good example of how marketing to a niche can be more efficient and lucrative, instead of marketing to a much broader demographic.

The interview group also had plenty of suggestions on how to reach Chinese consumers. As mentioned previously in page 42 of this thesis, a successful method of creating demand is to utilize existing Chinese social media influencers and celebrities who already have a large presence and or online following. Weibo and WeChat were mentioned in every interview, WeChat was considered the most popular social media platform. Chinese online streaming applications such as Ingkee, were identified as having influential key opinion leaders.

One of the interviewees mentioned a famous example on how to reach these consumers. There was a relatively insignificant Australian company that was selling a small purple teddy bear full of grains, which would start smelling wonderful once it was heated. The purple teddy bear was included in a social media picture of a female celebrity. Due to the recognition of the celebrity with the teddy bear, the online fans of the celebrity quickly wanted one of the bears, and caused a rapid increase in demand. This surge of interest that was caused due to unintentional free advertising, meant that the Australian company could not match the demand that had been created. The end result was that the company made the decision to stop selling the bear online, and instead sold on a single sale basis to those people who were visiting the company's farm in person. This desire for teddy bears eventually lead to the intervention of the Chinese government,

who limited the import of such goods, since copy-cat bears started to cause a health hazard to the buying public; many of which were said to have insects inside. The interviewee used this example successfully to demonstrate the power of the way that social media in China can have a large influence on the consumer. Incidentally, this situation was covered also by Jeffrey Towson in one of his works – The 1 hour China consumer book.

The most important finding however is that although the interviewees spoke English, they preferred to read the product details and online content such as company web pages and social media posts, in Chinese language and not in English. It also seemed important to the interviewees that the Chinese writing should be written using the correct grammar. The overall feeling of the interviewees would mean that unfinished websites with poor Chinese grammar could create a level of mistrust and would ultimately prevent potential purchases.

When comparing e-commerce with physical retail stores, the interviewees found that the overall experience of interacting with a shop assistant and handling potential goods in a physical retail store, was considered to be a superior shopping experience. On this subject, the interviewee said:

“At the moment, no virtual reality helmet for an online marketplace is going to give the same feeling as touching the cloth or surface of a new car would. Shopping can be relaxing in that way.”, Said one of the interviewees.

The smell and touch of physical retail store goods is still lacking severely from the e-commerce experience. Flashy surroundings can invite the customer to experience the atmosphere of the retail store. Relationships with sales assistants are also necessary and can encourage customers to return. If the customer knows that the salesperson can provide him or her with an excellent solution alongside a fair price, it will invite the customer back to that place again and again. These factors are harder to recreate in an e-commerce or online setup, although one of the interviewees described how newly launched MPS marketplace apps tend to have a close-knit community in the beginning. She noted that once a new marketplace becomes popular, fraudulent activity becomes more prevalent.

Finally, interviewees said that they could be very price sensitive, which can be directly linked to a trend in the Chinese market. For example, Chinese domestic companies can choose to operate in a “last man standing” approach, where companies attempt to under-cut each other in order to obtain the largest market share, and to drive the competition out of business. This can sometimes be achieved by selling at a loss. This particular approach can result in ever-decreasing prices which is positive for a consumer due to a lower purchase price. However, this can create a tough and competitive market place where only a few companies are able to operate for an extended period of time. In response to this market environment, a company can mitigate the risk of being driven out of the market place through differentiation of its products and providing unique and branded solutions in a niche market.

8 Conclusions

Foreign companies interested in expanding their business to China using cross-border e-commerce could find savings in time and resources through growth hacking tactics and direct distribution. According to the findings, having the ability to communicate fluently in Chinese is a necessary attribute of the supplier selling their products to the young Chinese female consumers that were interviewed for this thesis.

The most relevant findings that the research led the author to discover, were that cosmetics and apparel can be very lucrative areas for cross border e-commerce. Therefore the conclusion that these sectors have a lot of activity and interest from the thesis target group. Many of them were familiar with buying products from foreign countries, with particular emphasis on purchasing from South-Korea. In fact, the interviews suggest that the interviewees would not be averse to the idea of buying from countries that they have not yet purchased from previously. The main identifiable issue is that many of the interviewees have chosen to use apps like Taobao or Wechat already, so based on this familiarity with their platforms and payments systems, companies should enable buying processes through platforms that are similar to these. This means that at minimum, the means of enabling payments should be possible with Alipay and Tenpay. As an alternative, a company could have a unique and attractive offering for a highly interested niche, in which the customers can overcome the burdens of a complicated payment method.

There is no real barrier of entry for having a social media presence on WeChat, however commercial activity through a WeChat account can be challenging. I came to this conclusion as the interviewee group felt that there is a significant lack of trust when considering unfamiliar brands. The largest challenge for a new company would be to make their brand recognizable to the Chinese consumer. There are also various apps which can be used for cross-border e-commerce outside of Alibaba's and Tencent's offerings. For example, one interviewee discussed a mobile application that can provide recommendations for the Chinese customer, based on written experiences by other Chinese consumers. It recommends which products should be bought from a specified country and for what reasons. Using these smaller platforms can help to bypass the barrier of entry which Taobao may be considered as having. Unfortunately, the user base

can be insufficiently small, and this lack of user base can restrict the number of potential customers.

Giant e-commerce platforms such as Tmall and JD won't readily accept small companies that do not yet have a presence in China. A significant number of past sales is an essential factor for entering these online platforms. Besides this requirement, Alibaba charges 25 000 USD along with a small percentage of sales. This is in exchange for a Tmall online shop presence. The user base for Chinese e-commerce is enormous, and Tmall and JD are overall the most used B2C e-commerce platforms in China. When considering cross-border e-commerce activities in China, a company should consider several factors. These are: the financial means, past customer recognition and a positive reputation in the Chinese market. Once these factors have been acquainted, the company can move to using large B2B platforms.

Another way to reach Chinese customers can be through the C2C platform Taobao. This platform is widely used - however it is also known for scams and bad quality products. This results in Chinese shoppers being cautious of the authenticity of foreign products on this platform. The only real measurement of success in China is sales. Taobao agents can provide primary metrics for companies to assess both existing and future demand. These middlemen usually live in the same country as the company producing the product. Therefore, there could be a potential to recruit the best dealers to work directly for the companies that wish to expand to China. Some companies, for example, Finnish Euroeat, offer middleman services which provide access to Taobao where a merchant account can be opened by a citizen of China.

8.1 Growth hacking as an e-commerce market entry method

Growth hacking methods and scaling through minimum viable steps will allow the creation of an appropriate engine of growth. Firstly, an appropriate niche should be selected. The findings suggest that young Chinese women living in Tier 1 and Tier 2 cities would be interested in authentic, high-quality skincare products. A company which is able to sell these products could satisfy the initial demand, by searching for the products that are already sold by Chinese agents on Taobao. The next logical step would be to establish a careful online presence. By doing so the direct shipping to China should

be made possible. Particular attention to creating a feeling of authenticity and trustworthiness should also be taken into account. A successful local Taobao merchant can then be recruited to work directly for the company, based on commissions and consulting work.

Appropriate online Chinese key opinion leaders who resonate with the company image should then be considered for collaboration. These leaders would only be relevant if they represent the correct niche market. A marketing campaign could then be completed with a key opinion leader and sales volume changes of two main areas should be monitored. The first area is the company's own webstore and the second is the monitoring of Taobao sales agents. A successful campaign should lead to increased sales volumes for the sales agents and also for the company's webstore.

This increased recognition should further lead to an increase in sales volumes through online word of mouth. If this does not transpire, then possible pivots (such as those mentioned on page 9 of this thesis) would be influenced by customer feedback. One possible option could be a customer segment pivot. Once an engine of growth has been established through marketing efforts, the next step could be to partner with a local Chinese distributor. This would result in the growth of Tier 3 and Tier 4 cities.

Finally, once a substantial demand has been created, a physical corporate presence can then be established in mainland China. This theory based process, which has been obtained through both the interviews and literature study on the market entry, could then be verified in a later quantitative study. This quantitative study could consist of reviewing the sales success of selected companies which would choose to utilize the described process of growth hacking as an e-commerce market entry method.

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Appendix 1

Interviewee background questionnaire format:

- What is your age?
- Which city do you live in?
- Which e-commerce platforms do you use and why?
- How often do you buy products online?
- Have you bought foreign products online, and if you have why and where?

Appendix 2



An infographic comparing growth hacking to traditional marketing (Direct Spark, 2017)

Appendix 3 .

The screenshot shows a Taobao.com live broadcast interface. At the top, there is a search bar and navigation links for '宝贝详情' (Product Details), '累计评论 40' (40 cumulative reviews), '专享服务' (Exclusive Service), '手机购买' (Mobile Purchase), and '加入购物车' (Add to Cart). The main header includes '淘宝直播' (Taobao Live) and '淘宝直播间 ID: 65297 (每天视频直播采购, 芬兰大叔等待您)' (Taobao Live Room ID: 65297 (Daily video live broadcast procurement, Finnish uncle waiting for you)).

The central content area features a large video player showing a person holding a smartphone displaying a live broadcast of a store. Below the video, there is a text message: '亲! 需要视频直播的话一定一定要收藏店铺和关注主播账号, 我会提前淘宝通知您, 您在店主淘宝直播间等着芬兰大叔的直播就好了, 视频直播这种跑腿的事情有我老公来, 再次强调需要视频直播的一定一定要提前关注芬兰大叔账号, 约好时间, 重要的事情说十遍都不多哈! 因为店主君每天要处理好多单子真的怕漏掉大家的诉求。' (Dear! If you need video live broadcast, you must definitely collect the store and follow the host's account. I will notify you on Taobao in advance. You just need to wait for the Finnish uncle's live broadcast in the store's Taobao live broadcast room. Video live broadcast is a跑腿 (errand) thing that my husband will handle. I emphasize again that if you need video live broadcast, you must definitely follow the Finnish uncle's account in advance, agree on the time, and say the important things ten times, it's not too much. Because the store owner has to handle many orders every day, I'm really afraid of missing everyone's requests.)

On the left side, there are product recommendations under the heading '宝贝推荐' (Product Recommendation). Two products are visible: '芬兰直邮汉诺金 维他康儿童鱼油 咀嚼胶囊 DHA EPA' (Finland direct mail Hanojin Vita-Kang children's fish oil chewing capsules DHA EPA) priced at ¥158.00, and '芬兰直邮 汉诺金卡迪摩冰海鲨鱼 软骨胶囊 改善骨关节疼痛' (Finland direct mail Hanojin Kadimo Ice Sea Shark Cartilage capsules improve bone and joint pain) priced at ¥435.00.

On the right side, there is a '快速直达' (Quick Access) section with links for '芬兰生活' (Finnish Life) and '快速查询' (Quick Search).

Chinese individual acting as an unofficial independent sales agent (Taobao.com, 2017)