



### VALERIE KAMINOV – BIOGRAPHY

Having spent over twenty years working with a vast array of luxury, premium and niche beauty brands and fragrances, Valerie has extensive knowledge and practical experience of their supply, distribution and retail, pertinent commercial practices and consumer habits on a global and local basis.

Her expertise has been highly valued by multi-national organizations, SMEs, start-ups, privately owned companies and financial investors.

Certified in Corporate Governance from INSEAD Business School, Valerie has the remarkable ability to successfully set the company's strategic direction, often across diverse product markets and geographies, and monitor the firm's risk profile.

As a qualified Non-Executive Director who was awarded the prestigious Financial Times Post-Graduate Diploma, Valerie Kaminov is highly trained in corporate governance and is an experienced NED and Director enabling her to have an holistic understanding of boards.

She advises both as a consultant and an NED. Valerie's experience earned her a reputation with major players in the industry who hired her to establish them globally.

Her expertise in brand evaluation, acquisition due diligence, risk assessment and commercial growth has been highly valued by Private Equity Funds, multi-national organizations and financial investors.

She is also dedicated to passing her knowledge along through a range of conferences and events.

Valerie has been a guest speaker at the non-profit organization CEW' Mentoring Services where leading executives offer insights into beauty industry issues and inspiration for professional growth.

As the International Manufacturers & Distributors Forum (IMF) Master of Ceremony, Valerie organizes one of its kind conference in Europe, key global gathering for manufacturers, brand owners and distributors to come together and discuss the challenges facing the industry and their businesses by giving the attendees unlimited networking opportunities.

# DAIGOU AND CHINA'S NEW E-COMMERCE POLICIES

Expanding into a new market can be a successful way to leverage your core business for growth. However, believe me when I say, it takes a disciplined process to accurately assess the full potential of each growth opportunity. A bad bet can easily bog down your business in the blink of eye. With a growing economy and the rapid take-up of e-commerce, China is booming. Seeing numbers like these can make any foreign company jump at the idea of tapping into this ever-growing market. However, the Chinese business culture is unlike any other around world and to thrive in this market, new entrants need to have a thorough understanding of the practical challenges they will face if they want to succeed there. So, below we have put together a few tips that will help you and your business navigate in clearer waters and avoid pitfalls when expanding into the Chinese Market.

### CHINA'S CURRENT MARKET

New trends are reshaping the Chinese consumers purchasing habits. The internet is increasingly becoming China's number one destination for sales. E-commerce is advantageous for both the customer and business owner. In fact, when a foreign business wishes to expand into the Chinese market, different business models are available, the easiest one being selling through third party Chinese e-platforms. In

other words, being able to reach the Chinese online shopper without having a registered business in China. Selling online means reaching millions of consumers without having the hassle to test products on animals, register products, pay import duties and sales tax. Selling online could help you save up to 67% depending on the product type. By 2015, e-commerce transactions reached an outstanding US\$540 billion which equated to a total of 7.5% of all retail transactions. By 2020, China's e-commerce market is forecasted to be larger than those of the US, UK, Japan, Germany and France combined. 12% of all online spend in China is on cosmetics and beauty products. Cross-border e-commerce in China has grown steadily in recent years, on the back of strong consumer demand for premium brands and high-quality overseas products. The top purchased categories include health and beauty, maternal and infant goods, apparel and accessories, consumer electronics. Popular goods from these categories are commonly sourced from Europe, Japan or South Korea, with mainland shoppers associating such countries with high-quality product standards. Nearly 690 million Internet users (as of December 2015) and 700 million smartphone users are the foundations of the Chinese online community,

which provides the industry with ways to identify and meet latent consumer demand. All 467 million of China's existing online shoppers spend around US\$1,300 a year each on e-commerce, representing over a quarter of average disposable income. The average spend per customer is expected to grow further at a rate of 10% CAGR between 2016 and 2020 as household income continues to rise and consumers begin to buy into more categories and purchase more branded goods.

### LEVERAGING THE DAIGOU CHANNEL: THE RIGHT APPROACH?

China has long been perceived as the home of cheap and counterfeit goods. Chinese consumers are constantly worrying about a product legitimacy. Cosmetics and skincare safety are a growing concern amongst the rising middle class who are willing to pay up to a 100% premium on foreign products, perceived as higher quality. Chinese affluent consumers will make no compromises to make sure the product they are buying is authentic and safe - even if it means having to splurge.

The opportunity for foreign brands to tap into a significantly larger customer base and directly reach the mainland shoppers without having to set up a physical business in China is real. Up until recently, leveraging the *daigou* grey channel - China's fastest growing e-commerce pillar - seemed to be the easiest way to access the scale of the Chinese population. Literally translated from Mandarin as *buy on someone's behalf*, *daigou* - pronounced *dye-go* in English - is a person facilitating the buying and selling of international brands on behalf of mainland customers in exchange for a fee. Traditionally, *daigous* are students or leisure travellers who are small time buyers purchasing goods abroad and bringing them back into mainland China on behalf of a small network of friends and family. However, today the professional *daigous* are typically not touching the product anymore: they simply facilitate orders between the producer and the customer.

They are the insurers of the quality and authenticity of products and their success relies on an incredible network of in-person influencers. In a market increasingly saturated with counterfeits and knockoffs, the *Daigou* network is built on assurance around genuine branded products, with consumers placing their trust in these *personal shoppers* to source high-quality and authentic foreign products. Most of the transactions are facilitated by the Chinese social media platform WeChat. While this way of doing business might sound new to most global executives, *daigou* has been around for decades and is an incredibly well-organized industry. As the willingness to pay premiums of up to 100% for legitimate and high-quality products is soaring, the number of *daigous* are expanding rapidly, increasingly becoming sophisticated. Nowadays, the network of *daigou* is rapidly changing, increasingly becoming ambitious by involving small businesses staffed by Chinese living abroad. These new businesses operate extensive professional logistical networks and export products directly to the consumer's front door. According to Euromonitor, this cross border e-commerce channel is expected to grow at a CAGR of more than 60% between 2015 and 2018, reaching around 10% of China's e-commerce value by the end of 2019.

*Daigou* have played an incredibly important role in successfully introducing international brands to the Chinese market and building a strong and sustainable brand awareness. This strategy seemed to be the easiest and most successful way to access the scale of the Chinese population. However, the Chinese government has been tightening its e-commerce regulations to better control the rapidly expanding industry of *daigou* which was up until now relatively unregulated. This stricter control is said to keep supporting the growth of the sector, all the while under stricter control.



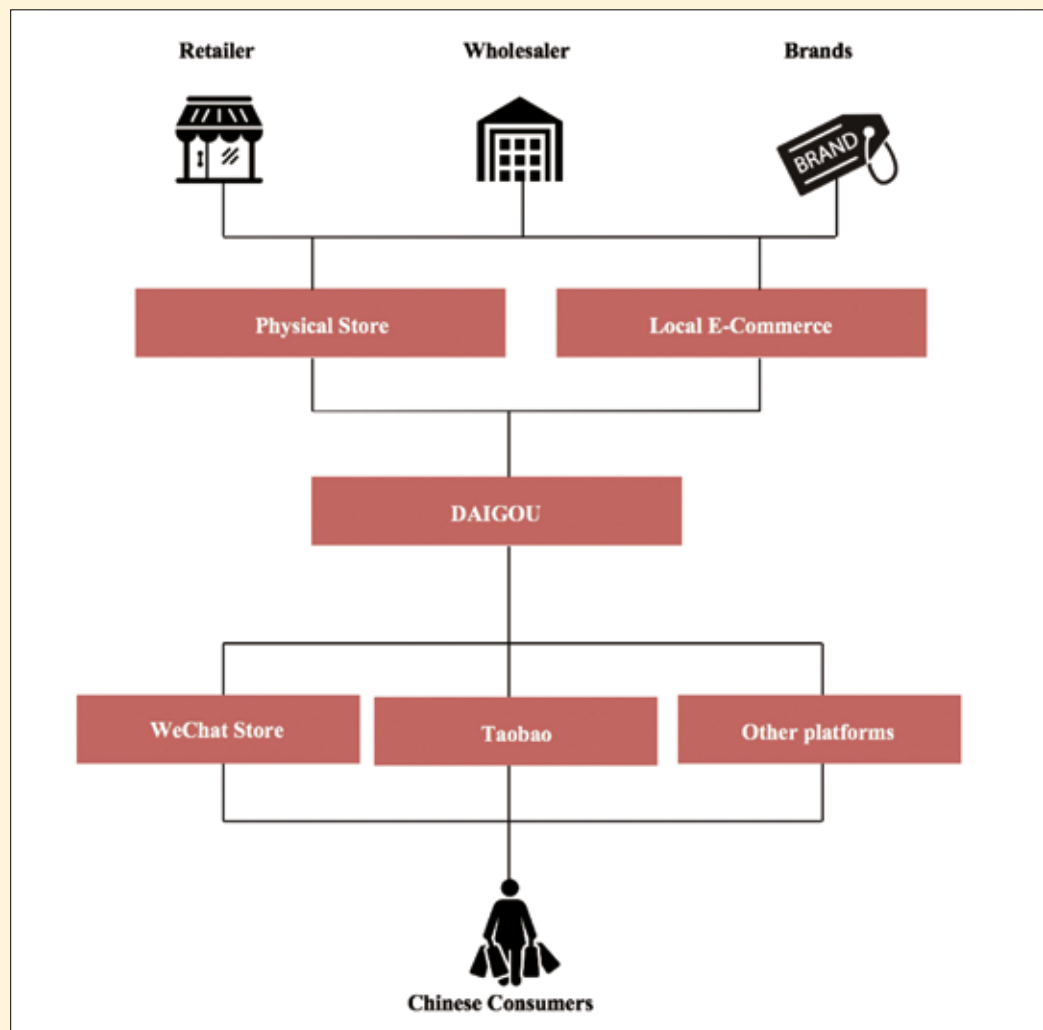
Household income continues to rise and consumers begin to buy into more categories and purchase more branded goods

According to Euromonitor, by 2020, a quarter of the Chinese population - about 500+ million people - will be shopping online overseas products on cross border e-commerce websites. Last year alone, this channel generated around USD 1.1 trillion in sales. The *daigou* practice is estimated to be worth tens of billions of US dollars a year. In the past, no taxes were paid on such transactions, meaning tremendous tax revenue losses for the Chinese authorities. Starting from January 1<sup>st</sup>, *daigou* merchants will be required to obtain licenses by formally registering as businesses and pay taxes. Merchants who refuse to comply will be subject to fines for illegal business and tax evasion that could go up to USD 300,000. Chinese customs have reportedly imprisoned dozens of merchants for tax evasion since the start of 2019 and have started doubling down on their inspections at major airports.

Up until recently, most *daigou* merchants would avoid paying taxes by declaring imports as “personal items”. By heavily cracking heavily on *daigou*, the Chinese government hopes to collect more taxes from cross-border e-commerce imports. Such strict control from authorities will very likely benefit foreign retailers: purchasing through *daigou* helped consumers save on import duties, giving these merchants a competitive advantage over traditional retailers. However, thanks to the Chinese government crackdown, purchasing through such channel will become increasingly expensive, meaning that international products sold by foreign retailers will become more competitive for mainland shoppers.

### CHINA'S NEW CROSS BORDER E-COMMERCE REGULATIONS

As mentioned previously, China's cross border e-commerce companies have always enjoyed easier customs procedures and supportive policies. Back in November, the State Council announced new policies that would increase even further the opportunities offered by cross border e-commerce. Coming into effect in January 2019, such policies have added new categories of products to the lists of duty-free products purchased on such platforms – including beauty and healthcare products. Additionally, consumers buying expensive products will benefit from the higher single transaction limit, with the tax-free quota on single transactions increasing from about USD300 to USD 730, that is a 150% increase. China will also loosen its annual quota of individual consumers allowed on cross border e-commerce platforms and will continue to increase the annual quota as income keeps growing. So what exactly does this entail for the future of China's e-commerce industry? China's new e-commerce regulations – which have taken effect on January 1<sup>st</sup>, 2019 - and clampdown on *Daigou* will not likely have a direct impact on cross border e-commerce consumption.



How does the Daigou Channel work

Under the new regulations, the oversight of cross border e-commerce platforms will improve. China's affluent rising consumers will continue to prefer imported goods over those which can easily be found on the domestic market. The clampdown on *Daigou* will only divert consumption towards increasingly legitimate channels. Thanks to stricter management on cross-border e-commerce platforms, Chinese consumers will now benefit from an increased credibility and authenticity of retailers and products sold – one of their main concerns. China's new approach to e-commerce will only serve to tighten the tax gap between *daigous* and the cross border e-commerce platforms.

Price differences between imported goods from cross border e-commerce platforms and *Daigou* will become insignificant. By selling through legitimate cross border e-commerce, your brand will benefit from increased transparency in regulation, preferential policies and stronger support against counterfeiters. At International Luxury Brand Consultancy, we know that choosing the right platform for your business can be a tough decision, especially if you are navigating in unknown waters. We work with our clients so that we can provide them with clarity backed up with years of experience, expertise and knowledge. With many years of experience under our belt, we can leverage our expertise to establish your brand successfully on the Chinese market.