

final report

Project code: P.PIP.0750

Prepared by: Cash He
Thomas Foods Internationa (China) Ltd.

Date published: November 30 2019

PUBLISHED BY
Meat and Livestock Australia Limited
Locked Bag 1961
NORTH SYDNEY NSW 2059

E-commerce strategy development and implementation – TFI China

This is an MLA Donor Company funded project.

Meat & Livestock Australia acknowledges the matching funds provided by the Australian Government to support the research and development detailed in this publication.

This publication is published by Meat & Livestock Australia Limited ABN 39 081 678 364 (MLA). Care is taken to ensure the accuracy of the information contained in this publication. However MLA cannot accept responsibility for the accuracy or completeness of the information or opinions contained in the publication. You should make your own enquiries before making decisions concerning your interests. Reproduction in whole or in part of this publication is prohibited without prior written consent of MLA.

Abstract

Since 2019, with the improvement of China's e-commerce market, the Internet demographic dividend has gradually disappeared, and the development of online retail driven by user growth is slowing down. However, in the first half of 2019, the scale of online retail transactions in China is still 4.8 trillion yuan, with a year-on-year growth of 17.8%. From the perspective of market share, the online sales penetration rate of clothing reaches 33%, and that of household appliances and 3C categories reaches 42%. However, the online penetration rate of many categories, such as fresh products, is only 3%. Therefore, for the huge market of Chinese e-commerce, no matter what kind of products are operated, there is still a huge space to explore. As a TFI with high-quality red meat products from Australia, we strive to explore a path suitable for Australian products to enter the Chinese e-commerce market by opening flagship stores on the Chinese e-commerce platform.

Executive summary

China's e-commerce market has experienced and continues to experience rapid development. Unlike the west, China's e-commerce market is closely related to the development of social media, and complements the development of government policies, mobile Internet, and smart industry. For Australian enterprises, compared with local enterprises, they need to have a comprehensive understanding of China's e-commerce market, there are certain difficulties.

Since 2016, Jack Ma put forward the concept of "new retail" for the first time, PinDuoDuo listing, DOUYIN / XiaoHongShu and other e-commerce with goods have risen. As one of the most active and concentrated forms of expression of the digital economy, e-commerce has become an important pillar of China's social and economic development. E-commerce, however, has evolved from a simple and barbaric growth in the early stage to a business model with more and more rich content, such as O2O, content operation and other models derived from e-commerce, which have also become an important part of e-commerce participants that cannot be ignored.

Therefore, in order to thoroughly understand how to carry out e-commerce business in China and how to participate in the development of e-commerce in depth, TFI China directly participates in the market operation and product sales of the brand (Thomas farms) by opening flagship stores directly on China's major e-commerce platforms (such as Alibaba, JD, etc.). At the same time, the WeChat public account was opened in WeChat, and the official account was opened in micro-blog, which directly carried out brand publicity and traffic operation. From scratch, we will explore and build supply chain, production and logistics models suitable for online retail in China, and develop and verify retail red meat products suitable for Chinese consumers.

After 18 months of exploration, we initially established an online flagship store market model with JD platform as the main sales platform and tmall platform as the main publicity platform. As of November 2019, from scratch, the cumulative sales of e-commerce is close to 10 million RMB. Thomas Farms brand covers 11 major provincial administrative regions in China, with a total of 150000 consumers.

We have basically proved the love and recognition of Chinese e-commerce market and Chinese consumers for Australian brand red meat products. Because of the unlimited shelf, e-commerce is very suitable to be the starting point for Australian brands that have not yet entered China. It provides a representative model for more Australian brands to enter the Chinese market and carry out localized operation.

Table of contents

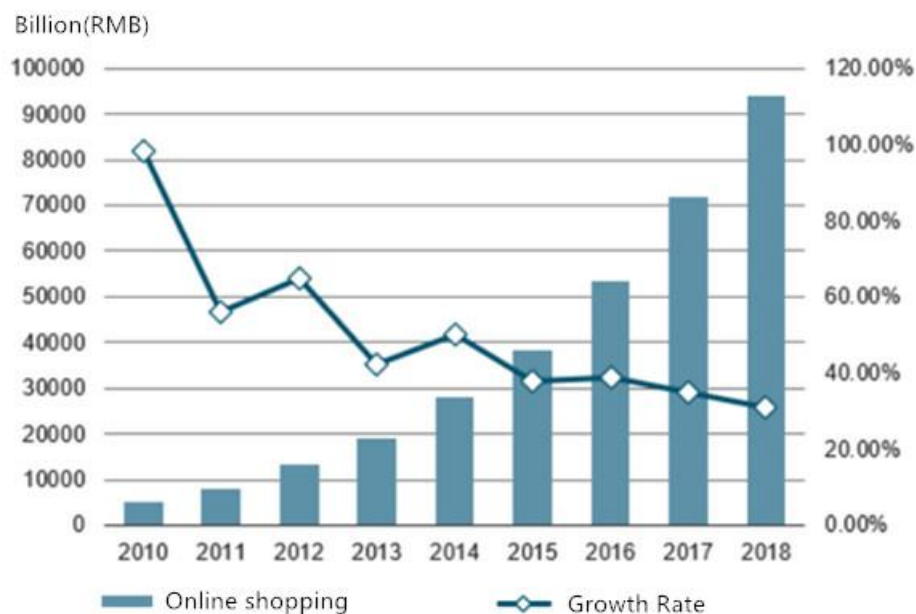
1	Background	5
1.1	Fast growing market	5
1.1.1	Policy support.....	5
1.1.2	Digital technology innovation	6
1.1.3	The rapid growth of Internet users.....	6
1.1.4	The development of mobile payment.....	6
1.2	New choice of Australian brand	7
2	Project objectives	7
2.1	Feasibility study	7
2.2	New product development	7
2.3	Research on new media platform	7
2.4	Executive evaluation	7
2.5	Research on e-commerce platform	7
2.6	Style positioning	8
3	Methodology.....	8
3.1	Use advantage	8
3.2	Solving disadvantages	8
3.3	Specific measures.....	8
3.3.1	Quality of flow.....	8
3.3.2	Multi-platform strategy	8
3.3.3	Optimizing existing products and developing new products.....	8
3.3.4	Refined operation.....	9
3.3.5	Opponent analysis	9
4	Results	9
5	Discussion	9
5.1	Price positioning.....	9
5.2	Price range.....	9
5.3	Cost optimization	9
5.4	New media is still inconclusive	9
6	Conclusions/recommendations.....	10
7	Key messages	10
7.1	Focus on quality	10
7.2	Quick reaction	11
8	Bibliography.....	11
9	Appendix.....	12

1 Background

1.1 Fast growing market

In recent years, China's Internet has developed rapidly, Internet penetration has greatly increased, and the scale of Internet users has been further expanded. According to the data, as of December 2018, the number of Chinese Internet users reached 829 million, with a penetration rate of 59.6%, 3.8% higher than that at the end of 2017, and 56.53 million new Internet users were added throughout the year. China's mobile Internet users reached 817 million, and the proportion of Internet users accessing the Internet through mobile phones reached 98.6%.

China's e-commerce, as a unique market developed by relying on Internet access, has also become a more and more important part of China's national economy due to the development of China's Internet. Then, the development of government policies and smart industries cannot be separated from the power brought by the e-commerce industry. In terms of transaction scale, by the end of 2018, gmvs of Alibaba, JD and pinduoduo were 4.82 trillion, 1.68 trillion and 471.6 billion respectively.



1.1.1 Policy support

In recent years, e-commerce industry policies emerge frequently to promote the healthy development of the industry. For example, on August 31, 2018, the fifth meeting of the Standing Committee of the 13th National People's Congress passed the e-commerce law of the people's Republic of China. E-commerce law strengthens the responsibility of e-commerce platform, standardizes the behavior of e-commerce operators, and strengthens the protection of consumers' rights and interests. It explicitly forbids the illegal market behaviors such as list swiping, deletion and evaluation, "big data killing old consumers", "platform two choice one", which is conducive to protecting the legitimate rights and interests of all parties of e-commerce, maintaining the market order, and promoting the sustainable and healthy development of e-commerce. The formal implementation of e-commerce law marks the beginning of further standardized development of e-commerce.

1.1.2 Digital technology innovation

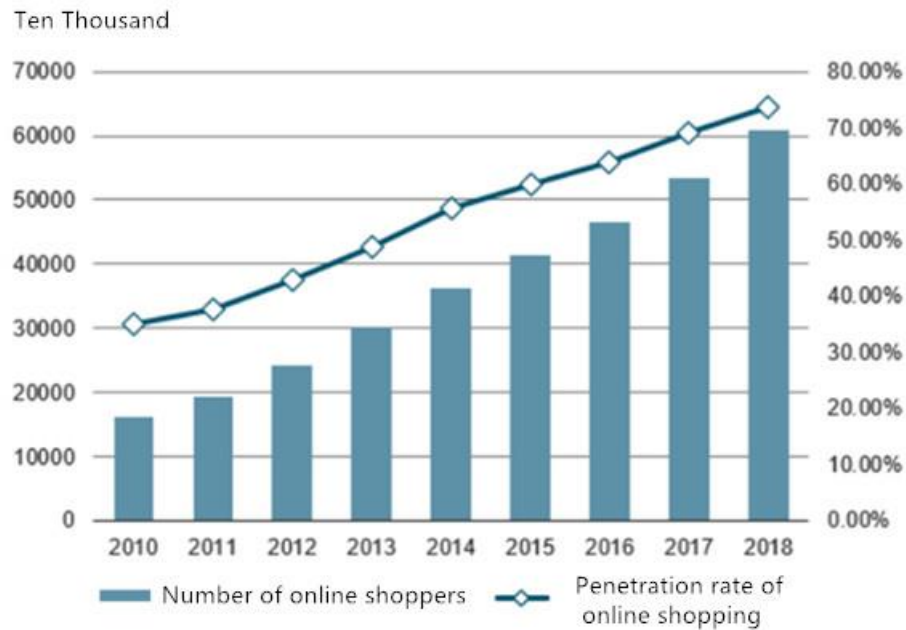
In recent years, the rapid development of big data, cloud computing, artificial intelligence, virtual reality and other digital technologies has created rich application scenarios for e-commerce, and is driving a new round of e-commerce industry innovation. The application of new technology promotes the continuous innovation of marketing mode. Big data and artificial intelligence technology support personalized scenes, realizing targeted shopping guide and promotion for different consumers; virtual reality and augmented reality technology gradually mature, shortening the visual perception distance between consumers and commodities, improving user experience, and helping to achieve transactions. The application of new technology accelerates the digital transformation of enterprises. Relying on the Internet, the enterprise upgrades and transforms the production, circulation and sales process of commodities by using advanced technologies such as big data and artificial intelligence, thus reshaping the business structure and ecosystem, and deeply integrates online services, offline experience and modern logistics, from convenience stores, retail experience stores, intelligent stores, Internet stores and social electronics Business and other aspects actively build new formats of digital e-commerce, and promote the development of e-commerce to the direction of intelligent and multi scenario.

1.1.3 The rapid growth of Internet users

The rise of e-commerce benefits from the continuous development of mobile Internet and information technology. At the same time, the popularity of smart phones and the widespread use of social applications make anyone become the center of self media, and interact with others in a network structure and social form. So at this time, there are platforms for communities, communities and social networks. Through these platforms, people can contact their relatives and friends through social tools, expand their contacts and develop e-commerce business.

1.1.4 The development of mobile payment

Mobile e-payment plays an important role in the development of e-commerce. Its advantage is that mobile payment is more convenient than traditional means of payment. The traditional scenario of cash payment is face-to-face transaction, while bank transfer payment is more suitable for large amount of commercial settlement. Mobile payment combines the advantages of both, the convenience of cash transaction and the security of transfer payment. At the same time, in the virtual transaction environment of network, mobile payment plays a role of increasing credit. In 2018, China mobile payment business recorded 60.531 billion transactions, with a total amount of 277.39 trillion yuan, up 61.19% and 36.69% respectively year on year.



1.2 New choice of Australian brand

So, the characteristics and advantages of e-commerce platform are obvious in China, but is it a new choice for Australian brands to enter China? Then we need practical operation to explore the answer.

2 Project objectives

2.1 Feasibility study

Conduct a feasibility study and demonstrated estimated high value growth opportunities in the China e-commerce space ,including KPI's for what success will look upon completion of the investment .

2.2 New product development

Development of tailored TFI Australian products for the China e-commerce market

2.3 Research on new media platform

Understanding of Wechat / Weibo store development and promotion requirement.

2.4 Executive evaluation

Review of requirements to establish and delivery distribution requirements for China e-commerce

2.5 Research on e-commerce platform

Determine the appropriate e-commerce channel for Australian product(Alibaba, JD store ,Daigou etc.)

2.6 Style positioning

Scope, develop and implement an Australian “Gift Box” strategy for the Chinese e-consumer – products ,packaging style / type etc ,that delivers on a highly desired “job to be done” to distinguish offer from current players.

3 Methodology

3.1 Use advantage

Take advantage of the traditional advantages of Thomas farms as an Australian brand: excellent supply chain, market insight, advanced management system and capital strength.

3.2 Solving disadvantages

Try to solve the disadvantages caused by opening up e-commerce channels, such as:

Online and offline brand (product) conflict: the essence is the conflict of interest of different channels. Through the directional development of online products, distinguish the audience and packaging box positioning of online and offline products, so as to achieve the differential presentation of online and offline products.

Changes in business environment: including supply chain, marketing, service, customer base and other links, which can be adapted while doing

New team building: we can't rely on the original model and team. If we follow the original model to learn e-commerce, it will be difficult.

3.3 Specific measures

3.3.1 Quality of flow

Platform price competition: Exclusive competition exists between platforms, such as the Suning contract states that the supply price should not be higher than other platforms.

Flow nature of different platforms: Tmall focuses on brand investment (high display), JD focuses on sales Investment (high conversion rate), Suning focuses on combination with offline (strong experience).

Judge the performance-price ratio of platform flow according to the actual stage and situation of the company.

3.3.2 Multi-platform strategy

Different platforms have different positioning: according to product price and customer groups, we can distinguish the positioning of platforms and cooperate differently.

Single Platform Advantage: First of all, focus on the single platform with the most obvious advantages to avoid waste of resources, and quickly accumulate sales and running-in process.

Combining the conclusions from two perspectives of flow and platform, after comparison, we choose to focus on JD platform at this stage.

3.3.3 Optimizing existing products and developing new products

According to the big data of the platform.

According to user feedback.

According to our own advantages.

3.3.4 Refined operation

Reasonable pricing, down-to-earth pricing strategy, data as the core, positive experiment. Educating consumers is not as good as adapting to consumers by using the promotion and activity mechanism reasonably.

The above measures can rapidly increase sales, enhance competitiveness and obtain more raw data.

3.3.5 Opponent analysis

Low price strategy and fierce competition.

The importance of cost control.

4 Results

By the end of November 2019, we had sales of more than 10,000,000 RMB and 150,000 consumers. Through the platform backstage big data and consumers' active contact with customer service staff feedback, we understand that consumers want us to provide more raw-cut and thick-cut (from the product point of view), high cost-effective (from the price point of view), seasonal (from the product mix point of view) red meat products. According to the feedback, we will continue to improve the cutting process to provide more red meat products for Chinese consumers.

5 Discussion

5.1 Price positioning

we positioned the price at the upper level of the industry, which is about 20% higher than the median market price. We got good feedback. So we can know that Chinese consumers positioned Australian products basically this way.

5.2 Price range

Through data accumulation, customer feedback and product optimization till now, our beef products line have been formed. It includes three categories: steak, rolls and partial meat. The price band is distributed in 40-60 yuan, 70-89 yuan and 100-200 yuan. Each price band corresponds to different needs of the consumers. This gradient has been recognized by the platform and consumers. Next year, the same way will be tried on mutton products. At present, the mutton slices through the stereotyped roll slices are already planned. There are no similar products in the domestic online market.

5.3 Cost optimization

During this period, we actively carried out cost control, from the logistics point of view, optimize the logistics routes. From the point of view of product production, we have reduced the average loss of product production from 15% to 10%, and will continue to optimize more.

5.4 New media is still inconclusive

In the process of operating Wechat and Weibo, we found that the progress is not as fast and convenient as that directly transformed from within the e-commerce platform, which means that

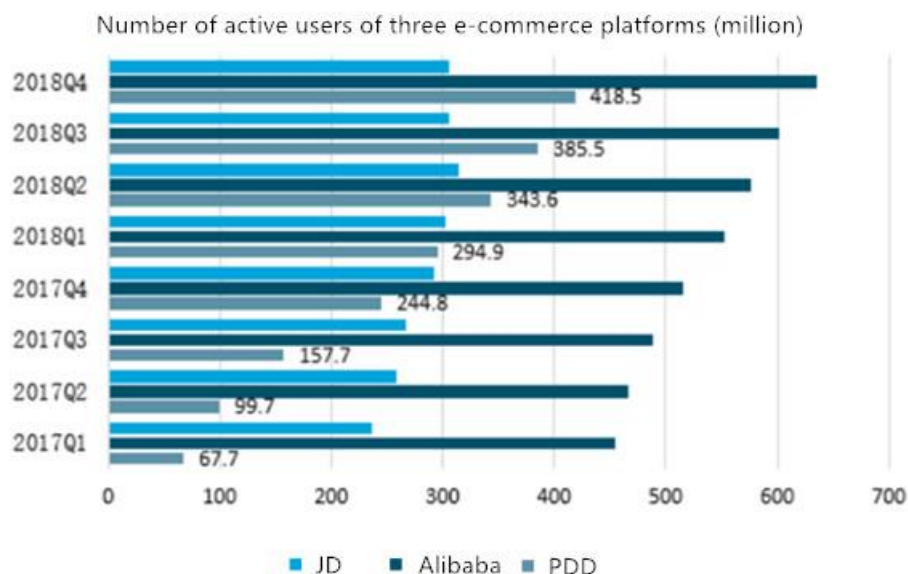
the traffic between platforms also has a certain closeness. So as a new business ,if it is still in the stage of striving for the traffic in the station, the external platform traffic acquisition is not necessarily the point to be used at the beginning. But because of the limited time, no clear answer has been found.

6 Conclusions/recommendations

Fresh market is booming in China, and there are many sellers and brands. Chinese consumers' understanding of beef and mutton products is still at the stage of learning. Educating consumers should not be the behavior of a single brand or seller, but the development trend of the whole market. What we have to do is to adapt to this trend rather than impose ideas. Next, our focus will still be on consumer demand, to adapt to demand, rather than actively create demand.

At present, with the increase of sales volume and brand awareness in JD Platform, other platforms besides JD have gradually generated demand for sales. Actively communicating with us, this shows that the positive impact of our brand and sales is also deepening.

Next, we will boldly try to invest more. We will replicate the model of JD in TMALL,SUNING and other non-major sales platforms, so as to promote brand influence with sales, promote brand influence with products, promote sales and product upgrades with brand influence.



7 Key messages

7.1 Focus on quality

The process of in-depth development of the Internet, that is, the process of increasingly prominent consumer subjectivity, that is, the process of consumer personality and demand being explored and satisfied to a greater extent. The expression of consumer subjectivity is often manifested in the pursuit of the quality of goods and services, as well as the respect for excellent content. This is an opportunity and challenge for producers. The historical stage built by the Internet has gradually begun to perform a real good play.

Consumers' pursuit of individuality has given birth to various professional vertical e-commerce platforms, such as Meili Shuo, Mushroom Street and so on. Not only that, social e-commerce and KOL economy are the best illustration of this trend. Because consumers have personality, they may go shopping because of social interaction, and share their feelings after buying, also because consumers have personality, so they go shopping for their favorite online celebrities. These behaviors are impossible in the early stage of e-commerce development, because at that time, people just came to buy things and did not combine their personality with these behaviors.

However, in the final analysis, e-commerce is a platform, a channel, and the production end is the most profitable. This trend is becoming more and more obvious. This is one of the reasons why enterprises like Xiaomi can develop rapidly. To some extent, they are not Internet enterprises at all, but traditional producers who are good at using e-commerce channels. This transformation is light, but powerful Full.

If we further explore the industrial revolution, the first two industrial revolutions in human history actually occurred directly in the field of production. Steam engine, electric power and internal combustion engine all directly improve the production efficiency from the aspect of industrial technology. However, the third industrial revolution, or the technological revolution, first improves the communication efficiency between people and people, between people and information through information technology. Starting from the media channel, it gradually changes the consumer behavior and mentality, and finally points to the production end, so it is A demand driven production revolution.

Therefore, according to the most basic framework of commodity trading: production - channel - consumption, as a producer, no matter how the channel and consumer behavior change, it still needs to return to the production itself, pay attention to quality and quality, which is the maximum satisfaction of consumer demand.

7.2 Quick reaction

In the final analysis, e-commerce is a kind of sales mode. With the help of the Internet, e-commerce channels shorten the distance between producers and consumers, eliminate the intermediate links, and enable consumers to buy cheaper goods. Moreover, after the transformation of the Internet, transactions are not only limited to a specific offline scenario, and consumers can directly contact more businesses online Communication broke the situation of information asymmetry.

Therefore, in the field of e-commerce, producers often need to face consumers, quickly verify products, and quickly make changes based on consumer feedback. This is a challenge that e-commerce brings to producers, and also a difficulty that has to be overcome.

8 Bibliography

《Analysis of the current market situation of China's e-commerce industry in 2018-2024 and forecast report of investment prospect》 <http://www.chyxx.com/research/201806/648960.html>

9 Appendix

<http://images.mofcom.gov.cn/dzsws/201905/20190530100539785.pdf>