



Innovating new business opportunities for SMEs

1. Introduction:

In our study of Brand Assurance 維護品牌, our findings on the perception of “Made in China” in both product safety and Infringement of Intellectual Property Rights (counterfeit/fake products) reported by European Union (European watchdog) and USA Consumer product safety Commission) is of particular concern to western consumers as well as well published food scandals in China and China's State Administration for Industry and Commerce (SAIC) report on state of fake products sold in internet platforms.

2. Brief summary of findings from our study:

Issue 1: Unsafe Products:

“Made in China” tops list of unsafe products (60% product recall) in European Union (reported by European Watchdog) and USA (reported by Consumer Product Safety Commission) were published in 2015.

Note: Since China is the “world’s factory”, it is natural that large quantities of products are supplied by China in comparison with the rest of the world. There is no figure to indicate the number of unsafe products or number of accepted products over total number of products supplied by “made in China”.

Nevertheless, Chinese manufacturers have a duty to produce and supply quality and safe products.

Issue 2: Food scandals in China: This is well published that we are not going into details

The “tainted powdered milk –Melamine scandal” and many incidents of unsafe food products reported in Mainland China has resulted in our compatriots distrust of the “made in China” food products.

Sad but this is the fact! Luckily, Chinese regulatory bodies are taken a tough stand in detecting, arresting and severely punishing those unscrupulous offenders.

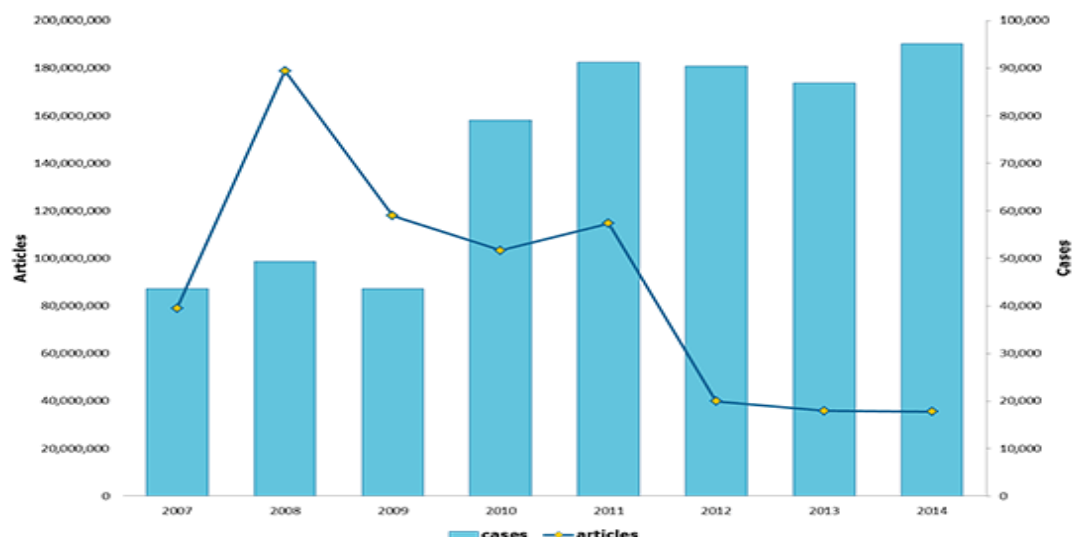
Issue 3: Fake products (violation of Intellectual Property Rights):

The European Commission reported that China continued to be the main source country from where IPR infringing goods were shipped to the EU. This continuous high number of (more

than 95,000 cases) detentions is caused by the high number of small parcels in express and postal traffic, most probably as a result of internet sales (over 35 million detained articles).

Note: The problem is of both **Demand from European consumers** and the supply of fake products from countries such as China.

The following table showing number of cases (including articles) that were detected by EU Customs over the years.



Issue 4: Online shopping platforms sold fake products:

The China's State Administration for Industry and Commerce (SAIC) reported in January 2015 that 37.25% of products sold in Chinese online shopping platforms were fakes/counterfeits (violation of Intellectual Property Rights).

IuPDI concluded that these issues of unsafe and fake products supplied by and/or sold in China should be best left to Chinese regulatory bodies to tackle.

Please go to www.IuPDI.org then blog button and click to our article 中國人的新五鬼症 (English and Chinese versions) in November 2014 of our blog. Worth reading

3. IuPDI solutions:

IuPDI have established solutions for Hong Kong and Mainland Chinese SMEs to differentiate themselves and increase their competitive advantages.

Solution 1: Use online shop to sell products directly to consumers instead of via retailers or importers (cutting out the “middle man”).

The international trend in online shopping is progressing rapidly especially in China, UK, USA etc. Hong Kong is lagging behind.

Advantages of operating online shop:

- i. **More economical to operate than offline shop:**

- The cost, size and number of retail shops (rental, renovation and sales staff) is quite expensive than online shop
 - The cost of an online shop (website system) is much more economical than renting an offline shop
 - Staffing is more flexible when compare to offline shop (more economical to operate)
 - Stock level control is more flexible.
- ii. **Not limited by location** (compare with offline shop). Can cater to customers globally.
 - iii. **Accessibility by shoppers**; Online shop is open 24 hours instead of restriction of opening hours by offline shop
 - iv. **No limitation of Products on display** (need to organise products in display and searching functions)
 - v. **Entry level is easier and much more feasible.**

Trend in consumers' preference for shopping online:

There are two major factors that contribute to the rise of online shops that has changed the way consumers conduct their shopping.

- a. **Busy lifestyle:** “Young” (age ranges from 18 to 45) persons are busy balancing their time in their jobs, their leisure activities and shopping for their necessities and desire. Online shops have created options for consumers to shop outside of traditional offline shopping hours and at their free time more effectively.
- b. **Age of the Internet:** Internet usage has grown rapidly over the years that it is so common and popular for users to search for information and businesses to provide their goods and services online.

Benefits for consumers to shop online:

- i. **Flexible and save time:** Consumers are shopping by “internet surfing” instead of walking around offline shops at any time they wished and for how short of a time they want. (Have more time for other activities).
- ii. **More cheaper of goods:** Since the cost of operating offline shop is much more than online shop, it is natural to assume that the price of the same product sold offline is much higher than online shop.
- iii. **Save transport cost:** The cost of travelling from home to various shopping locations and back could be a factor depending on the location where the consumer lives.
- iv. **Comparison of prices:** Consumers can compare prices through surfing the internet (online shops) instead of walking from shop to shop (offline).
- v. **No boundary:** Consumers can shop anywhere in the world instead of limitation by physical location(s).

Challenges facing Hong Kong and Mainland Chinese online shops:

1. Majority of overseas consumers indicated that they had experience of receiving poor quality of products purchased from other online shopping platforms.

2. Overseas consumers are still sceptical of buying from Mainland Chinese or Hong Kong online shops.

3. Overseas consumers are still concerned about fake products being sold online.

Note: The first three items are findings from our survey of UK consumers.

4. Consumers want consumers protection when shopping online, assurance that the quality of products are safe and within specification (non-defective) and receiving fair treatment.

5. SME Online shops are concerned about promoting themselves to consumers with limited budget and unknown brand.

6. SME Online shops are concerned how products are delivered to destination around the world.

7. SME Online shops are concerned about the cost of compliance with “product safety regulations”.

8. Bulky products are not economical and logistically feasible to be sold online.

9. Consumers in Hong Kong still like to shop offline but there is indication that this is changing.

Solution 2: Recognition and creditability:

IuPDI is providing a “Certified Online Shop” scheme that will provide recognition and credibility to Hong Kong and Mainland Chinese online shops that overseas consumers can trust and feel safe to shop at.

Solution 3: Transparent and open (cross verification):

IuPDI will publish a list of certified online shops for consumers to verify whether the online shop is actual certified by IuPDI. This is a measure for consumers to cross check the online shop (claimed to be certified by IuPDI) for validity.

Solution 4: Online shopping platform (not a trading platform):

IuPDI will promote the list of certified online shops to overseas consumers through our future initiatives (see solution 5) in order to assist to promote SMEs online shops. Since this is not a trading platform, there is no conflict of interest by IuPDI and consumers should feel safe to shop at any of the list of certified online shops.

Please go to www.CertifiedOnlineShops.org for information (our criteria, application procedure and our approach) about our scheme.

Solution 5: IuPDI cooperation with overseas universities and institutions:

IuPDI will work with universities and institutions to further enhance online shopping and certified online shop scheme.

4. Recommendations:

Recommendation 1: Improve product competitiveness and quality:

The promotion of the online shop is to attract potential consumers to search and purchase products from them. If the product quality is not acceptable or the product is not delivered as promised, the consumer will not buy from you and will also share his/her bad experience with friends and associates through social media.

Online shop is just the mean to promote and sell products. It is the product quality and services that maintain clients and clients' loyalty and referral.

One of the critical success factors in any business is the quality of product. We strongly recommend online shops to concentrate on improving their product competitiveness and quality.

Recommendation 2: Establish your own brand and brand building:

It is important to have your own brand and it takes time to build the brand into a well-known brand. Online shops should learn about branding and also following recommendation 1.

Recommendation 3: David vs Goliath:

In any competitive business environment, the company should establish its strength and understand the strength and weaknesses of competitions. It needs to define strategy to compete on your strength and exploit your competitions weaknesses.

The best illustrated case: **Virgin Records**.

In the music industry of the United Kingdom, teenagers and adults buy their records from High street records shops backed in the 60s.

This way of doing business was challenged in the 70s, where a group of youngsters led by Richard Branson, they came up with an "innovative approach to sell records" to teenagers at a much lower price than the "High street records shops". The business model adopted by these youngsters (inexperience in business and named their company Virgin to reflect this) was the "mail ordering" method for clients to place orders and used the General Post office (Royal mail) to deliver (use existing resources available instead of building and running a logistics operation) records to the clients.

It was the business battle between David (Virgin Records) and Goliath (High Street records shops owned by large corporations). Naturally, Virgin records won.

Recommendation 4: Young entrepreneurs:

Young entrepreneurs such as Richard Branson of Virgin Records and Bill Gates of Microsoft venture into business because they know they are onto "something". However, there are many young entrepreneurs failed as well.

Useful tips: It is important for young entrepreneurs to seek advice from Business Mentors or Business Advisors.

- i. Turn your idea into product and service:
- ii. Product and service: Review the strength and weaknesses of your product and service. Create competitive advantages and customer needs.
- iii. Understand your industry, market and customers.
- iv. Have a vision (not a dream). Be realistic with goals.
- v. Plan strategy and take action.
- vi. Build a winning team.
- vii. Believe in yourself (have confidence and go into battle with winning mentality)
- viii. Go into business because you like what you are doing and not just for making money.

Article written by: Leslie Lee 李賢勝

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