

Research on the Model of Cross-Border e-Commerce Private Brand Building

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Abstract: As a new commercial format, cross-border e-commerce has been getting rapid development under Chinese policies' support. The competitiveness of the whole industry has been becoming fierce. Private brand is a mature business model to reduce costs and improve cost-effective, which has been widely used in western traditional retailer. In recent years, cross-border e-commerce enterprises have been building their private brands to enhance the competitiveness of differentiation, and expand their development ecosystem, as well create international private brands. However, there isn't a complete theoretical basis and mature strategic systems on the private brand building of cross-border e-commerce enterprises. This paper firstly analyzes the status quo of cross-border e-commerce private brand and the importance of private brand building. And then analyzes characteristics and main problems of cross-border e-commerce private brand, combining with traditional retailers' private brand building. Finally, this paper puts forwards strategies of Chinese cross-border e-commerce private brand building.

Key words: Cross-border e-commerce, private brand, private brand building.

1. Introduction

Chinese cross-border has entered the high-speed development period. At this stage, cross-border e-commerce policies gradually standardize, and financial capital investment tends to be rational. Private brand building has unique advantages, such as reduce the costs of enterprises, improve the level of profits, enhance the comprehensive competitiveness of enterprises, establish enterprise image, and cultivate customer loyalty and other advantages. These have been concerned by traditional retailers. The essence of cross-border e-commerce is also the retailer. Private brand building naturally become an important part of the ecosystem development of cross-border e-commerce.

2. The Status Quo of Cross-Border e-Commerce Private Brand Building

2.1. Only Way to the Development

Cross-border e-commerce can be divided into two categories from the perspective of private brand building. One is traditional cross-border e-commerce; the other is manufacturing enterprises that have set up cross-border e-commerce platform. The first category sales products purchased from upstream supply chain on cross-border e-commerce platform, but the other sales private brand products. With the development of cross-border e-commerce, the survival space of the first category enterprises will become smaller.

Private brand can play Matthew Effect and accelerate industry reshuffle. Matthew Effect refers that the strong get stronger and the weak get weaker [1]. After financial crisis in 2008, China's export trade had shrunk, e-commerce channels became a new growth point. In addition, government had introduced a variety of policies to support the rapid development of cross-border e-commerce. Especially in recent years, cross-border e-commerce was blowout growth. And product homogeneity was serious among cross-border e-commerce enterprises, as shown in Table 1 below. These enterprises have 3C and Home in product categories, and private brand building.

Table 1. Cross-Border e-Commerce Main Products, Main Business and Sale Channels

| Cross-border e-commerce | Main products | Main business | Sale channels |
|-------------------------|--|--|--|
| Aukey | 3C, Home, Car Accessories, Garment etc. | Private brand business Comprehensive business Private website business | Private website: eFox Third-party platform: eBay、Amazon |
| YouKeShu | UAV Accessories, 3C, Home, Outdoor etc. | Private brand business Comprehensive business | Third-party platform: eBay、Amazon |
| ValueLink | 3C, Car Accessories, Home, Car Chargers etc. | Private brand business Comprehensive business | Third-party platform: eBay、Amazon |
| SAILVAN | Garment, 3C, Home etc. | Private brand business Comprehensive business | Third-party platform: eBay、Amazon |

Data source: the Official Website of Aukey, YouKeShu, ValueLink, Sailvan

It is difficult for the first category to form unique competitive advantages though farming the upstream supply chain and strengthening platform construction. There are same product brands and similar price among cross-border e-commerce enterprises. If encountering the price war, they will only burn money to sustain their own life, or will be likely to be folded in industry reshuffle. The implementation of cross-border e-commerce private brand building not only can increase profit, but also has differential breakthrough advantages. In conclusion, Private brand building has become the only way which must be passed for cross-border e-commerce enterprises.

2.2. Lack of Theoretical Basis

At present, Chinese cross-border e-commerce private brand building is in early stages. Cross-border e-commerce enterprises lack theoretical basis on private brand building. Although cross-border e-commerce enterprises can draw lessons from traditional retailers, they still have the particularity, and cannot mechanically imitate. According to enterprises' characteristics, they will build different frameworks about the development of private brand building. Meanwhile, the overall development of Chinese cross-border e-commerce is still subject to the corresponding constraints, such as logistics and distribution, cross-border payments, policies and regulations and so on. In addition, cross-border e-commerce business model have multiple types. It is difficult to format a unified private brand building model. Cross-border e-commerce enterprises only rely on characteristics of consumer behavior in platform, regional culture, user experience, research and development (R&D) technology to complete private brand building gradually.

3. The Importance for Cross-Border e-Commerce Private Brand Building

3.1. Reduce Costs

Cross-border e-commerce can not only control the cost of private brand products, but also have the

independent pricing power. As the capital of investment in cross-border e-commerce is gradually cooled, a serious shortage of hematopoietic capacity has become the bottleneck of the survival of cross-border e-commerce. So, private brand building is only hope of survival for the plight of cross-border e-commerce. The data from VANCL shows that sales of private children's clothing brand were nearly 200 million Yuan, with year-on-year growth of nearly 200% in 2011. Sales of private bag brand that was online for one year rose for the third consecutive month, with the month-on-month growth of more than 300% in 2012. Due to save the intermediate link, the profit of private brand products could reach 10 times than that of agent brand products.

3.2. Increase the Added Value

Homogenization of cross-border e-commerce platform is serious. Inbound channels are similar, business lines are largely identical but with minor differences, and there is no special. Cross-border e-commerce can't meet individual needs. However, private brand building is a business model innovation for cross-border e-commerce. Cross-border e-commerce enterprises make full use of private brand to reflect the value of the platform and create differentiation advantages, in order to help the platform to enhance the core competitiveness and customer loyalty.

4. Characteristics of Cross-Border e-Commerce Private Brand Building

4.1. Shorter Growth Path

Unlike traditional retailers private brand building, the growth of cross-border e-commerce enterprises is shorter. Traditional retailers need to undergo four stages: no-names, quasi-brand, family brand, image brand [2]. But cross-border e-commerce private brand building directly lives through no-names stage; even begins in brand family stage. Traditional retailers have the ability to build private brands only if they obtain enough conditions. Usually, they use low price follow strategy. Product design is similar to that of manufacturer, marking private brand. They are only passive imitation in the early stage.

The growth path of cross-border e-commerce belongs to the dominant path of product R&D capability [3]. Cross-border e-commerce enterprises analyze platform data, including consumer and product demand data, price, appearance, function and so on. Based on these data analyses, they can design product independently and entrust the upstream supply chain to produce. Compared with the growth path of traditional retailers' private building, cross-border e-commerce enterprises are shorter.

4.2. Relatively Low Conditions

Large traditional retailers need to invest large amounts of capital in the whole process of private brand building, which can fully play out the advantages of private brand. However, the building path of cross-border e-commerce enterprises is shorter. Because consumers' behavior information and localization services information collection have become more convenient in the era of big data, the entire R&D link can be streamlined; the ability of R&D can be released. They can use lower funds to implement private brand building strategy. Cross-border e-commerce enterprises possessing R&D capacity can choose OEM (Original Equipment/Entrusted Manufacture) to produce products. By contrast, they can choose ODM (Original design manufacture). And the sooner Chinese brand export, the more market share get. Before foreign consumers don't form a fixed perception, private brand will be easily recognized. So cross-border e-commerce enterprises have relatively low conditions.

4.3. Localized Construction

Set language localized. Cross-border e-commerce enterprises complete the early market development, customer training, and strength accumulation through the third party platform. The construction of private

website has become another way for the development of cross-border e-commerce. Aukey set up private website and built ERP development team. At present, Aukey has expanded the scope of minority language, such as French, English, Italy, Spain, Portugal website. Unique language advantages of private website not only provide a well-suited shopping environment for foreign customers, but also subtly promote private brand.

Make R&D localized. Private brand building has appeared new starting points driven by big data, which help cross-border e-commerce enterprises to understand foreign consumer experience, analyze consumer feedback and identify desired products. Big data can capture information of customer behavior and feedback easily. Cross-border e-commerce enterprises can produce products in line with local consumer habits and physiological characteristics, in order to win the favor of consumers. The specific process is as shown in the Fig. 1 below.

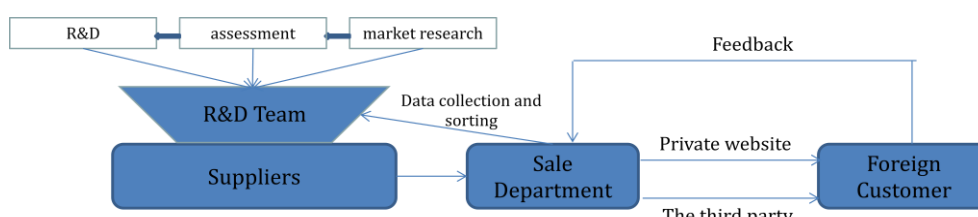


Fig. 1. The R&D flow of cross-border e-commerce.

Do service localized. Localization service makes private brand image interiorize, which can get customer recognition, even cultivate customer loyalty. Focus on the integration of the upstream supply chain. Improve product quality to ensure private brand building. Establish overseas warehouse to provide a more convenient shopping experience abroad.

4.4. Emerging area and Innovation

In the high-tech electronic products and intelligent products, China and developed countries keep up the same line in the technical strength. This type of cross-border e-commerce is relatively easy on private brand building. Devoted to creating the world's leading brand of intelligent equipment, ANKER, USB charging brand, become international private brand in the mainstream consumer market. The business model of ZeShang Technology Company (ZeShang) is "Private brand production + Domestic original brand import". It is different from other ordinary cross-border garment e-commerce in the supply chain. Original brand position and personalized design make good fit in with European and American consumer demand and purchasing power.

5. The Main Problem of Cross-Border e-Commerce Private Brand Building

5.1. Inaccurate Positioning

In the past, most of cross-border e-commerce enterprises valued that the initial purpose of building private brand was profitability. And they are affected by traditional retailers' private brand building in the early brand planning. They used low price follow strategy to set up private brand, especially for these with high profit and sales. With the increase of competition in market, high profit and sales had become homogenized products. It was difficult for them to form a differentiated competitive advantage.

5.2. Lack of Experience and Theoretical Guidance

The attractiveness of high gross margin is easy to drive cross-border e-commerce enterprises to build private brand. However, cross-border e-commerce lack of scientific research guidance, and cannot obtain

the appropriate theoretical and strategic support. In addition, there are different business models which have different brand positioning and R&D capacities. Majority of cross-border e-commerce enterprises don't have a long-term private brand build planning. They often pursue profit too early, leading private brand building channels to become "narrow and shallow".

5.3. "Made in China" of Cost Competition Advantage

In recent years, China's demographic dividends gradually disappear [4]. "Made in China" of cost competition advantage has already been inadequate, such as the rising labor cost in China, the lower labor cost in other countries, the appreciation of RMB and the global external demand fluctuations etc. Especially, 3C costs continue to rise. Its cost-effective advantage reduces significantly. The supply chain cost of cross-border e-commerce has risen, which will speed up private brand building to obtain competition advantage.

5.4. Fund Shortage

Cross-border e-commerce need more funds support in many aspects, such as private brand research and promotion, production, sale channels building, market promotion etc. In the case of present capital market cooling, it is not so easy to obtain R&D and operation funds through financing.

5.5. Third Party Platform Risk and Policy Instability

Due the third party platform adjust business strategy and change key terms of cooperation. Cross-border e-commerce enterprises may face a risk that third party platform cannot continue to use [5]. If failing to implement a new alternative in the short term, cross-border e-commerce private brand products will be affected.

Chinese government has introduced a series of related policies of cross-border e-commerce, such as "Guiding Opinions of General Office of the State Council on Promoting Healthy and Rapid Development of Cross-border E-commerce" (SCS No. [2015]46), which have an active effect on the development of cross-border e-commerce. But policies have hysteresis and instability. Future import and export policy and tax change will be difficult to predict. These will have an important impact on the development of cross-border e-commerce brand business. For example, some private brand production will be not allowed to export.

5.6. The Risk That Products Do not Meet Quality Standards

According to domestic relevant law and regulation requirements, cross-border e-commerce enterprises conduct relevant qualification examinations and strict quality control on products and suppliers. Because circulate linking is too much, quality problems of private brand products still may not be excluded without knowing, which will lead to its sued by customers or subject to administrative penalties, thereby adversely affect private brand building. Especially, faced with private brand of private brand in global market, cross-border e-commerce enterprises sell private brand products that do not meet quality control standards of destination country, which aren't paid attention to them.

6. Private Brand Building Strategy of Cross-Border e-Commerce

6.1. Localization Strategy for Brand Positioning

The basic principle of cross-border e-commerce should meet foreign consumer demands as the core in order to seek differentiation competition, combining with own conditions. Localization strategy aims to meet customers' demands, fully tap customer characteristics, and take "no-standard road". Products need capture the goodwill of consumers from appearance, function, quality. Make full use of data of cross-border

e-commerce platform, set private brand positioning accurately and efficiently, and define private brand characteristics. Ocean Wing has a cutting-edge high-tech R&D capability, and fully analysis platform characteristics. Combined with customer demands, it makes characterization and differentiation on the way of private brand building, and creates intelligent home brand. ZeShang stands out from one of many cross-border garment e-commerce. The main reason is that it adheres to the original garment strategy. Original garments not only are popular with the trend of the times, but also have a unique vision in private brand positioning. And ZeShang also asks for foreign designers design draft to understand their vision of fashion garments, which will help it develop more overseas market.

6.2. Take “Free Ride” on the Third Party Platform

In the early private brand building process, especially small and medium cross-border e-commerce enterprises private brand building, they don't have market operation ability and accurate brand positioning, and lack construction funds on research and development. Riding on the third party platform is the most convenient way. Amazon launched a series of initiatives to upgrade “Made in China” to be “China Brand” in 2016. Amazon aimed to help China's small and medium private brand achieve the globalization development. At the same time, because of increasing costs of China's manufacturing industry, the upgrading of private brand is the first choice for enterprises' development.

It is worth noting that some cross-border e-commerce enterprises have strong R&D capabilities, but have no enough in operating capacity. The third party platform can effectively solve this problem. Relying on platform data and conducting independent R&D, cross-border e-commerce enterprises can achieve transformation and upgrading of private brand.

6.3. Unscramble the Third Party Platform and Government Policies Timely and Accurately

Management and core staff of cross-border e-commerce should deeply understand the third party platform and government policies, especially foreign government policies. And cross-border e-commerce enterprises should constantly adapt to new policies and new regulations. According to strategic objectives of the next few years, cross-border e-commerce enterprises should strength advantages of enterprise ecosystem to resist risks, and weaken the impact of policies change on private brand building.

6.4. Establish and Improve Quality Management System of Private Brand

Cross-border e-commerce enterprises should set up review department that supervise the quality of private brand product, and establish a sound internal control risk system. And cross-border e-commerce enterprises should establish intellectual property department to research overseas intellectual property as well quality and safety standards of destination countries. According to standards of many countries and regions in the world, cross-border e-commerce enterprises should early investigate. In addition, cross-border e-commerce enterprises should also improve retrospective system, and establish private brand product catalog, as well conduct real-time tracking system. Therefore, even if irresistible factors and unknown lead to the loss of quality, cross-border e-commerce enterprises can also make exemption treatment to ensure a good private brand image.

7. Conclusion

Cross-border e-commerce will be a good choice for transformation and upgrading of China's export enterprises. It was reported that Chinese private brand products' export of cross-border e-commerce accounted for 30%. This paper aims to analysis the quo of cross-border e-commerce, and provides some strategies of private brand building for cross-border e-commerce enterprises. Private brand is not only to

provide a good level of profit margins, but also to obtain differentiated competitive advantage. This paper makes quo analysis and provides strategies through macro view. There are no specific steps to implement in the concrete building of private brand. How to build private brand from the views of cross-border e-commerce enterprises will be the next research direction.

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