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# Research on the Overseas Warehouse Construction of Cross-Border E-Commerce

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**Abstract:** The rapid development of cross-border e-commerce has injected new vitality and productivity to e-commerce. But it also brought the lag problem of cross-border logistics and distribution system. Under current models of logistics and distribution, the order cycle is too long to be efficient which coexist with high cost, uncontrollable risks and complicated procedure. These factors have hindered the development of cross-border e-commerce. In this case, the e-commerce overseas warehousing gradually come into being. How to overcome the contradiction of low-cost and fast delivery, take advantage of overseas warehouse building and successfully open up overseas markets, is an important issue needs to be discussed in the field of cross-border e-commerce. This paper talks from cross-border e-commerce and logistics distribution mode, discusses the rise of overseas warehouse building and analyze their strengths and weaknesses, then give a few suggestions to promote the construction and development of overseas warehouse.

**Keywords:** cross-border e-commerce, overseas warehouse construction, logistics

## 1. CROSS-BORDER E-COMMERCE AND LOGISTIC DISTRIBUTION MODE

‘China E-commerce 12th Five-Year Plan’ pointed out that during 11th five-year period China's e-commerce has experienced sustained and rapid development, with an increase of nearly 2.5 times the total transactions, reaching about 4.5 trillion RMB in 2010 [1]. Endogenous power of e-commerce development and innovation capacity is strengthen, which is entering a new stage of intensive innovation and rapid expansion. At the same time, the ‘plan’ encourages construction of cross-border e-commerce platform, encourages enterprises to take advantage of cross-border e-commerce platform to open up overseas markets and establish brand images. Therefore cross-border e-commerce gradually takes an important role in the development of e-commerce.

Cross-border e-commerce means different countries or regional parties trade via the Internet and its associated information platform. It is a new form making the traditional international trade to be networked and electronic. It is a more advanced mode of the processing e-commerce applications. In recent years, cross-border e-commerce, especially small foreign trade has injected new vitality to the development of foreign trade. In 2011, the overall export of China's cross-border e-commerce small business was more than 10 billion U.S. dollars. September 2008, the Nielsen Company did a data survey on eBay found that U.S. buyers like to buy the goods from Chinese sellers best. The highest turnover of the Chinese sellers can reach an average daily production of 1.5 million U.S. dollars in sales, with annual sales up to \$548 million, equivalent to about 3.7 billion RMB [2]. In China, there are thousands of sellers selling their products to dozens of countries and regions like the United States, Canada, Europe and Australia through eBay. There are more than millions of Chinese products in sales everyday.

Cross-border e-commerce and the domestic e-commerce are very different. There often customs clearance,

international transport, international payment involved in international import and export trade. These complex, tedious parts are not needed in domestic trade. At the same time it has higher demand in information communication, promotion and marketing, risk control, logistics management and other aspects [3]. Although compared to the traditional business model, e-commerce always comes with significant efficiency and convenience in terms of information flow, capital flow and logistics, compared to domestic e-commerce, the rapid development of cross-border e-commerce also highlights the lag problem of logistics system.

Currently, taking B2C for instance, cross-border e-commerce logistics mode contains these types. The first one is regular mail courier and distribution. Once the sellers get the receipt of the order, they deliver the goods to the post office or the international express logistics companies such as UPS, DHL to collate and concentrate shipments. When reaching the destinations, they use local logistics network to delivery goods to the customer's hands. The second type is that foreign trade enterprises built warehouse themselves collecting cargo then transport together, including Lightinthebox, Milanoo as the representative of the foreign trade companies set their own goods, as well as small business alliances set of goods. The third one is warehousing consolidator by third-party logistics, including international logistics company warehouse and e-commerce platform warehouse, such as Aliexpress. The long term distribution, fluctuation and instability of these three modes bring huge challenges to the development of cross-border e-commerce. In order to solve the contradiction between cheap and fast of multinational logistics, the fourth model - overseas warehousing emerged [4].

## **2. RISE OF OVERSEAS WAREHOUSE BUILDING**

The so-called overseas warehousing, is the one-stop control and management including goods warehousing, sorting, packaging and delivering, which is provided in target destinations by network platform of foreign trade, independent or common logistics service providers. Simply put, is the sellers transport goods in advance through sea or air transportation to overseas warehouse, and then deliver by a local courier company after receiving the customer orders. The overseas warehousing is a novel logistics and distribution mode with extremely rapid development.

Nowadays, there are three main models taken by domestic sellers concerning overseas warehousing services: First, logistics system is provided by foreign trade platform and logistics service providers. This is the choice of the vast majority of sellers; Second, part of the sellers cooperate with logistics service providers; Third, some sellers are trying to set up overseas warehousing independently.

## **3. ANALYSIS OF ADVANTAGES AND DISADVANTAGES OF CONSTRUCTION OF OVERSEAS WAREHOUSE**

### **3.1 Advantages**

#### **3.1(a) Shorten order cycle**

According to eBay statistics, in accordance with the traditional mode of logistics, order cycle of a cross-border electronic transaction is 5-30 days with large fluctuations. The logistics time is constrained by many factors. First of all, in some shopping season periods such as Christmas, the efficiency of transnational distribution is greatly reduced, which seriously affects the expectation and evaluation by the buyer on the transaction and the seller. Secondly, the policies of Customs check in different countries are not all the same, such as luggage sold from China to Europe, is easily checked by Italy or Spain Customs. In these cases, it will inevitably affects the speed and efficiency of logistics. Meanwhile, the number of unexpected events, like the target country suffered natural disasters, wars or strikes, are all likely to greatly hinder the distribution of cross-border goods. Thus, using traditional logistics system, the cross-border e-commerce sellers will be in a passive position in logistics control. It is difficult to deal with the negative impact of uncontrollable factors. The

construction of overseas warehouse will greatly improve the situation. The most direct impact is to shorten the order cycle. Ten days or two weeks of logistics cycle will be shortened to 3-5 days or even 1-2 days. Since the sellers should simply send commodities and logistics information to the overseas warehouse after receiving orders, so the target product can reach the hands of customers through local logistics warehouse. In this way, the logistics time is almost the same as the local sellers.

### **3.1(b) Reduce the cost of transportation**

Although using traditional logistics distribution, such as UPS, DHL, is able to obtain the recognition of foreign buyers, the cost of transportation is a heavy burden. For example, when you express a microwave oven overseas which is worth \$ 100, the transportation fee is up to \$ 300 [5]. This non-profit deal definitely is not the seller's choice. On the other hand, long delivery cycle greatly reduced commodity competitiveness, driving the price down. According to ebay statistics, compared with a product shipped from overseas suppliers, if the seller takes local delivery, buyers are more receptive to increased price of 20%. Take the screen sticker of iphone4G for example, if it is delivered by the American local seller next day, it can be sold at \$ 9.95. However, when it is shipped from China, the price is down to \$ 3.39 with free shipping. This is the cost of up to 2-15 days shipping cycle [6]. In this case, most of the profit is offset by the high cost of logistics.

Take "Chukou1" for example, it is a professional international warehousing and logistics services operator established in 2008. Now it has become top three B2C overseas warehousing and logistics service company. And eBay recognized it as the key recommendation company. Its successful operation proves the advantages of overseas warehousing in reducing the cost of logistics and transport. It is mainly manifested in two aspects: First, since the goods arrive at overseas warehouse by air or sea in advance, transportation cycle can be relatively long, and can take bulk transport mode, which greatly saves transportation costs. For example, transporting 10 microwaves through postal EMS charges about \$ 1,800, but with "Chukou1" sea or air transportation in small batch mode, it only takes about \$ 1,000. On the other hand, the overseas warehousing will strengthen the advantage of price competitiveness. Shortening the delivery cycle makes domestic sellers have the same logistics competitiveness as sellers in target country. To some extent it can raise the price, so as to stimulate sale. Evaluation data from November 2009 to January 2010 provided by eBay showed that with "Chukou1" mode the average selling price of Chinese products upgraded from \$ 30.8 to \$ 92.1, overall sales increased by 292%.

### **3.1(c) Increase Repeat Purchase Rate**

Constructing overseas warehouse, not only can pre-consider and reduce risk of cross-border e-commerce logistics, but also enhance customer satisfaction, increasing the volume of transaction. When overseas buyers buy Chinese goods on eBay, although they have certain psychological expectations and preparation about transporting time, generally if the waiting time is more than 10-14 days, buyers' complaints will surge. At this point, the Chinese sellers have to refund, which not only causes serious loss to the business, but also harm the buyers' experience [7]. If the needed product is shipped from local warehouse, it's easy for the seller to obtain the buyer trust. The distribution time from overseas warehouse is 3-5 days, or even 1-2 days. This is almost the same as making a deal in local e-market, then the buyer satisfaction will greatly enhance.

Therefore, using overseas warehouse, commodities can reach the hands of customers in a short time. It's easier for sellers to access the buyer's trust because praise rate increases. The increase of good evaluation is bound to attract more attention of other buyers. The repeat purchase rate can be improved with average sales growing by 5% -25%. In this situation, the entire e-commerce sales will go into a virtuous cycle and its profit increases.

### **3.1(d) Expand overseas markets**

Apart from helping sellers improve service level, the overseas warehousing also conducive to the formation of the economies of scale, thus do good to expand overseas markets. According to eBay China's statistics, as of

August 2010, the completion of the transaction by multinational warehousing has accounted for 5% -10% of the daily contract quantity of eBay China. It's clear that more and more domestic sellers enter the overseas market through multinational warehousing, which is not only the eBay trend, but also the future trend of the cross-border e-commerce in China. On the other hand, the domestic seller can grasp the overseas demand and consumer preferences through feedback of inventory and shipping records in overseas warehouse. Then the seller can make proper adjustments and improvements in marketing strategy for a certain period and in certain region, which will conducive to the localization of merchandise sales and promote the company's overseas expansion.

### **3.2 Disadvantages**

#### **3.2(a) High cost of constructing warehouse**

For small and medium enterprises, opening overseas warehouse independently is almost impossible, the construction cost is beyond the affordable range. Only for the seller of a certain size and financial strength, as well as the products with relatively high value, stable price, larger sales in international market and the ability to withstand logistics costs and risks, it's feasible to do so. Therefore, high construction costs reduce the profit of the seller, reducing the scope and pace of development of the overseas warehousing.

#### **3.2(b) The stock could easily lead to difficulty of cash flow**

In the overseas warehousing logistics mode, sellers need to predict sales of a certain area in a certain period of time in advance. And then it's necessary to send a certain amount of goods to overseas warehouse, waiting for buyers' order and warehouse distribution. If these products can not be sold in time, it not only generates additional warehousing costs, but also occupies the seller's funds to some extent. It is not conducive to the return of funds which is not a small impact and challenges for domestic B2C foreign trade.

#### **3.2(c) Long time inventory reduces consumers' need**

Although consumers generally have a good impression of commodities shipped from local warehouse and the price endurance is also stronger, overseas warehousing require the arrival of the goods in advance which is apt to cause problems. If the inventory of goods subjects to local economic conditions, season, competitors, and other factors and there is great difference with sellers' prediction, there must be a delay of distribution. The longer the delivering time, the lower the evaluation by customers is. Then sellers lose their price competitiveness of the commodity gradually. In this case, the sellers have to markdown and take other means to make a commodity out of the warehouse as soon as possible.

#### **3.2(d) Secondary logistics cost of unsalable commodities**

What mentioned above is that the construction of overseas warehousing will bring great challenges to the seller in inventory management and cost control. In some extreme cases, unsalable or expired goods may need to send back to domestic market to deal with, which inevitably generates secondary logistics costs, and causes a lot of money for the sellers.

## **4. WAYS TO PROMOTE THE DEVELOPMENT OF OVERSEAS WAREHOUSE**

### **4.1 Joint sales of cross-border goods**

The overseas warehouse overstocking problem becomes the main concern of domestic sellers, especially small sellers. In view of this, if goods backlog over a period of time and price competitiveness declines seriously, it's considerable to make joint sales of relevant products, such as jewelry and clothes, pants and belt, basketball and basketball shoes, cutlery and tablecloths, etc. [8], With this method, sellers may develop a certain package sales and promotion strategy, as well as timely cleanup of warehouse inventory. Therefore, sellers can not only recycle part of the funds to the greatest degree, but do not have to passively accept the high cost of secondary transportation for slow-moving merchandise.

Meanwhile, every product has its own characteristics, but it can not meet all the needs of consumers. So that the small and medium enterprises can make use of some trade associations, integrating all resources, distributing and selling together. In 2010, the Zhongshanwang Chamber of Commerce tried to unite the small and medium enterprises to establish the European warehouse [9]. Although the project was ultimately not achieved, it also provided us with inspiration and ideas of joint sales of cross-border commodity.

#### **4.2 Construction of overseas warehouse by e-commerce sites**

Currently, the practice of e-commerce sites is domestic warehousing, which collects all goods of small sellers and then deliver together through international logistics company. However, it is still unable to overcome length of time by international air or sea, such as AliExpress". On October 19, 2012, Jingdong Mall (English) was put into operation; more than 40 million of goods on the site are open to 36 countries. Besides, Jingdong planed to set up overseas warehouse center, shortening delivery time. While overseas warehouse still an idea of Jingdong, but it also reflects a trend of building overseas warehouse through e-commerce sites. Currently, for most domestic sellers, cost of overseas warehouse is too high to be achieved, but e-commerce sites, such as Jingdong, Alibaba have the ability to collect many small sellers. Therefore, the e-commerce suppliers can consider building the overseas warehouse, providing logistics platform for sellers to transport in advance and distribute immediately. These e-commerce suppliers could charge appropriate storage and processing fee.

At the same time, due to different countries' economic environment and policies, e-commerce sites can consider cooperate with local warehousing and logistics, which may reduce construction cost, fasten the pace of integrating to local logistics system. Alibaba's Jack Ma said in number of speeches, they began to consider the issue of overseas warehousing by encouraging sellers to participate in some overseas warehousing projects, as well as cooperate with local warehousing and logistics providers [10].

#### **4.3 Improve the integrated logistics information system**

In the era of increasingly prosperous cross-border e-commerce, information is the lifeblood of logistics. Concerning the contradiction between delivery speed and inventory cost, building and improving logistics information system will alleviate this problem to some extent. Integrated logistics information system can process data sustainably, simply and without error. Moreover, with updating data automatically, the system will improve visibility of entire process, achieving the purpose of "information in place of inventory". Whether it is the sellers building warehouse by themselves, or joint warehousing or warehouse platform by e-commerce suppliers, they should establish a complete set of responsive information circulation system. Through this system, overseas warehouse could do real-time tracking on distribution process. It is able to combine distribution record of last one day, one week, two weeks, one month, half a year or even longer with season, promotions, competitors and other factors. By doing so, the system will form a model for the sellers to forecast market demand for the next period of time, as well as timely replenish and adjust marketing strategy so as to maintain dynamic balance between warehousing cost and sales.

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