



PHOTO: In China, the internet is the place to find a deal on Crest toothpaste.

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DELIVERING BARGAINS

China's surprisingly low shipping rates are the hidden key to Alibaba's e-commerce success

Procter & Gamble's staple brands -- from Crest and Tide to Pantene and Pampers -- dominate the mass-market premium segment in China just as they do in the U.S. At a Wal-Mart supermarket in China, just about all of them cost more, in dollar terms, than they do at Wal-Mart in the U.S.

Shop online, though, and China wins hands down.

Alibaba Group Holding's Taobao Marketplace deserves part of the credit. Its 10 million merchants, mostly small traders with limited inventory, offer goods at prices well below those of brick-and-mortar shops.

But the biggest savings come from the ridiculously low overnight shipping costs in China. Alibaba does not directly arrange delivery for Taobao merchants. It is up to each seller to sort things out with one of the country's big private courier companies.

There are four giants: market leader Shunfeng, or SF Express, and three almost identically named competitors, YTO Express, STO Express and ZTO Express. These three were started and owned by entrepreneurs from Tonglu, a small county in Zhejiang Province, about 80km from Alibaba's headquarters in Hangzhou.

Just how cheap is online shopping in China? Sticking with examples from P&G, a 3kg box of Tide detergent on Taobao costs 20.90 yuan (\$3.13), including shipping. It takes two days to arrive in Shenzhen by land from Shijiazhuang, a city 1,930km to the north.

A box of Tide bought online in the U.S. from the cheapest eBay seller, with the same delivery timing via FedEx, would cost at least \$53. Of that, at least \$35 would go to shipping.

Chinese labor costs are much lower than in the U.S. But

gasoline costs twice as much and highway tolls are exorbitant on the mainland, at as much as 60 cents for every 1.6km a truck travels. Who, if anyone, made any money when that box of Tide arrived in Shenzhen intact and on time? Even if the Tide detergent was phony -- Taobao does have a reputation for hosting vendors selling counterfeit merchandise -- the shipping costs cannot be faked.

By some counts, ZTO has now moved ahead of Shunfeng in volume, if not revenue. At the end of 2015, ZTO was said to be delivering 10 million parcels a day. It reportedly filed this month in New York for an initial public offering of up to \$2 billion; private equity company Warburg Pincus and venture capital firm Sequoia Capital are both investors.

The other three big couriers are also pursuing market listings. Each says it needs billions in new capital. The companies cannot be earning much, if anything, and continue to plow money into infrastructure. Parcel shipping is still growing by about 30% a year. Every week, courier companies deliver about 500 million packages in China.

All four big courier companies say they want to buy or lease jets and are looking into deploying drones. For now, parcels in China are delivered by an army, perhaps 1 million strong, of electric-scooter-riding delivery staff. They can earn at least double what they would at a factory.

The career path for many is to move up from YTO, STO and ZTO, which get most of their business through Taobao, to work for either JD.com or Amazon.com. Both online retailers have their own in-house courier teams, with better pay, hours, equipment and snazzier uniforms.

Alibaba's strategy of not directly owning or controlling a courier company has worked out splendidly. As long as the couriers are competing furiously, products on Taobao will remain dramatically cheaper than in stores. If the couriers ever decide to seek profits rather than market share, that will certainly put a dent in Taobao's growth.

Yet e-commerce in China is still growing at breakneck speed, with sales on course to reach \$1 trillion annually by 2017, far higher than anywhere else.

It will soon become clear, once IPO prospectuses appear, if ZTO and the others are making any money at all. So far, e-commerce in China has created only two big beneficiaries. One is Taobao, which earns billions a year in ad fees paid by merchants. The other: the country's 500 million online shoppers. **N**

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