



FOOD E-COMMERCE ACROSS ASIA

Risks and Opportunities





FIA INTRODUCTION

Food Industry Asia (FIA) is a non-profit organisation that was formed in 2010 to enable major food manufacturers to speak with one voice on complex issues such as health and nutrition, food safety and the harmonisation of standards.

From its base in Singapore, FIA seeks to enhance the industry's role as a trusted partner and collaborator in the development of science-based policy throughout Asia. To do so means acting as a knowledge hub for Asia's national industry associations and affiliated groups, to support with their engagement of public bodies and other stakeholders across the region.

OUR VISION

TO BE A TRUSTED PARTNER FOR BUSINESSES AND GOVERNMENTS - BUILDING A VIBRANT FOOD AND BEVERAGE (F&B) INDUSTRY FOR A HEALTHY AND PROSPEROUS ASIA.

OUR MISSION

TO REPRESENT THE FOOD AND BEVERAGE INDUSTRY IN ASIA -- PROMOTING A CLIMATE FOR SUSTAINABLE GROWTH AND SERVING AS A REGIONAL KNOWLEDGE HUB FOR SCIENCE-BASED ADVOCACY.

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Who is this paper relevant for?

- Asian national regulatory, customs and (to a lesser extent) advertising authorities
- Food and beverage (F&B) industry companies, both large and small
- Some key international government organisations (IGOs) that codify relevant industry standards.



EXECUTIVE SUMMARY

In recent years, Asia has established itself as the strongest B2C e-commerce region, with a turnover of US\$1,056.8 billion. As e-commerce continues to develop across the region, it is becoming increasingly attractive for the food and grocery segment.¹

Three of the top 10 online grocery markets in the world are in Asia: China first; Japan third; South Korea sixth. The Chinese online grocery market, already the world's largest, is set to be worth almost US\$180 billion by 2020, with a 32% year-on-year growth.²

Four trends are behind this rapid growth of online grocery shopping in Asia:

- *Societal changes and the rise of a time-pressed middle class*
- *Transformative technology*
- *Enhanced e-commerce infrastructure*
- *Improving logistics enabling faster and more efficient purchases and deliveries*

This report focuses on examples of food e-commerce in Asia and is relevant for:

- *Asian national regulatory, customs and (to a lesser extent) advertising authorities*
- *Food and beverage (F&B) industry companies, both large and small*
- *Some key international government organisations (IGOs) that codify relevant industry standards*

The current state of play section provides an overview of current regulatory frameworks in selected Asian countries and regions, including food safety control requirements; marketing, advertising and consumer information requirements; food import requirements and exemptions; special treatments for products sold via "Free Trade Zones" and other regulations related to consumer protection and internet security.

India and China's case studies could guide the development of e-commerce regulations in other Asian countries where it is in its infancy, such as some individual ASEAN Member States.

The review of industry approaches across Asia provides an overview of different e-commerce models in Asia to illustrate key opportunities and challenges that F&B companies might find in each. The selected models include a direct mail case study; a pure player (or online-only grocer) cases study; an online marketplace; a warehouse storage and individual customer retailing case study; and a bonded warehouse case study.

In the understanding the issues at stake section, the report details some key issues F&B companies considering cross-border sales of food products should bear in mind, in comparison with, for example, domestic shipping. Complying with the regulatory requirements of the importing country is obviously one of the key requirements and F&B companies should pay extra attention to how they manage risks, especially in the absence of clear national regulatory frameworks regarding food products traded online. While sufficient measures are in place to control the food safety of imported food in most countries, some areas require more attention. These include the safety and authenticity of products imported for personal use and the potential for misleading and exaggerated claims on advertisement.

The how you can help tackle the issues section provides key suggestions for F&B companies and regulatory authorities to address issues posed by food e-commerce identified in Section III.

¹Zijian Wang, Global B2C E-commerce Report 2016

²Zijian Wang, Global B2C E-commerce Report 2016

INTRODUCTION

Nowhere has the explosion of e-commerce been as dramatic as in Asia. In recent years, it has established itself as the strongest B2C e-commerce region, with a turnover of US\$1,056.8 billion, ahead of North America (US\$664 billion) and Europe (US\$505.1 billion).¹

Within the region, Australia, China, Indonesia, Japan and South Korea are the countries that significantly influence this figure because of their size and adoption of e-commerce. China has the highest B2C e-commerce turnover in the world at US\$766.5 billion. Together with the US (US\$595.1 billion) and the UK (US\$174.5 billion), these three countries account for 68% of total global B2C e-commerce turnover.³

As e-commerce continues to develop across Asia, it is becoming increasingly attractive for the food and grocery category. In Australia, Japan and South Korea, while some categories such as clothing, media and entertainment, and IT traditionally dominate e-commerce, food is now gaining importance in the e-commerce space, ahead of consumer and household electronics, sports and recreation and others. In China, it is bigger than the toys category and in Indonesia, it is also bigger than health and beauty.³

Three of the top 10 online grocery markets in the world are in Asia: China first; Japan third; South Korea sixth, demonstrating the strength of the Asian market.⁴ The Chinese online grocery market, already the world's largest, is set to be worth almost US\$180 billion by 2020, with a 32% year-on-year growth.⁵

Recent surveys reveal a significant growth in number of shoppers buying food products online in Asia, with a quarter (26%) shopping online for groceries in the last month versus a fifth (22%) in 2010.⁶

WHAT'S BEHIND THIS RAPID GROWTH OF ONLINE GROCERY SHOPPING IN ASIA?

1. *Societal changes: the rise of the middle-class and the increasing number of single and small households in South Korea and China. Time-pressed shoppers seek different product assortments and more convenience.*
2. *Transformative technology: artificial intelligence, which enables personalised product recommendations, automation and robotics.*
3. *E-commerce infrastructure: increased internet and mobile penetration, as well as digital payment solutions.*
4. *Improvements in logistics: faster delivery, e.g. using stores to deliver; and in less developed countries, making online shopping accessible.*

This report focuses on examples of food e-commerce in Asia but it is worth considering that food trade also takes place with countries beyond the region.

The exponential growth of online food retailers and increase in food products traded online may pose safety and quality control challenges, mainly because:

1. *Minimal inspection - customs offices in most Asian countries tend not to inspect shipments sold directly to consumers for personal use.*
2. *Food safety legislative loophole - the Food Safety laws in most Asian countries do not cover food safety controls of products sold online since e-commerce is relatively new.*
3. *Unclear guidance on marketing and advertising protocol - there is limited or vague guidance on how these food products are being advertised on e-commerce platforms.*

This report will therefore first outline existing regulatory frameworks across Asia that apply to food products traded online; secondly, it will provide case studies from online grocery models in the region; last, it will highlight some risks created by food import loopholes that bypass safety and compliance regulatory controls typically imposed on commercially imported products.

"The popularity of cross-border shopping differs from region to region for a number of reasons. For example, levels of disposable income and total shopping cart value can vary widely. Some countries have higher levels of digital buyer penetration. Also, the selection of products available both in stores and online within the country can have a significant impact on whether shoppers are willing to seek out products from other countries. A country's duty/tax system will also either encourage or discourage the cross-border shopping activities of residents. Finally, prices of products differ from region to region as a result of different costs for parts, labour, taxes, import duties, fuel prices, and even perceived value."

Michael Hastings CEO at Asendia USA

CURRENT STATE OF PLAY

Review of current regulatory frameworks

This section provides a brief overview of the current regulatory framework pertaining to food e-commerce in selected Asian countries and regions, which aims to cover the following areas:

- Legal control of businesses involved in online sales of food (focused on food safety control)
- Requirements for Marketing and advertisement, and information to consumers
- Regulatory requirements and exemptions for products sold to consumers directly by international express
- Special treatments for products sold via “Free Trade Zones” (focused on China)
- Other regulations related to consumer protection and internet security

Being the first two Asian countries to implement e-commerce regulations, India and China’s case studies could guide the development of e-commerce regulations in other Asian countries where it is in its infancy, such as some individual ASEAN Member States.

³⁷Zijian Wang, Global B2C E-commerce Report 2016

³⁸e-commerce – is it a disruptor or an enabler for the food industry?, 11 Nov 2016 AmCham event in Singapore

³⁹Top five online grocery retailers in Asia, IGD Research 2017

⁴⁰http://www.paulsoninstitute.org/wp-content/uploads/2017/04/PPM_Food-Safety_Yasuda_English.pdf

⁴¹<https://www.reuters.com/article/us-china-food-safety/china-uncovers-500000-food-safety-violations-in-nine-months-idUSKBN14D046>

IMPROVING REGULATION POLICIES

In China, food quality control has been an increasing problem in recent years. The number of food complaints recorded by the China Consumer Association in 2011 increased by 22 percent from 2010. A survey conducted by the Pew Research Center also showed that in 2012, 41 percent of respondents identified food safety as a serious problem, up by almost four times since 2008.¹⁰

In order to reign in the issue in China, regulators needed to harmonise local best practices with national standards and to develop a coherent regulatory framework, which has led to the country’s implementation of its harshest food safety regulation thus far – the 2015 Food Safety Law.

The law aims to strengthen weaker monitoring policies, while standardising regulations and practices. By making a concerted effort to ensure food safety and quality, the government is hoping to stimulate the growth and consumption of local products, while implementing harsher penalties for violations of the regulations.

Since the implementation of the law, China’s numbers on food safety issues has fallen, even though it still poses a problem given the scale of the market. In 2016, more than 500,000 illegal food safety violations were discovered upon individual inspections of over 15 million businesses within the industry, despite it being only three percent of the inspected businesses.¹¹

But with the varying regulations put in place, including Order 27, which came into effect on October 2016, the government is looking to stamp out food safety violations and to rebuild trust amongst consumers worldwide.

CASE STUDY: CHINA

Recognising the dramatic increase in online food sales and the legal loopholes which may compromise the control of food safety and quality, the China Food and Drug Administration (CFDA) issued its regulatory Order 27 (Measures of the Investigation and Punishment of Illegal Conducts Concerning Online Food Safety) in July 2016 to improve the transparency and accountability of online food sales and advertising.¹²

Order 27 applies to all food producers and operators (including delivery service providers) engaged in online food trading as well as any third-party platforms that support online food trading. With Order 27 having been implemented since October 2016, varying e-commerce platforms are still adjusting their framework to fit the bill. These requirements will have to be strictly enforced as businesses seek to adhere to the clear regulatory framework listed below, which will help to dictate any national strategic adjustments in the future:

1. Tightening controls on safety of food traded online

- Any business, be it food manufacturer or third-party platform provider, must register with the CFDA prior to trading food products online, although implementing this may cause a bottleneck in the process.
- Food manufacturers must display their food production or operation license at a visible place on their trading pages (if trading on third-party platforms) or their home pages (if trading through their own websites).
- Trading records must be kept for at least six months after the expiry date of the food item. If no shelf life is specified, the records must be kept for at least two years.
- Where applicable, online food producers and sellers must guarantee safe storage and transportation of food sold online which requires refrigeration, insulation or freezing, and must use storage and transportation services with appropriate storage and transportation abilities.
- Food producers and sellers are not to publish any information about a food product online which differs from its label. Chinese food safety officials may conduct on-site inspections, sample food items, and review records to monitor regulated activities.

¹²Order 27 Measures of the Investigation and Punishment of Illegal Conducts Concerning Online Food Safety

2. Third-party platforms are responsible for food products traded via their website. They:

- Must ensure food products sold meet the relevant food safety requirements.
- Should establish a food safety management unit to monitor trading of food products.
- May be fined or face other penalties stated in the regulations (such as the revocation of its business license) if the food products traded are found to violate food safety requirements.
- Must compensate a consumer who suffered damages as a result of consuming food purchased from the e-commerce platform if the consumer is unable to seek redress directly from the seller.

3. Restrictions on marketing, in particular on benefit claims for health food products and food for special dietary uses (including infant milk formulas), reinforcing some special restrictions for these products under China's Food Safety Law:

- Food products, apart from those registered as Health Food, are not allowed to make health benefit claims.
- Infant milk formula products must not make claims such as "benefits or promotes intelligence", "improving immunity", "improve resistance to disease", "protecting intestine" or other health benefits.
- Companies selling products approved as Health Food or food for special medical purpose and infant formula/food must display relevant certificate(s) on their websites. The link to the relevant data query page on the CFDA website must also be provided.
- Nutritionally complete formula, which is a sub-category of the Food for Special Medical Purposes, are not allowed to be sold online.



CASE STUDY: INDIA

The Food Safety and Standards Authority of India (FSSAI) has issued guidelines for the operations of e-commerce food business operators (FBOs)¹³, which have been brought into effect in February 2017.¹⁴ The guidelines define an e-commerce FBO as an entity carrying out the activities as mentioned in Section 3 (n) of the Food Safety and Standards (FSS) Act, 2006 but through the medium of e-commerce.¹⁵

Apart from e-commerce entities providing listing/directory services (i.e. e-commerce platform providers), FBOs are covered under Schedule I List of Food Businesses Falling in the Purview of Central Licensing Authority of the Food Safety and Standards (Licensing and Registration of Food Businesses) Regulation, 2011.¹⁶ The e-commerce platform providers must ensure no misleading information or false claims pertaining to the sellers, vendors, importers, manufacturers or food product images are made available on their platforms.

The general requirements are similar to those used in China:

- *Sellers on the e-commerce platform are required to display their license/registration of food business obtained under the Food Safety Standards Act, 2006 and Food Safety and Standards (Licensing and Registration of Food Businesses) Regulation, 2011.*
- *Mandatory food information such as storage conditions, disclaimers, warning statements stated must be displayed.*
- *Food products offered for sale by any e-commerce FBO are liable to sampling at any point of the supply chain.*

As in China, there are also other relevant regulations which aim to protect the interests of the consumers, including the Consumer Protection Bill, passed in 2015. This Bill replaces the Consumer Protection Act, 1986 and serves to protect consumer rights by providing a mechanism for the redressal of complaints regarding defects in goods and deficiency in services.

¹³Draft Guidelines for Operations of e-Commerce Food Business Operators

¹⁴Guidelines for Operations of e-Commerce Food Business Operators

¹⁵Food Safety and Standards Act, 2006

¹⁶Food Safety and Standards (Licensing and Registration of Food Businesses) Regulation, 2011

CASE STUDY: ASEAN

As e-commerce is relatively new in ASEAN countries, this Report highlights the current regulatory status in Malaysia and Singapore, where e-commerce is more established.

Although rules and regulations to control online food businesses exist in these two countries, they are not consolidated, hence the lack of specific guidance for online food businesses. Companies will need to refer to rules and regulations enforced by different regulatory agencies to comply with all regulatory requirements.

MALAYSIA:

Digital Free Trade Zone

As part of Malaysia's efforts to help local Small-Medium Enterprises (SMEs) expand their business and export globally, the Digital Free Trade Zone (DFTZ) was implemented in November 2017. This platform seeks to position Malaysia as a regional hub for e-commerce logistics, becoming the preferred gateway for global brands and marketplaces into ASEAN.

Some key benefits that members of the DFTZ can reap are as follows:

- **Integrated export and import customs declaration –** DFTZ seeks to integrate with key systems operated across the government's infrastructure to ensure a seamless, integrated and paperless process for trade customs declarations.
- **Big data analysis - DFTZ's eServices platform is enhanced with big data analytics** with big data analytics and algorithms, providing stakeholders with detailed views of transactions and goods movements, allowing decision makers to identify areas of improvement.
- **Border clearance process improvement initiatives –** These initiatives seek to reduce the time of service legal agreements from six hours to three.

With the implementation of the DFTZ, the forecast for business growth within Malaysia has been expected to grow exponentially. This platform will double the nation's SMEs goods export growth rate, by up to USD38 billion by 2025, while also creating at least 60,000 jobs and facilitating of up to USD 65 billion worth of traded goods.

**60,000
JOBS**
created by the Digital
Free Trade Zone

**\$65^(USD)
BILLION**
worth of traded goods

Food Regulation Framework

Food products are also under the scope of the Malaysian Ministry of Health's (MOH) Food Safety and Quality Division (FSQD) in accordance with the Food Regulations 1985 in Malaysia.

Except for high-risk products (such as fresh and frozen meat or milk) and selected product categories (such as alcoholic beverages, meat, plant or poultry products), food products do not require an import permit, even though they may be randomly inspected by customs and must comply with Food Regulations requirements, regardless of whether they are imported for commercial or personal use. Food products purchased online for personal use may still be at risk of confiscation if not in compliance with Malaysian regulations.

Food advertisements, including food information displayed on the internet, must comply with the Malaysian Code of Advertising

SINGAPORE:

Companies who intend to import or manufacture food products on a commercial scale must first obtain a license from the Agri-food and Veterinary Authority (AVA), prior to selling the products. All food products, whether imported or locally manufactured, must comply with relevant food regulations. Imported food products are also subject to inspection at port of entry.

Products sold to consumers directly by international express, however, may be exempted from the above requirements as long they meet the criteria for 'food for personal use', which are:

- **Combined weight or volume of processed food products not exceeding 5 kg or 5 litres and;**
- **Value of the processed food products not exceeding SGD 100.**

Food advertisements, including food information displayed on the internet, must comply with the Singapore Code of Advertising Practice.¹⁹ For example:

- **Advertisements should not actively encourage children to eat excessively throughout the day or to replace main meals with confectionery or snack foods.**
- **There should be no words or pictorial representations that may imply or suggest that the food is recommended, prescribed or approved by medical practitioners.**
- **Advertisements for meal substitutes should not imply that these products are effective if consumed in addition to normal meals rather than instead of them.**

This Code is administered by the Advertising Standards Authority of Singapore (ASAS) Council and is supported by other government agencies including AVA. Although this Code of Practice works on self-regulatory basis, the ASAS has the right to ask the advertiser to remove or amend any advertisement content that is contrary to the Code. While all internet advertisements displayed in Singapore should comply with the Code, there are limitations on the enforcement of the Code, especially when website hosting is located overseas.

Apart from the Food Regulations and Code of Advertising Practice, online food businesses should also comply with the requirements of the Electronic Transaction Act, Singapore Broadcasting Act, Personal Data Protection Act and the Internet Code of Practice.

Practice.¹⁷ This Code is implemented on a self-regulatory basis and is administered by the Advertising Standards Authority, which has the right to apply sanctions, such as withholding advertising space, in cases of non-compliance.

In addition to the Code, advertisers who wish to place their content online are encouraged to comply with the Malaysian Communications and Multimedia Content Code,¹⁸ governed by the Communications and Multimedia Content Forum of Malaysia (CMCF). The Content Code sets out guidelines and procedures for good practices and standards of content intended for public dissemination by service providers in the communications and multimedia industry. Though the Content Code is voluntarily applied, the authority may still be able to direct the media involved to comply with the Content Code, in accordance to Section 99 of the Malaysia Communications and Multimedia Act 1998.

According to the Content Code:

- **The advertisement should be truthful and should not arouse fear.**
- **Advertisers should ensure that prices match the products illustrated.**
- **All advertisements must comply with the requirements of the Food Act 1983 and Food Regulations 1985. However, food and drink products that help to improve, restore or maintain consumers' general health, physical or mental conditions will not be subject to prior screening.**

Online food businesses in Malaysia should also comply with other relevant rules and regulations on e-commerce, such as the Electronic Commerce Act 2006, Digital Signature Act, Consumer Protection (Electronic Trade Transactions) Regulations, and Personal Data Protection Act.

¹⁷Malaysian Code of Advertising Practice

¹⁸Malaysian Communications and Multimedia Content Code

¹⁹Singapore Code of Advertising Practice

ASEAN Harmonisation of Standards and Requirements

ASEAN is seeking to develop harmonised standards to facilitate cross-border trade between Member states. Two regional integration priority sectors are relevant for online food businesses:

ASEAN Prepared Foodstuff Product Working Group (PPFWG): Consisting of the Food Authorities from the ten ASEAN Member States, PPFWG has recently completed and agreed on the ASEAN guidelines on food hygiene, import and export certification, accreditation for food import and export inspection, and food control systems. The harmonisation of food safety standards for food additives, food contaminants and food contact materials are currently underway.

E-ASEAN Framework: In 2000, the ASEAN Member States have agreed on the e-ASEAN Framework, under the direct supervision of the Senior Economic Official Meeting (SEOM). One of its key objectives is to allow the development of measures to promote trade of information-based products and services, including e-commerce. In 2001, ASEAN developed the e-ASEAN Reference Framework for Electronic Commerce Legal Infrastructure. This reference framework provides guidance for ASEAN member states with no e-commerce laws in place to accelerate the timeline to draft their own, and help those with existing e-commerce laws to facilitate cross-border e-commerce and cross-recognition of digital certificates.

APAC Countries

Some Asian countries have taken different approaches in regulating products sold online.

Hong Kong

In light of a food safety incident in which dozens of people fell ill after consuming sandwiches from a popular Taiwanese brand ordered online, the Hong Kong administration amended the Food Regulations to require online food businesses involved in the distribution of restricted foods (as specified in Schedule 2 of the Food Business Regulation (Cap. 132X) such as fresh meat, fish and milk products) to apply for a permit with Hong Kong's Food and Environmental Hygiene Department (FEHD).

South Korea

South Korea's Ministry of Food and Drug Safety (MFDS) has implemented a Special Act on Imported Food Safety Management in February 2016, which mandates pre-registration of all foreign food facilities wishing to export food products into South Korea, including those conducting online purchase businesses. In addition, the MFDS also has discretion to conduct foreign facility on-site audits, and may suspend imports from facilities or establishments that refuse on-site inspections.

Australia

Based on an inspection plan of risk foods, the State and territory authorities inspect and monitor imported commercial batch food to ensure compliance with the Food Standards Code developed by the Food Standards Australia New Zealand (FSANZ). Whether food products are being imported for commercial or personal use, the Australian authority imposes stricter controls for food products which may pose high risks of introducing contaminants and diseases to the continent. Goods not permitted into Australia will be forfeited to the Commonwealth and destroyed.

REVIEW OF INDUSTRY APPROACHES ACROSS ASIA

GIVEN THE DIVERSITY OF FOOD E-COMMERCE MODELS IN ASIA, WE HAVE SELECTED SOME CASE STUDIES TO ILLUSTRATE SOME KEY OPPORTUNITIES AND CHALLENGES THAT F&B COMPANIES MIGHT FIND IN EACH.

1. Direct mail case study – Alfamart, Indonesia

As a traditional bricks-and-mortar retailer, Alfamart has had to build its digital shopfront. With 12,000 stores in Indonesia alone, serving more than 2.5 million customers daily¹⁹, the retailer has a huge store network that can now be used for order pickup or delivery, giving it a considerable advantage. Alfamart also has strong sourcing and category management capability, and has accumulated a large shopper base and data. It has now turned all its Indonesian stores to pick-up points for online shopping. However, as a retailer new to the online world, Alfamart may lack insights on online shoppers, deep experience in digital marketing and ability to fulfil individual orders. This presents an opportunity for F&B manufacturers to collaborate with new online retailers such as Alfamart by creating digital content to initiate and support the retailers' own online activities. It allows both manufacturers and suppliers to access new markets, while continuing to improve the relationship with Alfamart by offering unique and exclusive products and services via their platform.

2. Online-only grocer – RedMart, Singapore

Founded by entrepreneurs with a tech background, RedMart excel at online marketing and targeting. They try to build authority in certain categories to fulfil unique consumer needs, driving loyalty and helping avoid price competition with traditional retailers. By not carrying too many items they are usually faster at picking and delivering. As online grocery is the most capital intensive in e-commerce, this puts commercial pressure on online pure players such as RedMart. They may not have, at least initially, strong existing relationships with suppliers, and their product ranges are sometimes limited. Manufacturers can design exclusive products for retailers to help them build category authority. For instance, APB's Archipelago Brewery supplies a craft beer exclusively to RedMart, which was featured in RedMart's mailing to its shoppers.

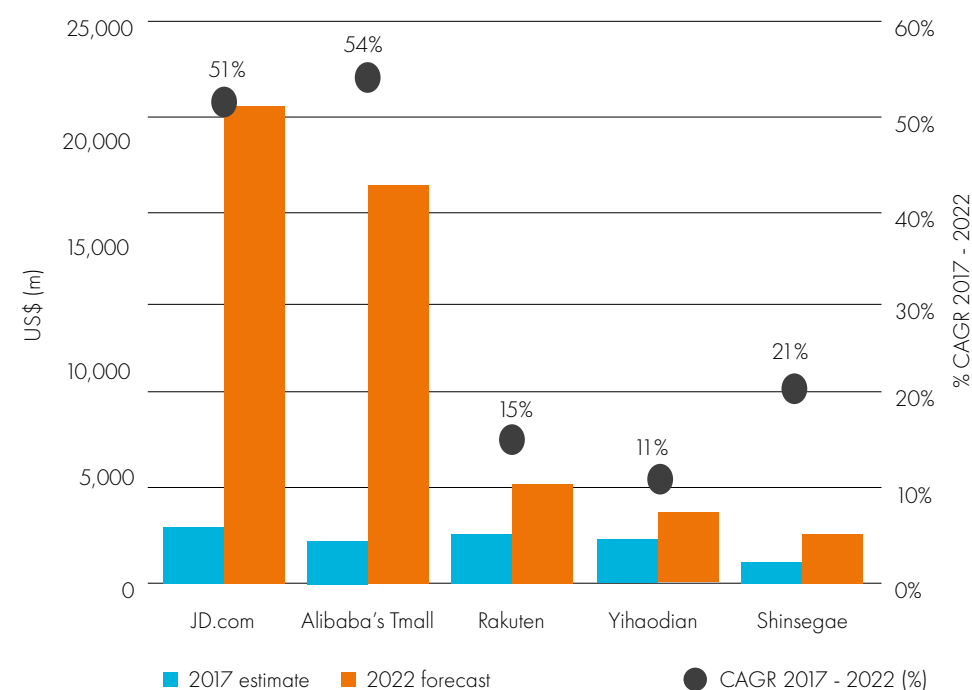
3. Online Marketplaces

Online Marketplaces are more important in Asia than anywhere else in the world, which means both food manufacturers and retailers are keen to form partnerships with them. Marketplaces like Alibaba's Tmall and JD.com attract a lot of traffic, have large shopper bases, established payment and delivery systems and strong capability in analysing big data.

Although grocery is a relatively small part of the overall business, the sheer size of these e-commerce companies means marketplaces lead online grocery. China, Japan and South Korea, benefiting from high adoption of online shopping and advanced supply chains, are home to the leading retailers, and important markets for both commercial gains and innovations. JD and Tmall will see the fastest growth, driven mainly by the domestic Chinese market. They will also increasingly see returns on their investment in South-East Asia as the market matures.²⁰

¹⁹<http://www.gmanetwork.com/news/money/companies/373827/sm-group-opens-three-alfamart-stores-south-of-mega-manila/story/>
²⁰Top five online grocery retailers in Asia, IGD Research 2017

LEADING ONLINE GROCERY RETAILERS IN ASIA GROCERY REVENUE AND GROWTH RATES



Despite high fees for F&B companies to set up and operate stores on these marketplaces, it seems to have become a must-have channel for selling online in Asia because enhanced offerings on the marketplaces increases basket size on a more frequent basis.

A good example of collaboration with manufacturers on marketplaces is Mondelez's Oreo Colorfilled, exclusively developed for Tmall's consumers. Shoppers can pick a template, fill in colours, adopt an Oreo theme and add a personalised message on the packaging. Customised products help brands stand out in these massive marketplaces.

Another example of collaboration of a company with a marketplace is Danone and Lazada Group's recently announced Strategic Regional Partnership for South-East Asia, covering Indonesia, Malaysia, Singapore and Thailand. The alliance intends to create a superior online shopping experience for key product categories, bringing convenience and compelling content to consumers.²¹

²¹<https://www.asiafoodjournal.com/2017/12/danone-lazada-sign-strategic-sea-regional-partnership-e-commerce/>

²²Adapted from Carlton Mansfield Research on cross-border e-commerce Free Trade zone

CASE STUDY: TMALL GLOBAL BONDED WAREHOUSE

Tmall Global, an extension of Tmall.com, enables companies based outside of China with no China business licenses in mainland China to directly advertise and sell to millions of Chinese. Orders can be fulfilled and shipped from outside China, and customer payments are settled in the preferred native currency (e.g. USD, EUR, JPY). Companies are required to provide a China-based product return arrangement and Chinese language customer service support. At present, more than 5,000 international brands have opened stores on Tmall Global, using partner bonded warehouses in Shanghai, Guangzhou, Zhengzhou, Hangzhou and Ningbo.

Tmall Global encourages overseas merchants to ship goods in containers to these bonded warehouses first and then start online sales, meaning only personal postal articles taxes are incurred by consumers (saving custom duties, value added tax (VAT) and consumption tax which typically amount to 40-80% and they can receive products within 5 days.



UNDERSTANDING THE ISSUES AT STAKE

Significant growth in cross-border online sales of food products is expected²³, hand in hand with technological advancements and a growing support from governments in the region, to improve e-commerce infrastructure.

To maximise opportunities of a digital shopfront, F&B companies considering cross-border sales of food products should bear in mind the additional challenges this represents, in comparison with, for example, domestic shipping. This means being able to:

- *Comply with the regulatory requirements of the importing country*
- *Offer products in the language, sizes and currency of the target market.*
- *Provide a customer service in relevant language for target market.*
- *Offer secure payment methods, preferably familiar to target country shoppers*
- *Offer full transparency of shipping costs to prevent shopper frustration at checkout by unexpectedly high shipping costs or additional fees at point of delivery due to duties and taxes.*
- *Provide a seamless, customer-friendly global returns management system that works cross-border*
- *Handle adequately security issues related to personal data protection and electronic transactions.*

In addition to the opportunities, F&B companies should consider risk management, especially in the absence of clear national regulatory frameworks regarding food products traded online or the non-harmonisation of standards across the region. While there are sufficient measures in place to control the food safety of imported food in most Asia-Pacific countries, there are a few areas requiring more attention, namely:

Safety and Authenticity of Products Imported for Personal Use:

the internet enables consumers to purchase food products directly from overseas food businesses but products exempted from customs inspections may still pose food safety and quality risks to consumers. To safeguard consumer health, national regulatory authorities could conduct consumer campaigns to increase awareness and vigilance on counterfeit products when purchasing food products online. F&B companies should consider their exposure to liabilities in cases of consumer complaints.

Misleading and Exaggerated Claims on Advertisement:

national authorities in Asia-Pacific are taking various approaches to regulate product claims made by online businesses. Unsubstantiated claims could lead to potentially dangerous situations for consumers, especially when it comes to food products. False advertising would also lead to the breaking of trust between the brand and consumers, which could directly affect the trade industry as well, with consumers being warier of similar products from other brands as well. The Southeast Asian region could look to authorities in Singapore and Malaysia as examples, as these countries have implemented self-regulatory approaches using the Advertisement Code as a guidance.

²³<https://www.dragonsocial.net/blog/china-cross-border-ecommerce/>

HOW YOU CAN HELP TACKLE THE ISSUES

Activity	If you represent an Asian national regulatory authority	If you represent an F&B company
Ensure safety of food sold online to enhance consumer protection	Identify opportunities and gaps in current regulations to develop a more effective regulatory framework for online trade of food.	
Address exaggerated claims of products and services	Implement framework on maintaining integrity across brands, imposing harsh remonstration on companies that flout this regulation	Practice stringent quality checks on products and services, while ensuring that the company is not making unsubstantiated claims
Raise consumer awareness of the risks of buying food products online	Consider developing industry guidelines or Code of Practice to guide businesses on responsible online marketing, as well as education materials for consumers, such as how to identify danger/risk when purchasing food online.	Practice industry self-regulation, especially regarding the provision of truthful information and product claims.
Advocate for Codex to develop a guidance for national governments on how to develop e-commerce regulations	Yes.	Yes.
Enhance food product traceability systems	Provide list of adequate traceability systems (if known) and guidance to F&B companies.	Use and promote traceability systems easy to implement and relatively affordable while acknowledging that some companies may not have capacity to implement any of them.
Anticipate liabilities deriving from consumer complaints on safety and quality of food products purchased online	Define who should be held responsible and liable for the quality and safety food products sold on third-party platforms.	In absence of clear regulation in this area, define clear responsivity and liability rules in the contract with third-party platform selling food products online.
Keep up-to-date with new developments in the online channel, which moves at a faster pace than traditional retail channels	Yes (to anticipate emerging issues and propose new regulations when needed).	Yes (to capitalise quickly on new business opportunities).
Have a deeper understanding of shopper behaviour		Need to understand shoppers in different markets and adapt to meet needs and habits of local shoppers and evolving demographics.
Adopt a collaborative approach		Identify opportunity to form new alliances, even cross-border partnerships between retailers, government, manufacturers, online platforms and retailers, and other experts.
Protect personal shopper data	Consider security issues relating to personal data capture and protection in electronic transactions and regulate more strictly if required.	Maximise usage of shopper data to optimise product mix and profitability while ensuring local regulatory compliance concerning data protection. Companies also have a role in protecting their shoppers' data.

CONCLUSION

The development of e-commerce has been the advent of the 21st Century, allowing businesses to gain easier access to markets and target audiences. While the upscaled convenience and accessibility has obviously been a boon to businesses and consumers alike, the importance of quality control and having a stringent regulatory framework in place are essential to protect the consumers' interest, especially when it comes to food and consumables.

While differing markets in Asia have different market scales, each country's regulatory boards and individual F&B manufacturers can learn from various best practices from around the region, tailoring them to suit the ideal needs for their varying markets.



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