Growing Pains

Australian health care chain finds success — and some challenges — in its online store for the Chinese market

by **PETER JOHNSTON**

Australian discount chain Pharmacy 4 Less began life in the fall of 2007, with a store in the Sydney suburb of Hornsby. It now has 37 stores in the southern part of the country, in the states of New South Wales, Queensland, Victoria and Western Australia. Pharmacy 4 Less also has a substantial online presence: Rania Awad, the company's general manager of e-commerce and IT, estimates that e-commerce amounts to about 5 percent of total revenues.

About a year ago, Pharmacy 4 Less opened an online store aimed at the cross-border e-commerce Chinese market. "In a way," says Awad, "the Chinese consumer found us — or more broadly speaking, Australia. We know that Chinese consumers are always looking for high-quality medical products, mostly around vitamins and skin care. We started researching and learning more about the potential there, and that's when we decided to actively put together a strategy to cater to that market."

GROWING OPPORTUNITY

The high level of Chinese interest in foreign health care products has its origins in a 2008 incident in which milk and infant formula products were found to contain traces of melamine, a chemical found in plastics and adhesives that can cause renal failure. By the end of that year, China's Ministry of Health reported that 300,000 children might have been affected by the contamination. This sparked a widespread distrust of domestic products, particularly among middle-class Chinese.

Access to foreign health care products was complicated by the fact that foreign brands were required to qualify for the Chinese Food and Drug Administration's "blue hat" status, which involved a cost of around $100,000 per product and a wait for approval of one to two years.

In early 2015, however, China adopted new rules for cross-border e-commerce that significantly lowered this barrier to entry. Under current regulations, as long as items are for personal use and shipped in personal-size parcels, they need only to meet the drug administration standards of the country of origin.

For a company like Pharmacy 4 Less, which specializes in generics and discount sales, China is a natural fit. According to the U.S. Department of Commerce, China — the second-largest pharmaceutical market in the world — is expected to grow from $108 billion in 2015 to $167 billion by 2020. Low per-capita spending and government policies favor rapid growth in the generic market, which is expected to surpass the United States in sales in 2017.

FINDING A PARTNER

Seeing an opportunity is one thing; figuring out how to leverage it, particularly in a demanding market that requires surmounting significant legal, financial, regulatory, linguistic and cultural barriers, is something else.

"We understood the Chinese market to be a very complicated space to do business," Awad says, "and we essentially didn't want to go over there and set up companies and be present on the ground. We really needed a partner that could do the legwork for us."

Pharmacy 4 Less chose Azoya International, a three-year-old company headquartered in China that specializes in setting up e-commerce operations in China for retailers in Asia/Pacific, Western Europe, Australia, Japan and, most recently, the United States.

"We work with selected retailer partners around the world who want to expand into China," says Franklin Chu, Azoya's managing director.

"We set up an e-commerce site for them, and we manage and operate every aspect of it, from marketing to logistics to customer service. The goal is to get them into the China e-commerce business with a minimum of financial investment and infrastructural involvement."

A DIFFERENT MODEL

While there are a number of vendors that provide the various services required to conduct cross-border e-commerce in China, Chu says Azoya operates differently from its competitors in two important ways. First of all, they do everything.

"They provided us with their customer service teams, so the language factor was taken care of," Awad says. "They translated product descriptions for us, helped us build the website and put us in touch

with their logistic partners. Basically, they helped us across all the barriers that would have been a bit too difficult for us to do on our own."

The second major difference in the Azoya approach, Chu says, is that the company does not operate on a fee-for-services basis.

"Our business model is that we serve as the local operating partner for the foreign merchant in China," he says. "We don't make our money by charging a fee for translation, and another fee for payment processing and so on. We operate on a revenue sharing model: When the retailer makes money, we make money. I don't believe there is anybody else in this space who is operating that way."

BRAND BUILDING

"At Pharmacy 4 Less it's been quite a journey," Awad says. "In terms of results, there's a lot of revenue coming through just due to the sheer size of the market. Just needing to be able to grow at that rate has presented us with our own internal challenges around operations and processes and systems and cash flow. So it's been bitter and sweet — but it's a good problem to have."

In addition to maintaining and growing its online presence, Pharmacy 4 Less is working to position itself as a go-to health care supplies source for walk-in Chinese customers.

"We would love to be known as the Australian brand to trust for good quality products at the right price for that particular consumer, not only within China, but also for all the Chinese tourists that come to Australia," Awad says. "We're very actively working to build the brand image on that front."

READINESS IS ALL

When asked what advice she would offer U.S. retailers interested in an online presence in China, Awad says, "Get your team ready. If you could have someone internally that can speak the language, that would definitely help. Get your finances ready, and get your space ready.

"If you are fulfilling 100 or 200 orders a day now, you need to really stop and think, 'What would I need to be able to fulfill 1,000 orders a day out of this space?' And you need to know the answer to that question before the orders start flowing."

The Chinese consumer, she points out, is not passive. "They have very intense engagement within their own social media channels, and it's all about the brand image. If you don't manage to deliver on your promises, they very, very quickly start talking about you in those channels — and then it's very hard to repair that image."

She reiterates that it's up to the retailer to be prepared.

"Don't be lulled by the simplicity of the model, because there is still quite a bit of work to be done once you're there, and you don't want to be learning on your feet. The Azoya guys are great in supporting the brand and getting it over there, but at the end of the day they can't run your business. You need to have the right team in place, because this is not something you dabble in." **STORES**

Peter Johnston is a freelance writer and editor based in the New York City area.