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## **Illegal Health Product Vendors Sell by “Emotional Touch”**


There is an increasing number of complaints from elderly buyers of health products, as some vendors take advantage of the elderly’s mentality and loneliness to sell substandard health food and medical equipment.

Chen Huijuan, a retiree who finds life a bit boring in the daytime when her daughter is out to work, was attracted by a “free medical experience center” in her neighborhood. The center has more than 20 medical equipment which claim to help recover from some chronic diseases. The salesman said the original price of a certain equipment is over 20,000yuan, but it can be sold at a “family price” by giving a 50% discount.

After Ms. Chen bought the equipment, She found the it even worsen her health condition. After Ms. Chen reported this case to local regulator, the medical center was shut down.

The local regulators said the center not only sold substandard products but also conducted false advertisement. The regulator says that many vendors target the elderly buyers by offering “free service” to attract their attention. Also, the so-called “health seminar” is a common way to lure local elderly buyers.

Another common way to get this group of buyers’ attention and trust is to pretend to be their family members, as many elderly are seldom accompanied by any of their younger family



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members, said the regulator. (Source: China Food Journal)

### **International Food Safety Conference Held in Beijing**

From April 22 to 23, the 6<sup>th</sup> international food safety conference was kicked off in Beijing. Nina Fedoroff, former chairman of American Association for the Advancement of Science and Patrick Wall, former chairman of European Food Safety Authority were among the attendees this year.

The conference also had over 40 international and local experts to discuss how to help China build a strong and professional food safety industry chain to tackle with the global challenges.

Authorities of CFDA addressed in the conference that food safety, along with the increasingly important environmental issue, is still a vital element that decides whether one company can survive in the food industry or not. 2015 will be an important year for local food companies as it showcases the development trend for the next five to ten years. (Source: foodmate.com)

### **Ningxia Has the First National Organic Food Production Base**

In the latest list of national organic food production base released by the Ministry of Environmental Protection, Ningxia has its first base included in the national list.

According to the national regulations, the Ministry received 100 applications for the latest round of selection. After several rounds of review by experts, 67 of them made it to the final list.

The successful production bases are asked to prove the quality of the water, air and soil they have in the base, which should meet the national standard. The products it yields should obtain organics certificate for no less than three years. The products should have no quality issue for the past three years.

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(Source: Ningxia Daily)

### **China Beauty Expo 2015: Bursting with activities and infinite business opportunities**

China Beauty Expo (CBE), Asia's largest beauty trade show, is set to take place in Shanghai from 19 – 21 May 2015, and will build on its success from the 19th edition last year. CBE 2014 welcomed more than 252,000 visitors from 80 countries and regions, as well as hosted 1,837 exhibiting companies.

Commemorating its 20th anniversary, China Beauty Expo 2015 will once again be the gathering point for global industry professionals, covering 140,000 sqm of exhibition area. 2015 will welcome exhibitors from 27 countries, including new exhibitors from Australia, India, Israel, New Zealand, Switzerland, UK and USA.

A market with immense potential, China has over 1 billion consumers. According to iResearch, China's cosmetics retail market was RMB404.4 billion (approximately USD65 billion) in 2014. The growth rate is expected to remain above 20% for the next five (5) years and forecast to be worth more than RMB700 billion in 2017. It is definitely a market to be part of, for manufacturers and brands who want to extend their reach.

CBE 2015 will host 2,000 exhibitors and more than 7,000 booths, over 150,000 sqm of exhibition space. With the participation of numerous renowned international brands such as Alban Muller (France), Fiabila (France), L'ORÉAL (France), Syneron (Israel), Venus Concept (Israel), Intercos (Italy), COSMAX (Korea), Kolmar (Korea), LG (Korea), SYMRISE (Germany) and P&G (USA), CBE is the ideal platform for cosmetics manufacturers, brands and agents to penetrate the Chinese and Asian markets.



The beauty industry's distribution channels are constantly developing. To keep abreast the constant evolution, CBE 2015 will be the gathering point for 250,000 trade visitors, hailing from all networks, including department stores, shopping malls, supermarkets, specialty and chain stores, e-commerce and mobile commerce. With a range of show features and activities, CBE 2015 aim to provide insight, as well as networking opportunities to meet the needs of manufacturers, brand owners and retailers.

In order to maximise the impact of this platform and further expand its global reach, Claudia Bonfiglioli has been appointed the International Director of Informa Beauty and Informa Baiwen. Claudia will be placing more emphasis on developing Informa Beauty further in Asia and the Middle East. As the former International Director of SoGeCos Milano (Cosmoprof beauty platforms) and General Manager of SoGeCos France, Claudia Bonfiglioli brings on board 20 years of invaluable experience and expertise in the beauty industry.

(Source:Cosma)

## Worried About China's Air Pollution? The WHO Says Smoky Restaurants Are Even Worse

Which has the worst air quality: Beijing on a bad air pollution day or a restaurant with smokers?

The answer is the one with the smokers, according to the World Health Organization. The measure of fine, hazardous particulates in the air, known as PM 2.5 because they are less than 2.5 micrometers in diameter, reaches around 600 when there are just three smokers puffing away in a room, said Bernhard Schwartländer, the World Health Organization's representative in China at an event Wednesday. Mr. Schwartländer didn't specify the size of the room. He said that the PM 2.5 level goes up to 1,200 when there are five smokers present and up to 5,000 when there are 20.

The worst days in Beijing reach a PM 2.5 of 500 and the average levels in the city are just under 90, Mr. Schwartländer said.

"I don't understand," said Mr. Schwartländer, adding "Why don't we see the same outcry that we see with the air pollution?" People make documentaries to draw attention to the air problems and wear masks to reduce their exposure, but they don't draw attention to the harms of smoking and the millions of deaths it causes, he said. Every 30 seconds someone in China dies as a result of tobacco use, he said. Mr. Schwartländer argued there should be more outrage when people smoke near children or are exposed to second-hand smoke, adding, "The only way we can explain is that people simply don't know."

The World Health Organization is trying to clear the air by shining a light on the negative health impacts of smoking, just as Beijing prepares to implement its indoor smoking ban on June 1. The citywide ban takes aim at restaurants, bars and other indoor spots and officials can fine offenders 200 yuan (about \$33) for individuals and 10,000 yuan for organizations and companies.

The WHO is also tapping celebrities like singer

Zhang Liangying and real estate mogul Pan Shiyi to promote the ban and ensure it has advocates. Health experts say they are concerned about the efficacy of the forthcoming ban, which isn't Beijing's first. Previous ones failed due to lack of legal enforcement and public support, they say.



Government officials, also at the event Wednesday, conceded that it'll be hard to stub out the butts. Beijing alone has 4 million smokers, said Fang Laiying, Director General of the Beijing Health and Family Planning Commission. Smokers will be resistant and feel that their own rights are being violated, Mr. Fang said. He said he's reminding people that the government isn't taking away their freedom but is instead protecting their right to health.

China is the world's largest consumer and producer of tobacco, home to more than 300 million smokers and 43% of the world's cigarette production, according to the American Cancer Society and the World Lung Foundation.

Mr. Pan says he'll enforce the new rule at his SOHO real estate complexes around the city, which are monolithic office and retail spaces, housing thousands of workers. He didn't give any explicit

details on how. The Beijing government launched this month an account on social messaging app WeChat, encouraging people to report violators and tattle on smokers who are caught in the act by uploading images or videos of them.

Mr. Fang said tattlers will not be financially rewarded, but the government does need help enforcing the ban. "We need buy in," he said. (Source: WSJ)

## Five Trends Driving China's E-commerce Surge

The survey shows that Chinese consumers are embracing O2O (offline to online) at an even faster rate than previously expected, as 71 percent of consumers are already using O2O services, and one third of those who haven't used claim they would like to try in the coming six months.

Heralded as a game-changing trend in Chinese e-commerce, O2O are expected to draw the most market demands in entertainment, healthcare, and housing and motorservices.



"To capture the ever-experimental and fast-learning Chinese consumers, companies will need to expand



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their O2O offerings and find innovative ways to engage and serve their customers in a multichannel fashion," said the report.

The survey shows that a showrooming effect, where shoppers browse in stores but buy elsewhere, has become particularly intense. Only 16 percent customers, among those who have Internet access, bought electronic goods at physical stores.

To retain sales, more brands are choosing to collaborate with online shopping platforms and place QR codes next to their products and sending customers digital coupons and daily tweets.

"Given the increasingly drastic effects of showrooming, we expect some retailers to go so far as to reduce the number of physical stores in 2015, focusing instead on differentiation through quality offline services and offline-to-online conversions," said McKinsey.

Digital engagement can also help retailers get to know their prospective buyers, according to the report.

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Heralded as a game-changing trend in Chinese e-commerce, O2O are expected to draw the most market demands in entertainment, healthcare, and housing and motor services.

"To capture the ever-experimental and fast-learning Chinese consumers, companies will need to expand their O2O offerings and find innovative ways to engage and serve their customers in a multichannel fashion," said the report. The report shows that

despite lower Internet penetration, over 60 percent of rural digital consumers shop online, making them just as active as their urban counterparts.

"Some of China's leading retailers are moving fast to exploit this trend, creating county-level operations not just to facilitate the transport of goods to rural areas, but also to speed the journey of farm produce to the cities," said the report.

The survey shows 25 percent more rural shoppers, compared with dwellers in the first- and second-tier cities, feel more "empowered" and see themselves as "online gurus" who are eager to be the first to try out new products.

Packaged and fresh food tops the carts among online shoppers, with average 34 times a year, compared with 22 times a year for apparels, according to the survey by McKinsey.

About 40 percent consumers buy food online, in contrast to just 10 percent of their US counterparts, said the report, thanks to improved delivery service. Forty percent retailers offer same day or next day delivery, up from 29 percent in 2011.

"The way to the Chinese digital consumer's heart appears to be through their stomach, and addressing this important basic-need category will be critical to drive stickiness and frequency to e-commerce sites," said the report. (Source: China Daily)

## Inside Alibaba, the Sharp-Elbowed World of Chinese E-Commerce

When Mr. Cui, an entrepreneur in the southeastern Chinese city of Hangzhou, wanted to draw more attention to the hair clips and costume jewelry he sold on the shopping sites of e-commerce giant Alibaba Group Holding Ltd., he says he turned to fake orders.



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Faking orders, or “brushing,” as it is called in China, involves paying people to pretend to be customers. It lets vendors pad their sales figures and, in theory, boost their standing on online marketplaces, which often give more prominence to high-volume sellers with good track records.

Typically, vendors pay brushers the cost of the products they are ordering, plus a fee. The brushers place the orders and make payments using that money. The vendors then ship boxes that are empty or full of worthless trinkets, while the brushers write glowing reviews.

The practice is considered a form of false advertising, which is prohibited in the U.S. and China. Chinese sellers found doing so face fines and restrictions on their business. But Mr. Cui, who asked to be identified only by his last name, said he relied on fake orders because he felt there was no other way for his products to be seen.

Brushing puts Alibaba at risk of further regulatory scrutiny following its \$25 billion initial public offering in September, and calls into question the volume of transactions actually conducted on its platforms, a metric analysts cite in saying it is the world’s largest e-commerce platform. Alibaba says it doesn’t condone fake transactions and that it scrubs them from reporting on merchandise volume, which amounted to 1.68 trillion yuan (\$274 billion) for its two main shopping platforms, Taobao and Tmall, in the fiscal year ended March 2014.

But Mr. Cui and more than two dozen vendors, brushers and e-commerce consultants interviewed by The Wall Street Journal say brushing is common among sellers struggling to get ahead on the country’s increasingly competitive shopping sites.

In a November article from China’s state-run Xinhua News Agency, Alibaba Vice President Yu Weimin was quoted as saying that the company had found that 1.2 million sellers on its main Taobao shopping site—or roughly 17% of all

merchants—had faked 500 million transactions worth 10 billion yuan in 2013. Mr. Yu said those transactions were “only the tip of the iceberg” and his “conservative estimate” was that tens of thousands of people in China were helping online sellers fake transactions, according to the article.

Some brushers even list their services on Alibaba’s sites, while others offer classes on mimicking real shoppers and eluding auditors.

Without fake transactions, “your product will end up at the very back of the search results, and people will never be able to find it,” said Mr. Cui. He took classes on how to avoid getting caught, learning to browse a few stores before placing fake orders. The strategy didn’t pay off: He closed his shop last year because it wasn’t making enough money.

Daniel Zhang, Alibaba’s chief operating officer, said the e-commerce giant uses sophisticated tools to identify and exclude fake transactions from its financials.

In a report earlier this year, Chinese regulator State Administration for Industry and Commerce accused Alibaba of allowing bribery, fraud and illegal behavior as well as counterfeit goods to proliferate on its sites.

Alibaba called the report biased, and it was later removed from the agency’s website. But the SAIC’s criticism spurred a host of investor lawsuits and prompted the U.S. Securities and Exchange Commission to request more information about Alibaba’s talks with the regulator ahead of the IPO. The SEC declined to comment, while Alibaba said it was cooperating with the request.

Chinese regulators have tried to crack down on fake transactions. A provincial regulator said it fined a department store in the central city of Changsha 50,000 yuan for allegedly faking 45,000 yuan out of 58,000 yuan in reported online sales over nine days.

Legal experts say that under Chinese law, Alibaba could be held liable—along with the sellers—if it is aware transactions are being faked on its platforms, but doesn't take adequate action to deal with the problem.

Alibaba says that sellers found faking transactions face penalties ranging from having positive reviews deleted and losing the right to appear in search results, to fines of as much as 150,000 yuan and closure of their online stores. Extreme cases are turned over to the police, the company said.

Alibaba also analyzes transaction patterns to identify anomalies—like a flurry of orders coming from the same IP address or going to the same mailing address—and maintains a list of sellers and buyers who have engaged in fake transactions so it can more easily monitor them, it says.



Vendors and consultants say brushing occurs on other Chinese shopping sites as well. Alibaba commands a roughly 80% share of the country's e-commerce market.

Online reviews also have stoked controversy in the U.S., with San Francisco-based Yelp Inc. suing Revleap, a website operator, for allegedly misleading businesses by claiming to help them get good reviews and remove bad ones. Revleap said that Yelp's claims are false and unsubstantiated. Consultants say that fake transactions are much less common on U.S. e-commerce platforms such as Amazon.com Inc., which mainly buys goods from

suppliers and sells them to customers, and eBay Inc., which charges sellers a percentage of each sale. Alibaba's Taobao site, by contrast, connects buyers and sellers and doesn't charge a commission. Amazon declined to comment, and eBay said it uses sophisticated analytics to combat bad practices.

China's brushers are taking advantage of what many small and medium-size merchants say is an increasingly tough business environment, particularly on Alibaba's platforms, where millions of shops are vying for the attention of buyers.

"How do you get yourself noticed by customers in this sea of...products if you don't have a single sale?" says a Taobao merchant who identifies himself as Mr. Liu, and admits to faking transactions in the past. Mr. Liu says he shifted from selling cosmetics to the less crowded category of home décor, but estimates that even now he is vying with 80,000 other similar shops on Alibaba's sites.

One way to get products in front of customers' eyes is to buy advertising.

Some e-commerce consultants and sellers say ad prices in competitive product categories have risen 10% to 20% a year recently, making them unaffordable for small merchants. Alibaba auctions off banner ads and search keywords.

Alibaba says recent changes that display more relevant ads to shoppers have lowered the average cost to merchants for keyword-linked searches.

Brushing takes aim at Alibaba's closely guarded search algorithm, a complex formula that determines whether a seller's listings appear on the first or 50th page when shoppers search for items from computers to clothes.

Web Presence in China, a Beijing digital-marketing firm, estimates sales volume accounts for 25% of where a listing appears in the search results, while relevance counts for 10% and product review, shipping and customer-service ratings each account

for a fifth, and price about 5%.

Alibaba says the algorithm takes into account hundreds of factors, including product relevance as well as product and seller quality, and directs extra traffic to new sellers. While Alibaba doesn't disclose the weight it assigns each factor, sales volume doesn't outweigh everything else, said an Alibaba spokeswoman.

Like several other vendors interviewed by the Journal, Mr. Cui, the former Taobao knickknacks seller, says he turned to a combination of brushing and advertising to move up in Alibaba's search rankings.

Mr. Cui said with a bit of brushing—at the cost of 5-10 yuan per transaction—he could make it

seem as if his products were selling well, encouraging more shoppers to buy. Faking several dozen transactions a day for a week could get his products within the first five pages of search results, he said.

But Mr. Cui, who turned to a group that specializes in fake orders, said competition was too stiff in his particular market segment of supercheap, indistinguishable accessories, for brushing to turn around his store's fortunes.

Because of Taobao's dominant position in China, "we walk a fine line," Mr. Bates said. "We can't afford not to be on there, but must put a lot of effort into staying." (Source: WSJ)

China Updates is published weekly by the U.S. – China Health Products Association, a non-profit organization dedicated to the promotion of dietary supplements and nutritional ingredients. The association's major focus is the continued development of China's overall natural health product industry as well as offer business services to its global members.

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