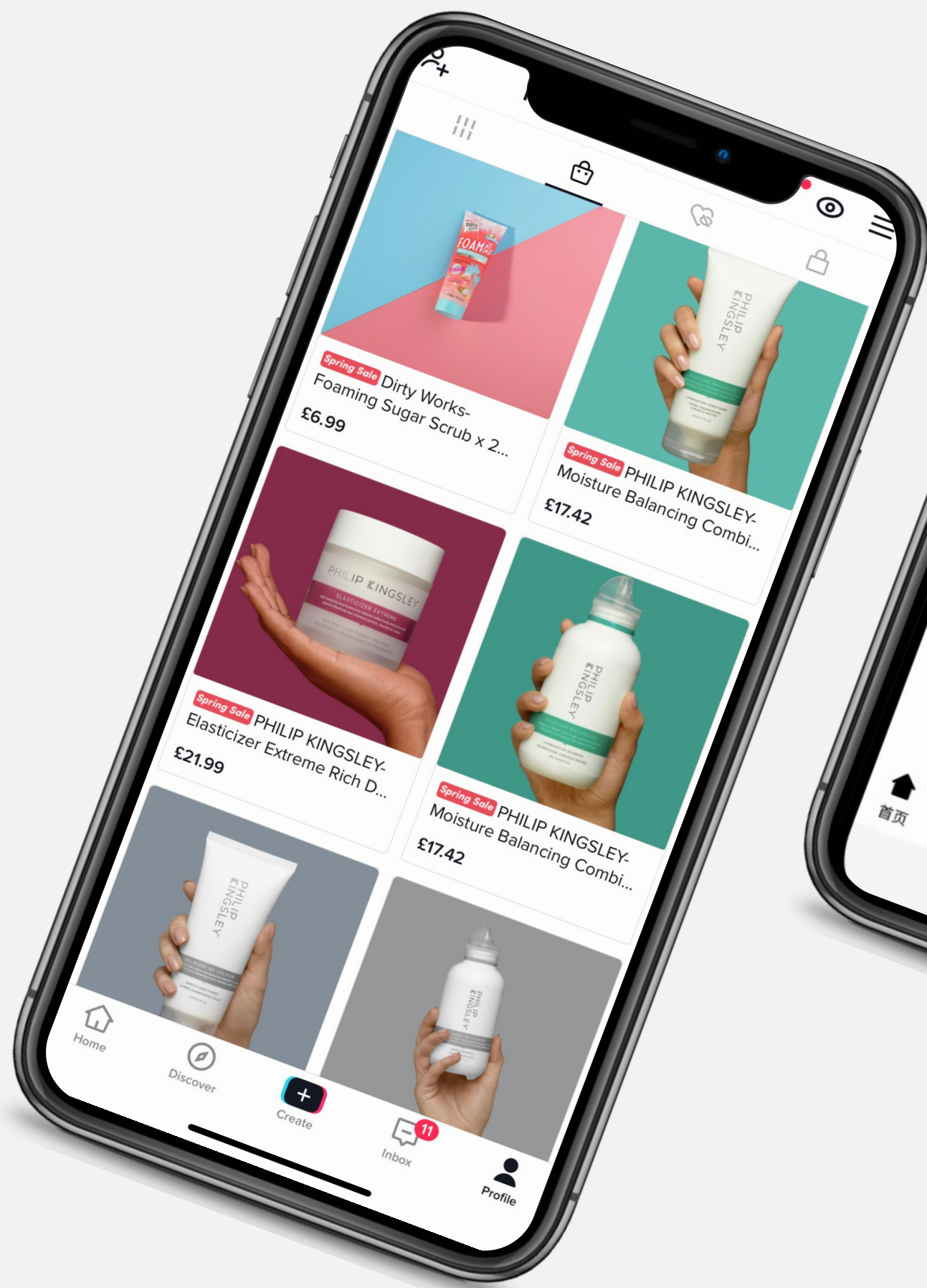




Understanding
China's Decentralised
eCommerce Landscape

Discovering the new engines for cross-border eCommerce growth in China

China’s cross-border eCommerce (CBEC) ecosystem has long been dominated by major B2C platforms – in particular Alibaba’s Tmall Global, and to a lesser extent the Tencent-backed JD Worldwide. Challengers have come and gone – examples include Kaola, ultimately acquired by Alibaba from Netease in 2019 and now reportedly down to just 20 staff, or smaller players like Secoo whose rise and fall has become well discussed after a promising start and major IPO. The barriers to launch for international brands remain stubbornly high (see figure 1) – with the core challenges being customer acquisition and the often long time to profitability after launch.

	COST / %	EXAMPLE STORE @ 10M RMB ANNUAL GMV
CBEC TAX	9.1% - 23.1%	910000 - 2310000
TP FEES	50000 - 150000/ Month	600000 - 1800000
TP COMMISSION	5 - 15%	500000 - 1500000
ALIBABA FEES	4 - 8%	400000 - 800000
ON PLATFORM MARKETING	15%	1500000
OFF PLATFORM MARKETING	10%	1000000
LOGISTICS	2 - 5% of GMV	200000 - 500000
TOTAL COST OF SALE		5.1m - 9.6m RMB

FIGURE 1 – TABLE SHOWING COSTS OF SETTING UP A TMALL GLOBAL FLAGSHIP

The intensification of these challenges and fiercer competition in a lower-growth environment, alongside cultural and contemporaneous socioeconomic factors, is leading to an enormous shift in CBEC towards a more diverse, multifaceted future. We call this ‘Decentralised eCommerce’ – social commerce powered by networks of local tastemakers, taking place wherever consumers are spending their time.

祸不单行

Bad things don't happen alone

AN UNCERTAIN DOMESTIC AND GLOBAL OUTLOOK

Since 2019 the internal and external pressures on the Chinese economy have changed considerably. China was hard hit in early 2020 by the initial Covid outbreak, but quickly recovered and had a strong period of relative stability throughout the second half of 2020, and all of 2021.

As new variants of Omicron took hold, it became harder for China's borders to remain impervious. Shanghai underwent an almost three-month total lockdown from March-May 2022, and during that time logistics networks struggled to adapt.

Shanghai is by no means alone - Beijing, Xi'an, Chengdu, Shenzhen, and scores of other major cities have all experienced their own Covid disruption. A result of this – and other challenges including high youth unemployment, difficulties in the real estate sector and a potential global recession decreasing demand for Chinese goods – is a drop in consumer confidence, which Dominic Lai, the Group Managing Director of Watsons Pharmacy expects to take 'some time' to recover. At the time of writing, it remains to be seen what future policy course China will choose, and how quickly it will open up to the rest of the world and loosen Covid controls.

This means that international brands can no longer rely on their previous assumptions when entering China. It was previously common to feel a halo effect from listings in major global retailers in London, Paris, New York, Tokyo, and Hong Kong. However, thanks to Covid travel restrictions, the proportion of luxury purchases made overseas shrank from 55% in 2019 to just 10% in 2021. Correspondingly, eCommerce purchases of luxury trebled from 13% to 39% in the same time period.



用人不疑，疑人不用

Choose the one you trust, and trust the one you choose

TRUSTWORTHINESS HAS LONG BEEN THE SECRET DRIVER BEHIND CHINA'S CBEC GROWTH

Around 90% of sales happen on four leading marketplaces, but consumer trust remains staggeringly low – with the best rated platform scoring just 39/100 on 'trust in product authenticity' in a 2019 survey*. Consequently recommendations from trusted vendors, friends, family, or other credible sources is incredibly important as part of the purchasing journey – and is reflected in the average 8 touchpoints required by a Chinese consumer before making a decision, double the number you see in most markets. This journey often takes them through multiple social platforms, online and offline locations, brand official websites, chat boards, and review sites.

'Social Commerce' is one antidote to the epidemic of mistrust. This vast word-of-mouth or recommendation driven sales network, where the vendor is not the brand-owner, but a friend, family member, influencer, or celebrity, is set to grow to \$474 bn by 2023.

Vendors on social commerce are typically specialists in their sector, and have a loyal following of consumers – some of whom will exclusively shop with their preferred vendor.



*Statista: 100ec.cn - Chinese Retail e-commerce Market Data Monitoring Report 2019

树大招风

The tallest tree catches the most wind

REGULATORY CHANGES

Without doubt, Alibaba is the tallest tree in Chinese eCommerce and it has consequently borne the brunt of the cyclone of regulatory enforcement sweeping the sector. In April 2021 the company was fined in excess of USD \$2.75bn for monopolistic behaviour, and in its FY22 annual report described the external environment as the “most severe in decades”. This regulatory focus has allowed others to grow into the gap as Alibaba adapts its business model under increased scrutiny.

In addition to the pressure on the wider company, some of the most well-known faces who operate on the platform have also faced their own challenges. Alibaba's domestic eCommerce success was personified by its most successful livestreamers – Austin Li and Viya. Both have suffered calamitous falls from grace - Viya removed indefinitely from the platform in Dec 2021 for tax evasion, and Austin for three months from June 2022 for the euphemistically self-described ‘technical issues’ of political sensitivity.

It remains to be seen if Li's allure and ability to merchandise international products will bounce back after a subdued start – although with 50m consumers tuning in to his return show, Alibaba will be grateful for the enhanced traffic he can bring. The sudden and unexpected fall of these major salespeople left a lot of brands with stock in the wrong place, and often without alternative channels available as a ‘Plan B’.



机不可失，时不再来

Opportunity waits for no-one

Alibaba's B2C marketplace Tmall Global faces a range of external challenges – and growth looks hard to come by for the platform at the moment. Merchants should be wary of seeing it as their sole route to market – even as growth stutters, the platform adds thousands more merchants, intensifying already fierce competition for consumer eyeballs. Alibaba's first ever quarterly contraction in FY23 Q1 (down 0.1% year-on-year) points to a period of restructuring for the company as it adapts to a new regulatory environment and competitive set – including JD, Douyin, Kuaishou and WeChat.

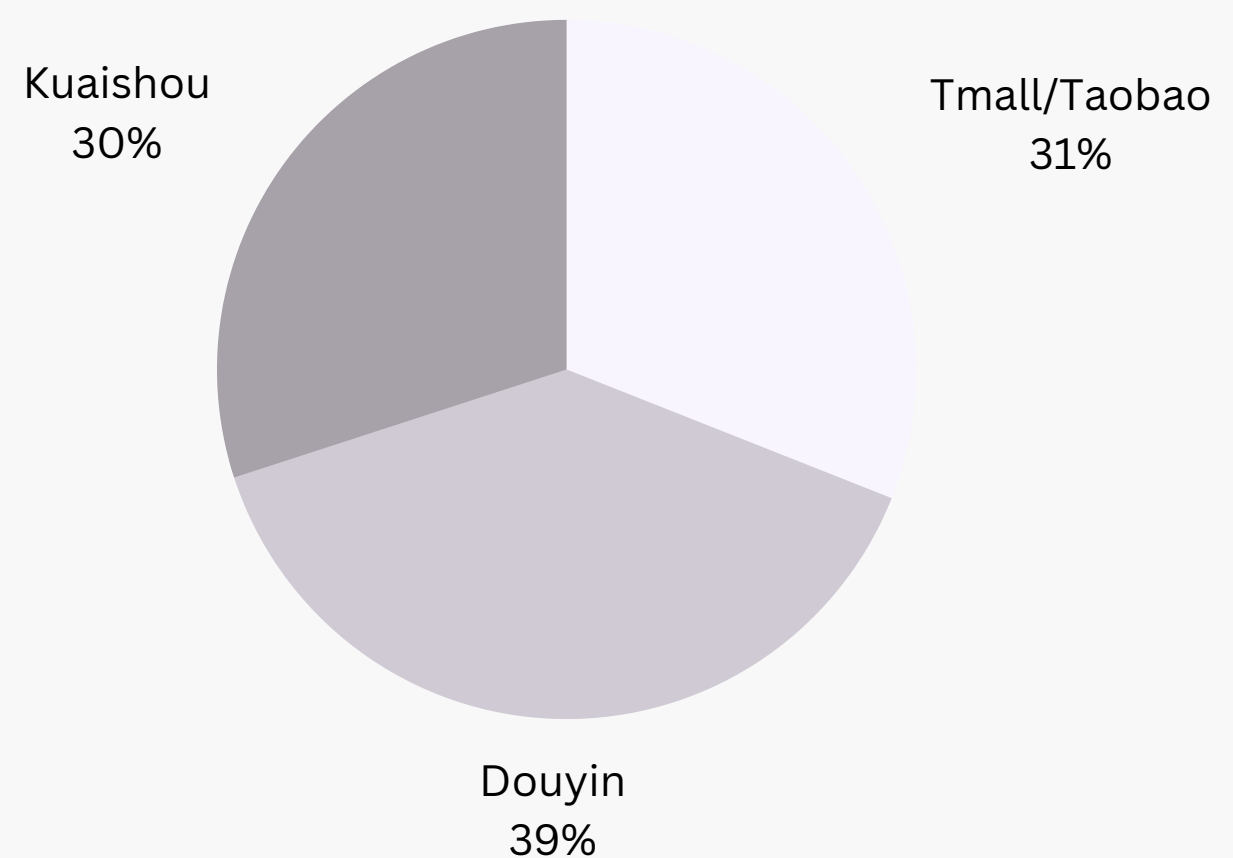


FIGURE 2 – GMV SHARE OF LIVESTREAMING MARKET 2021



FIGURE 3 – TERESA ZHANG'S AROSEISAROSE STORE ON WECHAT

In 2021, ByteDance's short-video social media and eCommerce platform Douyin (TikTok) overtook Alibaba's solution to become the dominant platform for livestreaming eCommerce (figure 2), a trend Austin and Viya's troubles will accelerate quickly in 2022. During the early stages of the Covid outbreak in 2020 Douyin's time spent on platform grew to 88 minutes a day among its active user base. These consumers translated into sales growth, with Caixin reporting that livestreaming eCommerce on Douyin topped 800bn RMB (USD \$115bn) in 2021, more than doubling from its 2020 figure. Alongside Douyin's growth, rival short-video platform Kuaishou has taken a sizeable share of the market among cheaper products and in lower tier cities.

In 2022, Alibaba's long-time rival Jingdong_(JD) posted its best ever figures at its flagship eCommerce festival 618, while Alibaba remained coy about releasing specific GMV numbers for Tmall for the period. Skincare brands are starting to take to the platform in greater numbers – in mid-2022 La Mer have opened a store, joining other Estée Lauder brands including Jo Malone and Bobbi Brown in their entry to the platform during the same year.

Tencent's super-app WeChat, with its Mini-Program functionality, continues to be the natural home for influencers looking to monetise their following and open an eCommerce store. Public figures like Tracey Chang and Teresa Zhang favour the closed network of WeChat where they can push long-form content to loyal followers, and convert their product recommendations into revenue (figure 3). WeChat made tentative steps into livestreaming in 2020, and during 2022 has begun to centre this feature more prominently within the app. The platform has goals to make serious inroads into this market to compete with Douyin and Kuaishou.

For Alibaba, their small-business-to-consumer marketplace Taobao continues to be more adaptable. The platform, whose name in Chinese is used to mean 'to shop online' in the way that Google is used as a synonym for search in English, has a vast userbase and an entrepreneurial network of vendors who can adapt in real time to consumer shifts. Their scale varies from a few hundred to a few hundred thousand followers, and many are influencers in their own right. Taobao provides annual rankings of stores based per category on their sales performance, reputation for authenticity, and customer service scores – further encouraging store operators to provide a reliable, professional, and trustworthy service to their customers. Many also regularly publish content to their store subscribers introducing new brands or products, or alerting them to upcoming sales events.



FIGURE 4 – A LEADING TAOBAO STORE SELLING SKINCARE, BODYCARE, AND LIFESTYLE PRODUCTS

An often overlooked channel is direct sales through non-Chinese websites – including brands' own global .com sites. Intensified by the reduction in tourism between China and the rest of the world, consumers are increasingly looking to retailers' and brands' websites to cross-check claims, look for the best deals, and get a full brand experience. However, many merchants are still not making simple adjustments in order to cater to this group – who typically have a higher conversion and average basket than home market consumers. Brands should consider issues such as slow site loading speeds, adoption of leading Chinese payment methods, customs clearance and payment of local taxes in order to achieve incremental sales from hyper-engaged consumers.

丰富多彩

Rich selection

GOING BEYOND HERO SKUS

A strength of Tmall Global's marketing functionality and algorithm is the ability to create hero products – which can unlock the ability to scale sales on specific SKUs quickly. Alibaba's own case studies point to this as the correct tactic to succeed on the platform.

For niche brands without the budget to continually elevate their top selling product or build new heroes, this creates a longer-term issue of over-reliance on one SKU and often heavy discounting. The nature of Decentralised eCommerce provides brands with a golden opportunity to diversify their range – focusing on hero SKUs on volume channels like Douyin while working with specialist Taobao and WeChat vendors to expand their range.

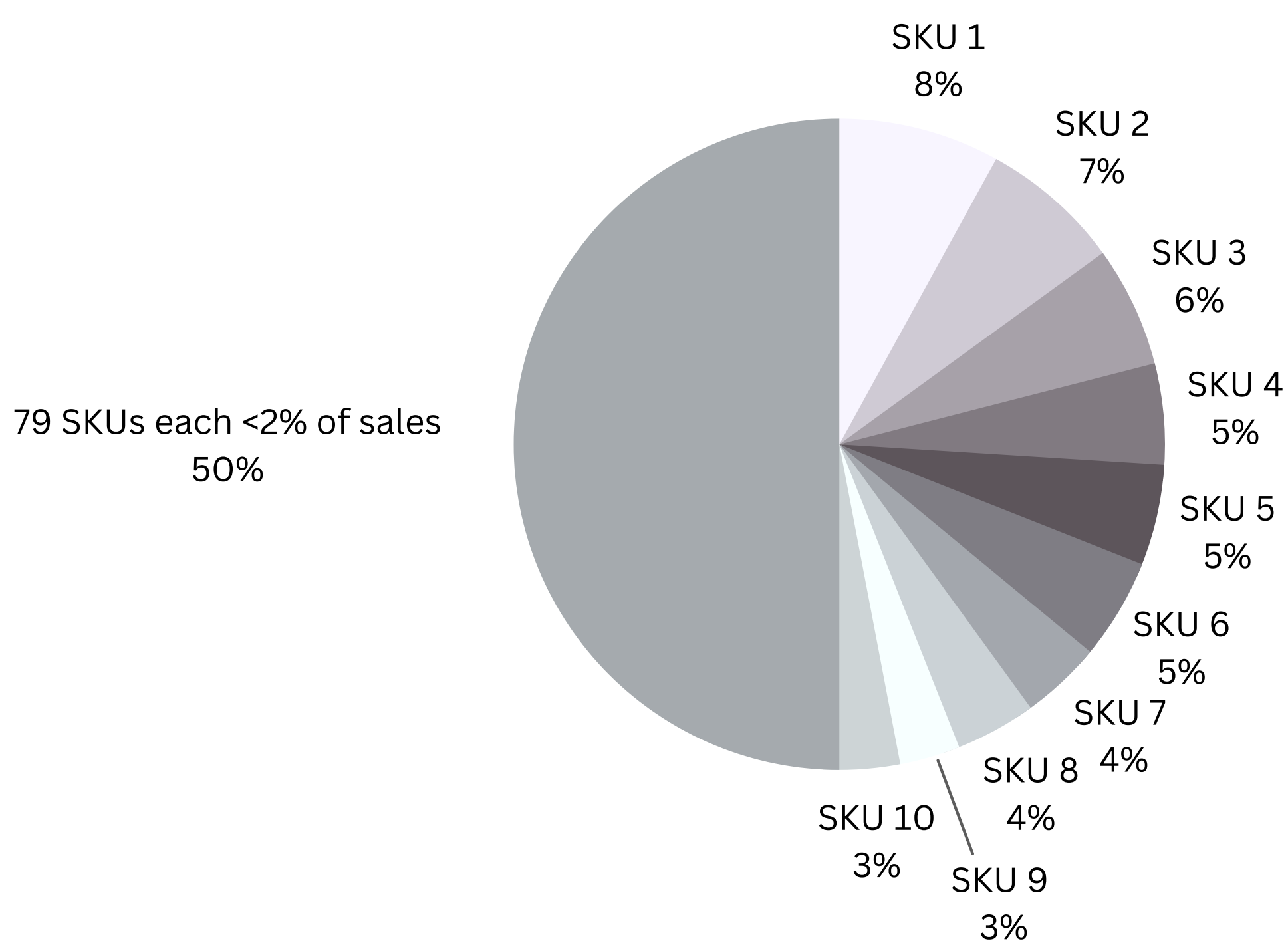


FIGURE 5 – SPLIT OF SALES REVENUE ON SOCIAL COMMERCE CHANNELS FOR A LEADING SKINCARE BRAND IN 2021

鹬蚌相争，渔翁得利

When the wading bird and the clam fight, the fisherman wins

COMPETITION CREATES OPPORTUNITY FOR MERCHANTS

Leveraging the established audiences of social commerce vendors is a vital tactic in any international brand's playbook in China. It is also essential to look for growth opportunities across all platforms to meet the consumption patterns and preferences of a changing shopper. As emerging platforms look to expand their brand portfolio, there is a burgeoning opportunity for international merchants to diversify their sales channels.

From a risk management perspective, a decentralised approach to eCommerce avoids the difficulties of being overly reliant on one channel or influencer to drive revenue. Different challenges arise around pricing management and ensuring no SKUs become over-distributed and devalued. Both can be managed with adequate planning and resource.

It can be a complex job to manage a wide network of clients, and to understand which channels are best suited to your brand, category, products, and target audience. It is advisable for brands to seek a partner with strong brand adjacencies and quality seller networks in order to exploit this booming market.

Chinese consumers have already changed their purchasing behaviour. International brands cannot afford to ignore China's trend of Decentralised eCommerce.





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