

China eCommerce – Alibaba Group Holdings Ltd.

Traffic Sluggish, Ad Prices Increase

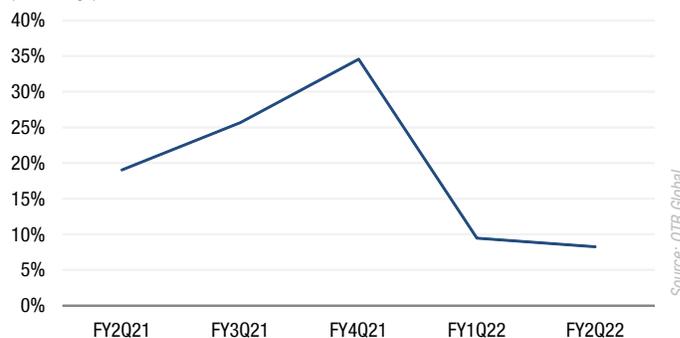
Vendors' sales growth on Tmall and Taobao during FY2Q22 was limited by slowing traffic, tough comparisons, a weak economy and continued intense competition.

- FY2Q22 vendor sales through BABA's Tmall, Taobao up 6%–11% yy (vs. up 7%–12% yy in FY1Q22); sluggish traffic growth biggest headwind
- Vendors' overall FY2Q22 cost paid to BABA platforms at 15%–20% of sales (as in FY1Q22); ad prices increased because of vendor competition
- FY2Q22 vendors' total spending up 8%–13% yy (vs. up 15%–20% in FY1Q22); some holding back spending until Singles' Day
- Area to Watch: New Data Security Law having no impact on use of BABA's ad tools

KEY DATA

Vendors' YY Sales Growth on Alibaba's Platforms

(on average)



“We scaled back on discounting during the summer. We want to save for 11.11 in order to fight for a big sales boost, and we also are in short supply of popular products because of supply chain issues, so we are only listing the original price [and not a discounted price].”

Athletic vendor

BY MEREDITH SUN

SOURCES & BACKGROUND

27 sources comprising 10 domestic vendors, 9 international vendors and 8 agencies, representing 14.4 billion yuan (\$2.2 billion) sales through Taobao and Tmall in 2020

REPEAT SOURCES 25 from OTR Global's July report

INTERVIEWS Oct. 8–18

AVERAGES Straight

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Headwinds Stymie Growth

Vendors' sales through **Alibaba Group Holding Ltd.**'s Tmall and Taobao increased 6%–11% yy on average during FY2Q22, compared with up 7%–12% yy during FY1Q22, constrained by a weak economy and tough comparisons. Overall FY2Q22 sales fell below plan for 13 of 27 sources, compared with 13 of 30 in FY1Q22. Lack of traffic growth was the biggest difficulty cited by almost all vendors on Tmall and Taobao, partially because of competition from **Pinduoduo Inc.**, **JD.com Inc.**, **ByteDance Ltd.**'s Douyin, **Kuaishou Technology Co. Ltd.** and **Xingyin Information Technology (Shanghai) Co. Ltd.**'s Little Red Book, and also because an increasing number of brands began opening stores on Taobao and Tmall, creating more intense competition among vendors. One source whose sales fell below goals said, "We are still facing tough competition from other players on Taobao and other platforms like Xiao Hong Shu. After 2020 and COVID-19 hit, the online channel became very active, and competition is getting more and more difficult." Consumers also were more cautious about spending amid economic uncertainty.

In response, some vendors focused on adding new and better products to become more competitive, some spent more on advertising to buy traffic, and some explored opportunities to work with top KOLs or train their own hosts for live streaming. Fewer chose to increase their promotional cadence because of the higher cost; 12 of 27 sources said they offered deeper discounts yy compared with 15 of 29 in FY1Q22, and only eight of 27 offered deeper discounts qq. "Our discounts were lighter year to year and quarter to quarter mainly because the cost of everything is rising. And I can't afford the price war caused by blindly offering promotions and discounts. We upgraded our product packaging, and we increased the sales price. It actually worked pretty well since our sales increased 50% year to year," one said. Sources representing a few international brands said they could not offer as many discounts because of shipping delays or inventory shortages. "We scaled back on discounting during the summer. We want to save for 11.11 in order to fight for a big sales boost, and we also are in short supply of popular products because of supply chain issues, so we are only listing the original price in our store," one said.

Sales of jewelry, food and beverage and baby products were mentioned most often as strong categories during FY2Q22, with the Mid-Autumn holiday especially helping sales. Cosmetics sales remained challenging because of tough comparisons and increasing competition. "Our sales decreased 5% year to year because of competition. This year, we actually increased marketing and promotions in all retail channels, but there are so many local brands emerging, and leading local brands such as [**Yatsen Holding Ltd.**'s] Perfect Diary, which is marketing and promoting very aggressively," one said. Athletics and apparel and shoes were the weakest categories during FY2Q22. International athletic brands were still hurt by lingering effects from the Xinjiang cotton issue, as well as shipping delays, inventory shortages and overall weak demand. In addition to the headwinds of a softer overall retail environment, apparel was hurt by unseasonal weather this quarter, with flooding and a very long summer delaying autumn purchases in the South and East.

Taobao Deals: Six of 10 vendors who sold through Taobao Deals during FY2Q22 said sales fell below expectations, a slight improvement compared with eight of nine in FY1Q22. Some considered Taobao Deals a good place to clear inventory of low-price products, but many brands would not consider the platform for their products because it is not good for brand image.

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Ad Prices Up

Costs: Vendors' overall cost paid to Alibaba was 15%–20% of sales during FY2Q22 (as in FY1Q22), mainly because of the higher prices of advertisements. Sixteen of 27 sources said advertisement price of Alibaba increased yy (compared with 14 of 29 in FY1Q22), and most sources attributed price increases to increasing competition. "The unit price for advertisements on Alibaba increased during 3Q21. PPC [price per click] is 5–10 yuan. The larger the category, the fiercer the competition and the higher the average cost per click," one said. Fewer sources increased advertisement budgets in FY2Q22 (15 of 27 in FY2Q22, compared with 19 of 30 in FY1Q22) because there were fewer major promotional events, except for the Sept. 9 (9.9) promo.

Live Streaming: Vendors moved more of their budgets to live streaming during FY2Q22, either by having their own staff hosting it or working with KOLs. On average, 22%–27% of budgets were dedicated to live streaming on Taobao and Tmall during FY2Q22, compared with 14%–19% in FY1Q22. Six of 16 sources cut their traditional Alimama budgets to accommodate the move to live streaming, compared with four of 19 in FY1Q22.

ROI: ROI was lower qq for 15 of 27 sources because of low traffic levels and more competition — both within the platform and from other platforms. Thirteen of 16 who did live-streaming sales said live-streaming ROI was higher than other advertisement tools on Alibaba. A few said the ROI of Super Recommendation (newsfeed advertisements) has dropped significantly since January.

Spending: Total spending on Alibaba was up 8%–13% yy during FY2Q22, a deterioration compared with up 15%–20% yy in FY1Q22, caused by lower sales growth and less aggressive advertisement spending during a less promotional quarter.

No Impact of New Laws: The Data Security Law (effective Sept. 1) and the Personal Information Protection Law (effective Nov. 1) have had no impact on Alibaba's advertisement tools. Sources said Super Recommendation newsfeed advertisements and personalized recommendations are already based on user categories, meaning vendors choose types of user groups to target but cannot see the users' data, so Alibaba will not need to make any changes when the new laws go into effect. One noticed Alibaba increased its efforts to crack down on unauthorized web crawlers. "Since the implementation of the Data Security Law, Taobao has invested a lot of resources to crack down on unauthorized crawling on the platform, because data privacy and security are very important. Taobao has actively detected and eliminated unauthorized scraping behaviors," one said. Another said only SMS and text marketing vendors were affected because they were no longer able to acquire or use users' phone numbers directly.

Several vendors (mostly representing big brands) mentioned the new laws hurt brands more so than the ecommerce platforms. One said, "[The new laws] have a big impact on us as a brand. We can no longer get users' cell phone numbers, which disrupted our effort to integrate membership on all channels. We were trying to convert Tmall store consumers to our own app by using their phone number. Without it, we can't do that anymore. It has no impact on Alibaba's advertising, though. Alibaba can still see all the user data; us vendors cannot."

Spending Outside Alibaba: Nineteen of 27 vendors purchased advertisements from outside the Alibaba platform during FY2Q22, including on Douyin, Kuaishou, Little Red Book, and **Tencent Holdings Ltd.**'s WeChat, compared with 18 of 30 in FY1Q22. Fifteen of 18 added to their marketing budgets to advertise on these platforms, similar to OTR Global's FY1Q22 findings. Among social media ecommerce platforms, sources were still most satisfied with the traffic growth and ROI on Douyin, followed by Little Red Book. Twelve of 21 sources who sold through Douyin Little Stores

Alimama ROI QQ

(number of mentions)

	FY1Q22	FY2Q22
Higher	4	7
Same	12	5
Lower	12	15
OTR Comparative Index	-29	-30

Note: The OTR Comparative Index is a quantitative representation of qualitative responses. The Index is calculated by subtracting the "worse" from the "better" responses, dividing by the total responses and multiplying by 100. An Index below zero indicates a negative trend; above zero indicates a positive trend.

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were satisfied with their sales, representing an improvement compared with last quarter. “Douyin is the only platform that had fast-growing traffic and sales growth for the apparel category this quarter,” one said.

Top Ecommerce Platforms

In a change from OTR Global’s previous several reports, JD.com was mentioned most often among ecommerce platforms with the best growth, displacing Alibaba. Ten sources said they were most satisfied with JD.com’s growth, while nine said they were most satisfied with Alibaba platforms. (In OTR Global’s prior reports, Alibaba always was mentioned most often.) Sources credited JD.com’s better delivery service and better sales on JD’s direct (1P) platform. One said, “Among all the platforms, we are most satisfied with JD’s sales growth. JD provides better logistics and services to users. We are a supplier to JD’s direct business, and this can bring us big orders.” However, the nine sources who preferred Alibaba all represent big brands, both international and local, as these brands strongly value Alibaba’s overall ecosystem and marketing resources. One said, “Tmall is good for brands to reach and influence consumers. Other platforms only focus on sales, not branding.” Another said, “Tmall has been identified as the official flagship store platform, and more offline brands and new brands choose to open flagship stores on Tmall. I am more optimistic on Tmall’s future growth since consumers will pay more attention to quality instead of just prices, eventually.”

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“Overall men’s apparel sales [on Tmall] fell this quarter. We were down 25% year to year due to a weak economy, long summer and late autumn, the pandemic, floods and the power crunch [impacting factories and supply].”

“Our sales decreased more than 30% year to year during the summer because of the cotton issue, competition, less aggressive discounts and inventory shortages of top-selling SKUs.”

“We cut our ad budget for all promotional events. We only have budget for 11.11, which is up 50% year to year because we want to be No. 1 in that event.”

“Among all platforms where we have stores, we are most satisfied with JD and Douyin’s sales growth. JD provides better services for users. Our Douyin flagship store has just opened and we’re looking forward to seeing how it performs.”

“We are most positive on Douyin advertisement spending growth and ROI. Because Douyin has a large number of customers — which is the trend of future ecommerce development — we will gradually invest more resources into Douyin stores.”

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1a. Did FY2Q22 sales (in yuan) through Alibaba platforms increase, remain the same or decrease yy?

	FY1Q22*	FY2Q22
Up more than 100%:	1	-
Up 91%–100%:	-	1
Up 51%–60%:	1	1
Up 41%–50%:	3	2
Up 31%–40%:	2	1
Up 21%–30%:	1	2
Up 11%–20%:	4	2
Up 1%–10%:	3	6
Up:	1	1
Flat:	3	2
Down 1%–10%:	4	2
Down 11%–20%:	3	3
Down 21%–30%:	4	2
Down 31%–40%:	2	1
Down 61%–70%:	-	1
Average:	Up 7%–12%	Up 6%–11%

* FY4Q21 data from OTR Global's July report

1b. Did your FY2Q22 sales through Alibaba platforms exceed, meet or fall below your expectations?

Exceeded:	6	4
Met:	11	10
Fell below:	13	13
OTR Comparative Index:	-23	-33

2. Was your FY2Q22 discount level deeper, the same or lighter yy?

Deeper:	15	12
Same:	6	6
Lighter:	8	9
No response:	1	-

3. What was the overall cost of your store (or your brands) as a percentage of sales on Alibaba platforms during FY2Q22?

31%–40%:	2	3
21%–30%:	5	4
11%–20%:	17	13
1%–10%:	5	7
Don't know:	1	-
Average:	15%–20%	15%–20%

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4. Did your FY2Q22 spending (advertising, commissions, marketing, etc.) on Alibaba platforms increase, remain the same or decrease yy?

	FY1Q22	FY2Q22
Up more than 100%:	1	1
Up 91%–100%:	1	-
Up 61%–70%:	-	1
Up 51%–60%:	-	1
Up 41%–50%:	2	1
Up 31%–40%:	3	2
Up 21%–30%:	1	2
Up 11%–20%:	7	4
Up 1%–10%:	2	5
Up:	2	1
Flat:	1	1
Down 1%–10%:	4	3
Down 11%–20%:	1	-
Down 21%–30%:	2	1
Down 31%–40%:	-	2
Down 51%–60%:	2	-
Down 61%–70%:	-	2
Don't know:	1	-
Average:	Up 15%–20%	Up 8%–13%

5. What percentage of your FY1Q22 Alibaba budget was on traditional advertising?

91%–100%:	7
81%–90%:	2
71%–80%:	5
61%–70%:	4
51%–60%:	3
41%–50%:	2
None:	1
No response:	2
Not applicable:	1
Average:	73%–78%
FY1Q22 average:	81%–86%

6. Did your FY2Q22 advertising budget (as a percentage of sales) on Alibaba platforms increase, remain the same or decrease yy?

Increased:	15
Flat:	6
Decreased:	6
Not applicable:	-
OTR Comparative Index:	33
FY1Q22 Index:	47

7. Did the unit price for advertisements on Alibaba increase, remain the same or decrease during FY2Q22?

	FY1Q22	FY2Q22
Increased:	14	16
Remained the same:	11	10
Decreased:	4	1
Don't know:	1	-

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8a. Was the FY2Q22 ROI of advertisements on Alimama higher, the same or lower qq?

Higher:	7
Same:	5
Lower:	15
OTR Comparative Index:	-30
FY1Q22 Index:	-29

8b. Was the FY2Q22 ROI of live streaming on Alibaba's platforms higher, the same or lower than Alimama's traditional advertisement tools?

Higher:	13
Same:	4
Lower:	6
Don't know:	2
Not applicable:	2
OTR Comparative Index:	30
FY1Q22 Index:	16

9a. If you have allocated budget for KOL live streaming on Taobao, did you add to your marketing budget to do so or cut spending on your traditional advertisements?

	FY1Q22	FY2Q22
Added:	15	8
Cut:	4	6
Don't know:	1	1
Not applicable:	10	12

9b. Are you satisfied with the return of investment of KOL live streaming on Taobao?

Yes:	13	11
No:	6	3
Don't know:	1	1
Not applicable:	10	12

10. If you have purchased advertisements for outside the Alibaba platforms, did you add to your marketing budget to do so, or cut your budget?

Added:	15
Cut:	3
Other:	1
Don't know:	1
Not applicable:	7

11. Did FY2Q22 sales on the Taobao Deals platform exceed, meet or fall below your expectations?

	FY1Q22	FY2Q22
Exceeded:	-	-
Met:	1	4
Fell below:	8	6
No response:	-	1
Not applicable:	21	16

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12a. Among all ecommerce platforms you work with, which platform's sales growth were you most satisfied with during CY3Q21?

	FY1Q22	FY2Q22
JD.com:	12	10
Alibaba platforms:	16	9
Douyin:	2	5
Pinduoduo Inc.:	1	1
WeChat	1	1
Xiao Hong Shu (Little Red Book):	-	1
Vipshop.com:	-	1
Kuaishou:	1	-

Note: Some sources gave more than one answer.

12b. Among all the social media or media platforms you work with, which platform's advertisement spending growth and ROI were you most satisfied with during CY3Q21?

Douyin:	18	18
Xiao Hong Shu (Little Red Book):	4	5
WeChat:	4	2
Kuaishou:	1	-
Weibo:	1	-
None:	1	1
Not applicable:	1	1

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