

China Ecommerce – Alibaba Group Holding Ltd.

COMPANIES: BABA

JD, PDD, TCEHY, VIPS, 700 HK, WB, BEIJING BYTEDANCE TELECOMMUNICATIONS CO. LTD., XINGYIN INFORMATION TECHNOLOGY CO. LTD., ZHEJIANG JISHANG INTERNET TECH CO. LTD.

Content, Promos Drive Vendor Sales

Recommendation advertisements, live streaming and deeper discounts helped drive traffic on Alibaba's Tmall and Taobao during FY4Q19.

- FY4Q19 vendor sales through BABA's Tmall and Taobao up 19%–24% yy (vs. up 20%–25% during FY3Q19); sales met or exceeded plan for 23 of 26 sources (vs. 15 of 25 in FY3Q19)
- KOL marketing promos drove traffic; precise recommendation ads helped conversion rates
- Vendors' overall FY4Q19 cost paid to BABA platforms 13%-18% of sales (vs. 14%–19% in FY3Q19); ad budgets up yy for content, live streaming
- BABA's main competition is social ecommerce; BABA reacting to PDD threat by providing more resources to support its discounting channels
- Area to Watch: Recommendation ads free in FY4Q19, but Taobao testing paid ads in April

KEY DATA

FY4Q19 Sales on Alibaba vs. Plan

(number of mentions)

	FY3Q19	FY4Q19
Exceeded	4	7
Met	11	16
Fell below	10	3
OTR Comparative Index	-24	15

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.

"[In FY4Q19], Taobao added several new sales channels, which required vendors to join the campaign with even lower discounts. Most of these channels required vendors to discount more than 50% off."

Local apparel vendor

BY MEREDITH SUN

SOURCES & BACKGROUND

26 sources representing 10 domestic vendors, 12 international vendors and 4 agencies representing 11.39 billion yuan (\$1.70 billion) sales through Taobao and Tmall in 2018

REPEAT SOURCES 18 from OTR Global's January report

INTERVIEWS March 31 through April 15

AVERAGES Weighted according to each source's 2018 sales on Tmall/Taobao

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KOL Marketing Drives Traffic

Vendors' FY4Q19 sales through **Alibaba Group Holding Ltd.**'s Tmall and Taobao increased an average 19%–24% yy, similar to up 20%–25% yy during FY3Q19. Sales on Alibaba platforms during FY4Q19 at least met plan for 23 of 26 sources, an improvement compared with 15 of 25 during FY3Q19. Most sources set less aggressive sales plans for FY4Q19 (typically seasonally weaker with two major online promotions during Q4), but many said the pre-Spring Festival promotions (Nian Huo Jie) drove traffic significantly this year and especially helped sales in January. In addition, promotional cadence was strong for the few holidays in February and March.

Transactions and Tickets: Twenty-one of 26 sources said transactions increased yy during FY4Q19, compared with 19 of 25 in FY3Q19. Sources attributed transaction increases to either high traffic, driven by KOL marketing, or better conversion rates because of increasingly precise personalized recommendations. Some also said the increasing promotional cadence and deeper discounts helped draw more traffic. “[In FY4Q19], Taobao added several new sales channels, which required vendors to join the campaign with even lower discounts. Most of these channels required vendors to discount more than 50% off,” one said.

Ticket averages increased yy for 11 of 26 sources during FY4Q19, similar to FY3Q19. Sources representing bigger brands said they launched more higher-priced products through Tmall Black Box. A few agencies that sell imported products through the cross-border ecommerce channel said they raised prices because of the new ecommerce law (See OTR Global's [March 21](#) snapshot). The five sources who said ticket averages decreased yy blamed higher promotions yy.

International brands with high brand awareness and vendors who effectively leveraged KOL marketing or other content marketing outperformed. One source who worked with a top KOL achieved a more-than-30 times sales increase yy. International athletic, small electrics, cosmetics and imported food categories were relatively strong, mainly driven by upper-middle class consumers trading up. “Personal care products increased a lot, especially electronic toothbrushes, which increased 35% yy,” one said. Local brands in men's apparel, home goods and handbags/accessories posted the weakest sales, and sources blamed fierce competition and softer spending. “Our sales were only up high single digits this quarter. People seem to reduce spending on apparel first whenever there are uncertainties regarding their income,” one said.

Advertising: Sources' FY4Q19 advertising budgets (as a percentage of sales) on Tmall and Taobao were slightly less aggressive compared with FY3Q19. Sources allocated more of their budgets to Taobao, the official channel to work with a KOL on the Taobao app, as well as many outside apps including **Xingyin Information Technology Co. Ltd.**'s XiaoHongShu (Little Red Book) and **Beijing Bytedance Telecommunications Co. Ltd.**'s Douyin. (Vendors pay KOLs 10%–50% commission or a flat amount to recommend their products in live streaming, short video or soft articles, while Alimama charges 10%–30% of the KOLs' income.) Most sources said traffic generated through KOLs from Little Red Book and Douyin was strong.

Recommendation ads on the homepage of Taobao's app remained free during FY4Q19, but according to a recent [news report](#), Taobao began charging for these ads on its newsfeed, as a test, in mid-April. According to the report, Taobao only invited a few KOLs, live-streaming hosts and stores known for creating good content marketing to test the paid ad product, dubbed “Super Recommending.” Sources were unaware how much vendors are charged, but OTR Global believes it is likely vendors would allocate a portion of their ad budget to these recommendation ads once it has officially launched, based on prior successes when the ads were free.

Vendors' YY BABA Advertising Budgets (as % of sales)

(number of mentions)

	FY3Q19	FY4Q19
Increased	17	14
Same	7	10
Decreased	-	2
OTR Comparative Index	71	46

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Vendors' overall cost paid to Alibaba (as a percentage of their sales) and total spending on Tmall and Taobao were relatively stable compared with OTR Global's findings in FY3Q19.

Vendors' Overall Cost Paid to Alibaba and Total Spending YY

(on average)

	FY3Q19	FY4Q19
Overall cost paid (as % of sales on BABA platforms)	14%–19%	13%–18%
Vendor total spending on BABA yy	Up 22%–27%	Up 20%–25%

Vendors' ROI of Advertisements on Alibaba QQ

(number of mentions)

	FY3Q19	FY4Q19
Increased	12	8
Same	10	13
Decreased	3	5
OTR Comparative Index	36	12

Although fewer sources said ROI was higher qq during FY4Q19 compared with OTR Global's findings in FY3Q19, many said they found personalized recommendation ads have continued to get more precise and that the high levels of ROI have started to stabilize as overall platform traffic growth slows.

Competition: Most sources have begun to explore online sales through new apps or platforms, and just six of 26 sources have continued to focus only on Alibaba platforms or **JD.com Inc.** More than one-fourth of sources had already started to sell through the three primary social ecommerce platforms: **Pinduoduo Inc.**, **Tencent Holdings Ltd.**'s WeChat Mini Program and **Zhejiang Jishang Internet Tech Co. Ltd.**'s Yunji. "We are positive about the potential of social commerce represented by Yunji, Mini Program and Pinduoduo. We expect to sell 100 million yuan through these three in 2019 and 300 million yuan next year," one said. Sources said both Pinduoduo and Yunji sales growth was robust so far this year, but sales on Mini Program were lower.

While vendors can sell product directly through Little Red Book and Douyin, many still use these platforms primarily as marketing sites to drive traffic to Taobao and Tmall stores. A few who opened shopping carts on Douyin said volumes were too small because of the nature of the app. "Sales were good for each live-streaming event, but we can only do live streaming once every week through Douyin. The total volume is too small compared with Taobao. We decided to only focus on Taobao for now," one said.

Outlook: Almost all vendors said Alibaba's Taobao and Tmall are best positioned within ecommerce in 2019, as JD.com is losing momentum and brand reputation, **Vipshop Holdings Ltd.**'s Vip.com is shrinking and social commerce is still too small to compete with Alibaba. Although overall traffic growth on Tmall, Taobao is slowing, collaboration with Douyin and Little Red Book should drive more traffic and potentially new users to Taobao and Tmall. Alibaba is also still actively introducing more high-end brands and better products to cater to upper-middle class consumers. However, sources said Alibaba now considers Pinduoduo its major competitor and is pushing vendors for more lower-priced products or deeper discounts as it competes for more price-sensitive consumers from lower-tier cities and the countryside. "Juhuasuan, Tian Tian Te Mai and Tao Qiang Gou [discounting channels on Taobao] were combined recently and moved to one of the most primary spots on the Taobao homepage," one said. Another vendor indicated that Alibaba has started to

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pressure Tmall and Taobao vendors (typically bigger brands) to choose sides between Tmall/Taobao and Pinduoduo.

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“Sales through BABA increased 20%, but profits decreased yy because we have more promotions [during FY4Q19]. The price and ticket average decreased yy.”

“Alibaba can more accurately match the demand of each consumer group with big data now.”

“Pricing on new products has been adjusted higher because of the increasing cost of everything. Also, due to the new ecommerce law, regulation on small vendors also tightened and we started paying more taxes.”

“We improved our marketing. We put lots of content on the front page ads and it brings good results.”

“Cost of advertising used to be 15% [of sales]. The sales started to drop about two years ago, so we have spent less and less money on Tmall.”

“We mainly use ZhiTongChe to get higher search rankings. This year we got top rankings by bidding 2-3 yuan per click via ZhiTongChe. Advertising accounts for over 80% of our total operational cost.”

“We spent money on Douyin, Little Red Book and Weibo [Corp.]. They attracted more traffic to our stores; more people were using Douyin and Little Red Book during Chinese New Year.”

“Alibaba is keen to attract new customers from tier-3 through -6 cities and the countryside. How to offer them cheaper and better-quality goods is the main problem. We heard Juhuasuan, Tian Tian Te Mai and Tao Qiang Gou will be combined together in the future to compete with Pinduoduo.”

“We’ve started to try Douyin in the last six months due to overall market traffic declining, and it is very important to leverage more sources to get traffic.”

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1a. Did FY4Q19 sales through Alibaba platforms increase, remain the same or decrease yy?

	FY3Q19	FY4Q19
Up more than 100%:	-	1*
Up 91%–100%:	1	-
Up 71%–80%:	1	-
Up 61%–70%:	-	1
Up 51%–60%:	1	-
Up 41%–50%:	3	-
Up 31%–40%:	-	2
Up 21%–30%:	3	5
Up 11%–20%:	8	9
Up 1%–10%:	3	3
Flat:	2	2
Down 1%–10%:	1	-
Down 11%–20%:	1	-
Down 21%–30%:	-	2
Down 31%–40%:	-	1
Down 41%–50%:	1	-
Not applicable:	3	-
Weighted average:	Up 20%–25%	Up 19%–24%

*One outlier source excluded from average

1b. Did sales during FY4Q19 through Alibaba platforms exceed, meet or fall below plan?

Exceeded:	4	7
Met:	11	16
Fell below:	10	3
Not applicable:	3	-
OTR Comparative Index:	-24	15

2a. Did your FY4Q19 transactions on Alibaba platforms increase, remain the same or decrease yy?

Increased:	19	21
Same:	2	-
Decreased:	4	5
Not applicable:	3	-
OTR Comparative Index:	60	62

2b. Did your FY4Q19 ticket averages on Alibaba platforms increase, remain the same or decrease yy?

Increased:	10	11
Same:	8	10
Decreased:	7	5
Not applicable:	3	-
OTR Comparative Index:	12	23

3. What was the overall cost of your store (or your brands) as a percentage of your sales on Alibaba platforms during FY4Q19?

31%–40%:	-	1
21%–30%:	10	10
11%–20%:	12	9
1%–10%:	3	6
Not applicable:	3	-
Weighted average:	14%–19%	13%–18%

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4. Did your FY4Q19 spending (advertising, commissions, marketing, etc.) on Alibaba platforms increase, remain the same or decrease yy?

	FY3Q19	FY4Q19
Up more than 100%:	1	-
Up 71%–80%:	2	-
Up 61%–70%:	1	-
Up 41%–50%:	3	1
Up 31%–40%:	1	1
Up 21%–30%:	2	7
Up 11%–20%:	6	7
Up 1%–10%:	6	4
Up:	1	-
Flat:	2	3
Down:	-	2
Down 26%–30%:	-	1
Not applicable:	3	-
Weighted average:	Up 22%–27%	Up 20%–25%

5. Did your FY4Q19 advertising budget on Alibaba platforms (as a percentage of sales) increase, remain the same or decrease yy?

Increased:	17	14
Same:	7	10
Decreased:	-	2
Not applicable:	4	-
OTR Comparative Index:	71	46

6. Was the FY4Q19 ROI of advertisements on Alibaba platforms higher, the same or lower qq?

Higher:	12	8
Same:	10	13
Lower:	3	5
Not applicable:	3	-
OTR Comparative Index:	36	12

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