

China Ecommerce – JD.com Inc.

Weak Consumer Spending Limits Vendor Sales

Prolonged pandemic-related restrictions and repeated lockdowns caused consumer spending power to deteriorate during 3Q22 and the sales recovery through JD was limited.

- Vendors' 3Q22 sales through JD flat-up 3% yy (vs. flat-down 5% in 2Q22), consumer spending power/willingness to spend deteriorated vs. June for 16 of 24 vendors
- 3Q22 sales below expectations for 11 of 24 vendors (vs. 11 of 23 in 2Q22); average selling prices lower yy for 14 of 24 as discounts deepened yy
- Vendors' total cost paid to JD at 13%–18% of vendor sales during 3Q22 (vs. 14%–19% in 2Q22); 9 of 14 vendors added to advertising, KOL budgets outside JD (vs. 10 of 13 in 2Q22)
- Area to Watch: Consumers traded down for 17 of 23 (vs. 7 of 21 in June); consumer confidence weak regardless of income level

KEY DATA

Consumer Trade-Up or Trade-Down

(number of responses)

	JULY	3Q22
Up	2	-
No change	12	6
Down	7	17

“If the sales of our products are better, it means that consumer spending power has decreased. Otherwise, more people will choose to go to a barber’s shop and dye their hair instead of buying [our] hair dye products. And recently, we have sold more to younger customers — before, the hair colors for middle-aged and elderly people sold better.”

Hair product vendor

BY MEREDITH SUN

SOURCES & BACKGROUND

24 sources in China representing electronics (6), food/beverage (4), grocery (2), home goods (2), apparel/shoes (5), cosmetics (2), healthcare (1), accessories (1) and auto accessories (1), representing 3.692 billion yuan in overall 2021 JD.com sales

REPEAT SOURCES 22 from OTR Global's July report

INTERVIEWS Oct. 13–19

AVERAGES Straight

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Consumer Sentiment Deteriorates

Vendors' sales through **JD.com Inc.**'s JD.com were flat-up 3% yy on average during 3Q22, compared with OTR Global's July report, in which sales were flat-down 5% in 2Q22, when city lockdowns and logistics congestion significantly disrupted the economy. Eleven of 24 vendors' 3Q22 sales fell below plan, similar to 2Q22. Repeated lockdowns, a weak economy and rising uncertainties about the future hurt consumer spending significantly, as 16 of 24 vendors said consumer spending power and willingness to spend deteriorated since June. A few vendors said young consumers' spending deterioration was more obvious. "If sales of our products are better, it means that consumer spending power has decreased," one said. "Otherwise, more people will choose to go to a barber's shop and dye their hair instead of buying [our] hair dye products. And recently, we have sold more to younger customers — before, hair color for middle-aged and elderly people sold better," a hair product vendor said.

Seventeen of 23 sources said consumers on JD.com traded down during 3Q22, a sharp deterioration compared with seven of 21 in 2Q22, as prolonged lockdowns and restrictions weakened consumer confidence of the economy and personal income. In addition, the decline in confidence has expanded from mid- to lower-income and middle-age consumers to almost all income levels and age groups. "Consumers' willingness to spend remained the same, but trading-down is happening. We sold fewer 900 yuan-and-above items through both JD and **[Alibaba Group Holding Ltd.] Tmall**," said an international electronics brand vendor. A mobile phone vendor said, "Sales of **Huawei [Technologies Co. Ltd.]** phones and **Apple [Inc.]**'s iPhone 14 are not as good as we expected, which shows that consumption is more rational."

JD's overall traffic varied by product category — 12 sources said traffic was up yy, while 11 said it was down — as sources said JD's core categories (electronics and appliances) were less affected by competition from **ByteDance Ltd.**'s Douyin and **Pinduoduo Inc.** compared with Tmall and Taobao. However, some sources with increased traffic noticed lower conversion rates. "Our traffic was up 50% [yy], and sales were down 12%. We think the low conversion rate is because of the weak spending power," said an upper-middle apparel brand vendor.

ASPs: The average selling price (ASP) was down yy for 14 of 24 sources and up for just five, a deterioration from 2Q22, when 12 of 23 were down and nine up in 2Q22. Thirteen of 23 sources deepened discounts yy. One apparel vendor said, "Our discount level was deeper [yy and qq] during 3Q22 because our inventory is under great pressure. We need to clear inventory through more discounts and promotions, and our competitors are also clearing their inventories. Competition is fierce."

Advertising: Vendors' overall costs paid to JD.com averaged 13%–18% of sales during 3Q22, compared with 14%–19% in 2Q22, as vendors scaled back on advertisement spending after 6.18 promotions. Seven of 24 vendors increased their advertisement budgets during 3Q22, slightly more compared with five of 23 in 2Q22, led by vendors who depend mainly on JD for ecommerce sales. The other 12 maintained advertisement budgets on JD because of fixed contracts.

ROI, Spending: ROI weakened after 6.18 promotions, decreasing qq for nine of 24 sources, following just four of 23 during 2Q22. Total spending on JD increased an average 1%–6% yy during 3Q22, compared with flat in 2Q22, reflecting the yy sales improvement.

Ads Outside JD: Fourteen of 24 vendors bought advertisements from outside apps during 3Q22, and nine of the 14 added to budgets for it while four cut their JD budgets, similar to 2Q22. Of the 14 sources, most said they received small amounts of traffic coming from Douyin, and two mentioned

Vendors' ROI on JD Ads QQ

(number of sources)

	2Q22	3Q22
Increased	10	7
Same	9	8
Decreased	4	9
OTR's Comparative Index	26	-8

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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traffic coming from **Kuaishou Technology** (1024 HK). Consistent with 2Q22, vendors remained most satisfied with their advertising spending and ROI on Douyin, followed by **Xingyin Information Technology Shanghai Ltd.**'s Little Red Book and **Tencent Holdings Ltd.**'s (700 HK) WeChat.

Outlook: Vendors were cautious in their outlooks for 4Q22 and upcoming Singles' Day promotions, partially because of the rising level of lockdowns across the country since October. Sales during 4Q22 are expected to increase an average 4%–9% yy, though 11 of 24 did not quantify their responses because of so many uncertainties. "We are still facing a downward trend — another wave of the pandemic came in early October, so we really don't know how everything will go," one said. Ten of 24 plan to increase advertisement budgets on JD during 4Q22 in order to use the holiday season to catch up on sales.

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“Consumers were trading down during 3Q22. They are more price-sensitive — price has great influence on the customer’s decision.”

“We used to have some large orders from companies. Now, customers won’t replace parts until they’re completely broken. There were also a lot of orders from used car repair shops, and now it seems that the used car market is also depressed, and there are fewer orders from them.”

“Although the COVID-19 pandemic continues to affect our sales, we are still actively responding to it. This year the promotional atmosphere is not as strong, the promotional effect is not as good as before.”

“Our advertising budget is mainly for promoting new products, which will be reduced after sales stabilize. An advertising budget in the 10% to 15% range is helpful for sales. Too much more than that is meaningless, and less than that won’t work to drive sales.”

“JD is delving into the concept of metaverse, like virtual consumption occasions, games, etc., although it is still in the very early stages and it isn’t fully developed. It is a good sign that the platform is trying to build a stronger connection with young consumers and focusing on more fashion and fun.”

“Even though there are big, promotional festivals in 4Q22, the COVID-19 uncertainty is still a factor, so our conservative sales estimate is an increase of 10%.”

“I expect our 4Q22 sales through JD to decrease. The two months in lockdown last quarter was a near fatal blow to us. Now we are starting from zero. It will take some time for sales to recover.”

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1a. Did 3Q22 sales (in yuan) through JD.com increase, remain the same or decrease yy?

	2Q22	3Q22
Up 61%–70%:	-	1
Up 41%–50%:	1	-
Up 21%–30%:	1	1
Up 11%–20%:	3	5
Up 1%–10%:	5	1
Flat:	2	5
Down:	-	1
Down 1%–10%:	6	5
Down 11%–20%:	1	3
Down 21%–30%:	2	1
Down 31%–40%:	1	-
Down 51%–60%:	-	1
Down 71%–80%:	1	-
Average:	Flat–down 5%	Flat–up 3%

1b. Did your 3Q22 sales through JD.com exceed, meet or fall below your expectations?

Exceeded:	3	1
Met:	9	12
Fell below:	11	11
OTR Comparative Index:	-35	-42

2a. Did consumer spending power/willingness to spend improve, remain the same or deteriorate compared with June?

Improved:	3
Remained the same:	5
Deteriorated:	16

2b. Did consumers trade up, down or show no change in their spending during 3Q22?

	JULY*	3Q22
Up:	2	-
No change:	12	6
Down:	7	17
No response:	-	1

* OTR's July report asked about June specifically

3a. Did 3Q22 traffic to your JD.com store increase, remain the same or decrease yy?

Increased:	12
Remained the same:	1
Decreased:	11

3b. Did the average selling price of products on your JD store increase, remain the same or decrease yy during 3Q22?

	2Q22	3Q22
Increased:	9	5
Remained the same:	2	5
Decreased:	12	14
OTR Comparative Index:	-13	-38

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4. Was your 3Q22 discount level on JD.com deeper, the same or lighter yy and qq?

	YY	QQ
Deeper:	13	8
Same:	6	8
Lighter:	5	8

5. What was the overall cost of your store (or your brands) as a percentage of your sales on JD.com during 3Q22?

21%–30%:	4
11%–20%:	13
6%–10%:	7
Average:	13%–18%
2Q22 average:	14%–19%

6. Did your 3Q22 total spending on JD.com increase, remain the same or decrease yy?

	2Q22	3Q22
Up 91%–100%:	-	1*
Up 41%–50%:	1	-
Up 31%–40%:	1	-
Up 21%–30%:	1	1
Up 11%–20%:	1	4
Up 1%–10%:	7	4
Flat:	5	5
Down:	-	3
Down 1%–10%:	3	3
Down 11%–20%:	1	2
Down 21%–30%:	2	-
Down 71%–80%:	-	1*
Down 81%–90%:	1	-
Average:	Flat	Up 1%–6%

* One outlier excluded from average

7. Did your 3Q22 advertising budget (as a percentage of sales) on JD.com increase, remain the same or decrease yy?

Increased:	5	7
Remained the same:	14	12
Decreased:	4	5
OTR Comparative Index:	4	8

8. Was 3Q22 ROI of advertisements on JD.com higher, the same or lower qq?

Higher:	10	7
Same:	9	8
Lower:	4	9
OTR Comparative Index:	26	-8

9. If you purchased advertisements or worked with KOLs outside the JD.com platform, did you add to your marketing budget to do so, or cut your budget?

Added to budget:	10	9
Cut budget:	3	4
Don't know:	-	1
Not applicable:	10	10

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10. Among all of the social media or media platforms you work with, which platform's advertisement spending growth and ROI were you most satisfied with during 3Q22?

	JULY	OCT
Douyin:	14	15
Xiaohongshu:	4	1
Weixin (WeChat):	-	2
Other:	-	2
None:	2	-
No response:	1	1
Not applicable:	2	3

11. Among all ecommerce platforms you work with, which platform's sales growth were you most satisfied with during 3Q22?

JD.com:	12	10
Douyin:	5	5
Alibaba:	4	3
Pinduoduo:	2	2
Other:	-	2
None:	1	3

Note: One source gave more than one answer.

12. Do you plan to increase, maintain or decrease your 4Q22 advertisement budget (as a percentage of sales) compared with your prior budget on JD.com?

Increase:	7	10
No change:	14	9
Decrease:	2	5

Note: July responses were regarding 3Q22

13. Do you expect your 4Q22 sales through JD to increase, remain the same or decrease yy?

Up 21%–30%:	2
Up 11%–20%:	4
Up 1%–10%:	2
Up:	5
Flat:	1
Down:	4
Down 1%–10%:	1
Down 11%–20%:	3
Don't know:	2

Average: Up 4%–9%

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