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*Information Technology: Internet, Software &
Services Survey*

On the Road: Ecommerce Checks

We recently interviewed nine merchants and third-party store operators who work with Alibaba, JD, and other e-commerce platforms to ask them about their Q1 sales trends. We focused on the apparel sector. The third-party agents operate stores on behalf of brand owners.

- Merchants are seeing high sales growth, declining prices as they offer lower-end products, slightly lower online marketing costs, and flat to declining profit.
- JD appears to be gaining share from Taobao and TMall via its Marketplace offering, but from a low base.
- In logistics, merchants tend to rely on the standard market leaders, SF Express, ZTO, YTO. There was no clear trend favoring any one of the players.
- VIPShop does not often figure into sales plans.
- The ecommerce “platform” companies like Baozun (BZUN US) say their margins are compressing and their model is dying. Some are moving into developing their own brands.
- A new standard for children’s clothing to be implemented at the end of the year is inducing vendors to discount in order to sell out inventory online.

Ecommerce sales agent, Beijing: We do RMB 500-600 mln of online sales. We’ve done 100% sales growth this year online. Combined online and offline is 5-6% growth. The online growth all came from our new app. Sales through Taobao and JD rose 20-30%; Taobao was 30% of volume and JD 10%. The proportion of JD sales should rise this year since we are spending more—we are going to spend 10% of our sales revenue on JD, because there’s less competitive pressure there. In the past we had huge inventories; this year, our main goal is to reduce inventory. The government set [new standards](#) for children’s garments last year, and at the end of this year we won’t be able to sell old stuff anymore, so the whole industry is focused on reducing inventory. After that, we’re not going to get into price wars anymore.

We have a new agreement with Taobao this year that will allow our customers to sell their own products.

On JD, we use JD logistics. On Taobao, we use Baishi Huitong, which is part of the Alibaba network. Shunfeng is too expensive. JD is 5% more expensive than Baishi. Cainiao is just a platform.

Consumer order values rose by 10% this year. That was due to our sales strategy. I don't believe sales online have risen by 45%--that's got to be fake.

TMall fashion store: We did RMB 400 mln on TMall last year; this year we'll do RMB 600-700. On JD we did RMB 33 mln; we'll do 70 mln this year. We don't use VIPShop. In Q1, we had 65% growth on TMall and 80-90% on JD. The average price of a purchase fell by 15-20%. That's because to get traction we're selling more sports clothes instead of business wear. The business just breaks even. We are hoping to make a small profit this year. Our costs marketing on TMall have fallen by 20-30%, mostly because we have been experimenting with different marketing strategies and now put 100% of our marketing budget in the first half of the year. Marketing costs on JD have risen by about 30%. We spend 20% of turnover on TMall and 10-15% on JD. We don't use JD logistics; we have our own physical locations, and we're faster than they are. JD is really promoting apparel; it's the second biggest category now, and so they do a lot to support our marketing.

TMall fashion merchant: We sold about RMB 1.1 bln on TMall last year, RMB 90 mln on JD, RMB 100 mln on Taobao, RMB 6 mln in our own online store, and RMB 70 mln on WeChat. In the first quarter, TMall was 80% of volume. JD rose 3 points to 9% and Taobao was flat at 7%. We expect that, this year, TMall will grow 40% and JD 50-55%. Prices fell just a little bit, by 2%. Our profit this year will decline by 10%.

Our costs for TMall and JD are about the same, around 15% of turnover. Our own store and WeChat don't have marketing costs. Taobao is about 10% but we are trying to push it to 8%. This year our plan is to increase promotion costs by 25% overall.

We work with JD in three formats: the direct platform, in which they handle logistics, JD warehousing, where we use their warehouse but handle our on logistics, and third party, where we also use our own logistics. JD logistics are more appropriate for very standardized products like white goods, not really for garments.

TMall merchant, women's fashion: We do about RMB 100 mln in sales online. About 55% is TMall, 25% VIPShop, 10% Taobao, the rest JD. In Q1 we did 50% growth on TMall, 20% on JD, over 30% on VIPShop, and 30% on Taobao. Our product prices are flat this year. Our profit should increase because our marketing costs are dropping. Our marketing costs on TMall are falling by 5% and 3% on JD.

They are about 20% of turnover on TMall, 15% on JD, and 10% on Taobao before logistics costs.

We use ZTO, YTO, and SF Express for logistics. We don't use JD logistics or the Cainiao platform. Generally speaking, when we debut new products we use SF to make a good impression on customers. SF is expensive but it's the fastest. Usually we just use the regular services, ZTO and YTO.

Taobao sales agent, Dalian: Sales volumes rose 10-15% in Q1. The best client did 15%. The best products are seafood—that's 70-80% of our volume. The customers use Taobao and JD. JD has been rising since last year, when JD stopped focusing on its direct channel. More merchants are opening shops on its marketplace platform. Now JD and Taobao are about half and half. There's not a lot of difference between the costs of JD Marketplace and Taobao. We don't use either JD logistics or the Cainiao network; we use SF Express and STO. As for the average order value, that's flat.

Ecommerce sales agent, Shanghai: We changed our model some time ago. A lot of companies have done this. Managing stores for others is not a healthy sales model. We've started to invest to create our own brands and to distribute some mother-and-baby products.

Ecommerce sales agent, Hangzhou: We've changed our business model: we made an app and we sell our own stuff through that. We only have three clients left. They had growth of about 18% in Q1. Remotely controlled toys for children had the highest growth, about 40%, but those products are only about 15% of our volume. 70% of our sales volume came from Alibaba (Taobao and TMall), JD was 10%. The rest is WeChat groups. We don't do anything with VIPShop.

Taobao sales agent: Customers had growth of about 30% in Q1. Home furnishings rose 60%. Home furnishings are about 60% of our volume. There's no particular increase in the sales value per order. Our sales channels are Taobao and JD.com. They are split about 50-50. JD started gaining share last year in the second half. The costs of both platforms are about the same.

Individual sales agent: I manage 10 stores on TMall, JD, and Jumei. I'm getting ready to start selling on VIPShop. I also provide sales solutions for online vendors. Sales in Q1 rose 30-40%. Mother and baby products and sports shoes did the best—about 50% growth YoY. Those products are more than half our volume.

Alibaba is 60% of our sales volume, JD 30%, Jumei 10%.

—Anne Stevenson-Yang, anne@jcapitalresearch.com, +852 2534 7405