WECHAT E-COMMERCE:
WHAT YOU NEED TO KNOW BEFORE 2019
HANG ON,

JUST BEFORE YOU GET INTO IT...

This report gives you leading insight into WeChat’s e-commerce landscape.

If you read it cover to cover, you’ll be up to speed on this year’s key trends, opportunities and challenges.

That’s my promise to you.

However, this report isn’t necessarily for everyone.

The content goes deep, quick.

As such, the report assumes you have a working knowledge about e-commerce in China, such as the major platforms and shopping festivals.
WECHAT E-COMMERCE:

ESSENTIAL CONTEXT
China’s e-commerce landscape is cut-throat. On large e-commerce platforms, only 10% of stores make serious money.

Slower smart phone user growth and a growing number of e-commerce platforms continuously push up customer acquisition costs. Against this backdrop, big and small players alike are looking to WeChat’s ecosystem for growth.
The 80/20 rule doesn't apply to e-commerce.

Instead, it's the "10% W, 90% L" rule.

This holds only 10% of online stores generate enough traffic to make serious money ("winners"). The remaining 90% struggle to eke out an existence ("losers").

The "10% W, 90% L" rule can also apply to an e-commerce store’s SKUs and marketing.
10% “WINNERS”, 90% “LOSERS”

SALES REVENUE DISTRIBUTION ON TMALL

- **ANNUAL SALES: RMB >10 MILLION**
- **ANNUAL SALES: RMB 5-10 MILLION**
- **ANNUAL SALES: RMB <5 MILLION**

Note: Does not include 天猫国际.
Source: 中国电子商务研究中心，截至2016年的监测数据.
10% “WINNERS”, 90% “LOSERS”

Source: 中国电子商务研究中心，截止2016年的监测数据.
China’s internet population is still growing, but it’ll soon reach the end of strong single-digit growth.

**CHINA’S INTERNET POPULATION (2013-18), MILLIONS**

2013: 590 (+7%
2014: 632 (+6%
2015: 668 (+6%
2016: 710 (+7%
2017: 751 (+7%
2018: 802 (+7%

Note: All figures rounded to nearest million; figures taken from June of each calendar year. Source: China Internet Network Information Center, 2018, 《中国互联网络发展状况统计报告》
Around 75% of China’s internet users are serviced by 35 apps or less.

### NUMBER OF APPS PER CHINESE SMART PHONE USER (2016-2017)

<table>
<thead>
<tr>
<th>Number of Apps</th>
<th>DEC 2016</th>
<th>DEC 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;15</td>
<td>27%</td>
<td>26%</td>
</tr>
<tr>
<td>16-25</td>
<td>25%</td>
<td>24%</td>
</tr>
<tr>
<td>26-35</td>
<td>26%</td>
<td>27%</td>
</tr>
<tr>
<td>36-45</td>
<td>12%</td>
<td>13%</td>
</tr>
<tr>
<td>&gt;45</td>
<td>10%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Note: All percentages rounded to nearest whole number.
Source: Quest Mobile, 2017, Quest Mobile ‘TRUTH’ Data Set (Dec 2017).
INTENSE COMPETITION

Consumers are using a greater variety of e-commerce platforms.

NUMBER OF E-COMMERCE APPS PER CHINESE SMART PHONE USER (2016-2017)

Note: All percentages rounded to nearest whole number; some totals may not add to 100% due to rounding.
Source: Quest Mobile, 2017, Quest Mobile ‘TRUTH’ Data Set (Dec 2017).
Major e-commerce platforms have struggled to keep pace with rising customer acquisition costs.

Note: All figures rounded to nearest RMB; CAC = Cost of Customer Acquisition; ARPU = Average Revenue Per User; ARPU data is taken from Q1 each year.
Source: Company Financial Data; 易观: 招商证券.
RISING COSTS

Even e-commerce upstarts can’t escape rising customer acquisition costs.

PINDUODOU MAU (Q1 2017 - Q1 2018), MILLIONS

Q1 2017 15
Q2 2017 33
Q3 2017 71
Q4 2017 141
Q1 2018 166

THAT’S GREAT, BUT...

16x

INCREASE IN NON-GAAP SALES AND MARKETING EXPENSES BETWEEN Q4 2017 AND Q1 2018

Note: All figures rounded to nearest million. Source: Pinduoduo’s SEC Filing (Form F-1).
Looking to WeChat

Strong sales growth shows potential for continued e-commerce growth inside WeChat.

**Estimated Sales in WeChat Through (Mar 2018), Billion RMB**

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (Billion RMB)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>24</td>
</tr>
<tr>
<td>2014</td>
<td>95</td>
</tr>
<tr>
<td>2015</td>
<td>182</td>
</tr>
<tr>
<td>2016</td>
<td>360</td>
</tr>
<tr>
<td>2017</td>
<td>522</td>
</tr>
</tbody>
</table>

Note: Includes individuals and platforms transacting in WeChat’s ecosystem; all figures rounded to nearest billion.

Source: 智研咨询
WeChat Mini-Programs have boosted and diversified large e-commerce players' traffic.

**DISTRIBUTION OF E-COMMERCE PLATFORM TRAFFIC (MAR 2018), MILLIONS**

<table>
<thead>
<tr>
<th>Platform</th>
<th>App MAU</th>
<th>Total Mini-Program Entries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taobao</td>
<td>529</td>
<td>233</td>
</tr>
<tr>
<td>PDD</td>
<td>144</td>
<td>229</td>
</tr>
<tr>
<td>JD</td>
<td>70</td>
<td>86</td>
</tr>
<tr>
<td>VIP</td>
<td>53</td>
<td>70</td>
</tr>
</tbody>
</table>

Note: All figures rounded to nearest million.
Source: Quest Mobile, 2018, Quest Mobile ‘TRUTH’ Data Set (March 2018).
WECHAT E-COMMERCE:

IMPORTANT DEVELOPMENTS IN 2018
PDD’s ascendancy is a highly-covered growth story. However, its most long-lasting impact is the extent to which it ‘infiltrated’ WeChat Chat Groups and Moments. Brands and other e-commerce platforms have been quick to take note.

618 proved that Mini-Programs will be an e-commerce fixture. This further added hype around WeChat e-commerce, which already attracted large and small e-commerce players, and a flurry of investment dollars.
PDD INSPIRES

PDD brought many previous e-commerce innovations to bear inside the WeChat ecosystem.
PDD systematically ‘infiltrated’ individual chat, group chat and Moments.

PDD uses what is known as ‘social fission’.

This tactic takes some profit margin and invests in incentives (red packets, discounts, freebies, special offers) for product links to be shared in chat or moments.
Brands are now rethinking how they can get more ‘air time’ in individual chat, group chat and Moments.
Mini-Programs service the same fields that apps do, but traffic is still app-centric.

**DISTRIBUTION OF USER TRAFFIC ACROSS APPS AND MINI-PROGRAMS (JULY 2018), MILLIONS**

- **E-COMMERCE**
  - APP: 252
  - MINI-PROGRAM: 264
  - **Total**: 516

- **LIFESTYLE SERVICES**
  - APP: 528
  - MINI-PROGRAM: 264
  - **Total**: 792

- **VIDEO GAMES**
  - APP: 175
  - MINI-PROGRAM: 175
  - **Total**: 350

- **TRAVEL**
  - APP: 360
  - MINI-PROGRAM: 234
  - **Total**: 594

- **VIDEO**
  - APP: 550
  - MINI-PROGRAM: 42
  - **Total**: 592

Note: This chart includes data from the Top 100 apps with an accompanying Mini-Program; all numbers rounded to nearest million.
Source: Quest Mobile, 2018, Quest Mobile ‘TRUTH’ Data Set (August 2018).
MINI-PROGRAMS GETTING THERE

This year’s 618 signalled Mini-Programs will be a permanent fixture in WeChat’s e-commerce landscape.

**TOTAL MINI-PROGRAM USERS OVER 618** 164 MILLION

**NEW MINI-PROGRAM USERS OVER 618** 53 MILLION

**INCREASE IN ORDERS VIA MINI-PROGRAMS** 66x

**AVERAGE MINI-PROGRAM USE TIME** 2 MINS 48 SECS

Note: This year’s 618 ran between 1 June 2018 and 18 June 2018.
Source: Aladdin Index and Goldman Sachs analysis.
Key e-commerce players are still experimenting with different Mini-Program functions and arrangements, with different results.

**RED**
- **ONE MINI-PROGRAM**
- **STRIPPED BACK FUNCTIONALITY, COMPARED WITH APP**
- **35% INCREASE IN RED MINI-PROGRAM USERS BETWEEN MAY AND JUNE 2018**

**JD**
- **SIX MINI-PROGRAMS**
- **DIFFERENT SERVICES HAVE OWN MINI-PROGRAM**
- **26% OF JD’S USERS USED ONE OF ITS MINI-PROGRAMS IN JUNE 2018**

Source: Quest Mobile, 2018, Quest Mobile ‘TRUTH’ Data Set (August 2018).
All major e-commerce players have deployed either a Mini-Program, support for 微商, or both.

<table>
<thead>
<tr>
<th>E-COMMERCE PLAYER</th>
<th>Alibaba Group</th>
<th>JD.COM</th>
<th>网易</th>
<th>唯品会 vip.com</th>
</tr>
</thead>
<tbody>
<tr>
<td>WECHAT E-COMMERCE PLAY</td>
<td>WS</td>
<td>MP</td>
<td>MP</td>
<td>MP</td>
</tr>
<tr>
<td>MP</td>
<td>Mini-Program</td>
<td>WS</td>
<td>MP</td>
<td>MP</td>
</tr>
<tr>
<td>WS</td>
<td>Support for 微商</td>
<td>WS</td>
<td>WS</td>
<td>WS</td>
</tr>
</tbody>
</table>
In H1 2018, investors followed large e-commerce players into WeChat e-commerce.

### H1 2018 WeChat E-Commerce Investment

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>DESCRIPTION</th>
<th>FUNDING ROUND</th>
<th>AMOUNT RAISED</th>
</tr>
</thead>
<tbody>
<tr>
<td>企迈云商</td>
<td>微商 SaaS</td>
<td>ANGEL</td>
<td>RMB 100M</td>
</tr>
<tr>
<td>LOOK</td>
<td>LUXURY FASHION PROVIDER</td>
<td>SERIES A</td>
<td>USD 22M</td>
</tr>
<tr>
<td>好衣库</td>
<td>S2B2C MALL</td>
<td>SERIES A</td>
<td>RMB 100M</td>
</tr>
<tr>
<td>好物满仓</td>
<td>PLATFORM + SUPPLY CHAIN</td>
<td>SERIES A</td>
<td>RMB 30M</td>
</tr>
<tr>
<td>享物说</td>
<td>SECOND-HAND GOOD SWAP</td>
<td>SERIES A &amp; B</td>
<td>UNDISCLOSED</td>
</tr>
<tr>
<td>云集</td>
<td>微商 SaaS</td>
<td>SERIES B</td>
<td>USD 120M</td>
</tr>
<tr>
<td>礼物说</td>
<td>GIFTING</td>
<td>SERIES C</td>
<td>RMB 100M</td>
</tr>
<tr>
<td>SEE小店铺</td>
<td>微商 SaaS</td>
<td>SERIES C</td>
<td>RMB 30M</td>
</tr>
<tr>
<td>爱库存</td>
<td>SUPPLY CHAIN</td>
<td>N/A</td>
<td>RMB 100M</td>
</tr>
</tbody>
</table>

Source: Company Data, Aladdin Index, Goldman Sachs analysis.
WECHAT E-COMMERCE:
WHAT’S AROUND THE CORNER IN 2019
In 2019, I think there’ll be three potentially disruptive changes to WeChat e-commerce:

Firstly, KOL Mini-Program stores will become one of the top online channels for luxury products.

Secondly, a highly-social, highly-gamified form of 微商 will encourage more transactions between friends.

Thirdly, sharing may become a mainstream way to buy things in WeChat.
KOLs PLACE PRESSURE ON LUXURY E-COMM PLATFORMS

LOOK has quietly snapped up leading fashion and beauty KOLs.

**LOOK**
- PROVIDES TECH, MERCH AND LOGISTICS SUPPORT TO WECHAT STORE
- SERVICES OVER 100 KOLS
- COMPLETED USD 22 MILLION SERIES A IN 2018

**LOOK KOLs’ TOTAL ACTIVE FAN BASE**
- 20 MILLION

**TOP 10 LOOK KOLs’ TOTAL MONTHLY SALES**
- ~ RMB 50 MILLION

Source: 李景新 22 March 2018, 《LOOK A轮融资2200万美元，两个月连拿两轮融资》; 猎云网, 1 November 2017, 《聚合流量资源，电商平台LOOK赋能时尚博主变现新玩法》
KOLs PLACE PRESSURE ON LUXURY E-COMM PLATFORMS

LOOK’s near monopoly on top talent will make it one of the top online luxury channels.

**LOOK’S KOL TALENT LINEUP**

LOOK SERVICES 30 ‘TIER ONE’ KOLs, WITH 90% CONTRACTED EXCLUSIVELY

- GOGOBOI
- MR. BAGS
- ANNYSTYLEONTOP
- FRESHBOY
- 江南BOYNAM
- 了不起日报

**TOP THREE ONLINE LUXURY CHANNELS (2019)**

- **BRAND WEBSITE**: 66%
- **BRAND WECHAT MINI-PROGRAM**: 62%
- **KOL WECHAT MINI-PROGRAM**: 57%

Note: Figures with an asterisk (*) represent the author’s prediction of results in Bain Luxury Report 2019; total exceeds 100% as consumers can choose multiple channels.

Source: 华丽志, 25 April 2018《开启中国时尚博主“内容变现”的进阶模式》
EVERYONE’S A 微商

云品仓 dramatically lowers the barriers for 微商 to start their own Mini-Program Store.

OPEN YOUR OWN MINI-PROGRAM STORE IN < 1 MIN, USING 云品仓’s STORE TEMPLATE

SELECT WHAT PRODUCTS TO SELL, AT WHAT PRICE

~10% COMMISSION ON ANYTHING SOLD
Coffee Box showed how brand, product and gamification can combine for a simpler, more social experience.

- **COFFEE BOX**
  - CUSTOMISE OWN VIRTUAL ‘COFFEE SHOP’
  - FRIENDS RECEIVE DISCOUNTED COFFEE WHEN THEY BUY FROM YOU
  - YOU GET FREE COFFEE WHEN YOU HIT ‘SALES TARGET’

- **VIRTUAL COFFEE SHOPS OPENED**
  - > 500,000

- **% OF COFFEE SHOPS THAT MADE SALES**
  - 10%

Source: 营销新榜样, 7 August 2018, 一夜之间连咖啡多了52万家门店
In 2019, we’ll see the more social, less commercial 微商 extend to all kinds of products and services.

**FOOD FOR THOUGHT**

- **WILL THIS CHANGE HOW WE UNDERSTAND 微商?**
- **HOW TO PUT THIS MODEL IN BRAND ADVOCATES’ HANDS?**
- **DO YOU INCENTIVISE SELLERS WITH GAMIFICATION ONLY?**
- **HOW CAN CUSTOMIZED STORE OWNER AVATARS BE USED?**
- **WHAT ARE THE MOST INTUITIVE PRODUCTS FOR THIS MODEL?**
- **IS THIS HOW BRANDS CONNECT BETTER WITH 代购?**
- **ARE THERE ANY LEGAL BARRIERS TO COMMISSION THAT CAN BE OFFERED?**
- **DO SELLERS SEE THIS AS A GAME OR A BUSINESS?**
We’ve seen different ways ‘share to pay’ has been applied to products and services.

**GRADED READER SUBSCRIPTION (RMB 149)**

**GET YOUR MONEY BACK IF YOU SHARE AN ARTICLE YOU READ TO WECHAT MOMENTS EACH DAY OVER THE LIFE OF THE SUBSCRIPTION**

**PDD**

**EVERY SHARE AND ENTRY RESULTS IN FIXED AMOUNT TAKEN OFF THE RETAIL PRICE**

**CAN SHAVE PRICE DOWN TO $0**

**APPLIES TO SELECT SKUs ONLY**
In 2019, we’ll see new market entrants rely heavily on ‘share to pay’ to create buzz and hero SKUs.

**FOOD FOR THOUGHT**

- WHAT PRODUCTS ARE BEST SUITED TO THIS MODEL?
- WHAT SERVICES ARE BEST SUITED TO THIS MODEL?
- HOW CAN THIS BE USED TO CREATE A HERO SKU?
- WHAT OTHER ACTIONS COULD TRIGGER DISCOUNT?
- DOES THE CONTENT SHARED EVERYDAY DIFFER? HOW?
- DO YOU GIVE ‘SHARE TO PAY’ TO NEW CUSTOMERS OR LOYAL CUSTOMERS?
- WILL WE SEE A FLAGSHIP THAT ALLOWS THIS FOR ALL SKUs?
- WILL WE SEE A PLATFORM THAT ALLOWS THIS FOR ALL SKUs?
HOLD UP,

JUST ONE FINAL THING

This report distils observations about a large, complex and rapidly-evolving ecosystem.

If you’re looking for more detail on something in this report, scan the QR code on the right and submit a question.
YOU’RE ALL UP TO DATE NOW!

THANKS FOR READING