Blue Book Series

FUNG BUSINESS INTELLIGENCE

June 2022

Report on the Development of China's Livestreaming E-commerce Market

Blue Book of China's Commercial Sector:

Annual Report on China's Commercial Sector (2021 -2022)

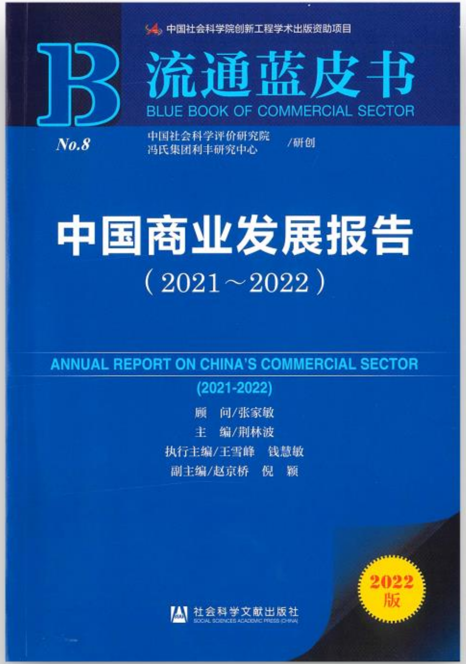
Introduction

In recent years, livestreaming e-commerce has attracted consumers' attention through more vivid and lively product demonstrations and interactive shopping experiences. It has also encouraged spending by offering heavy discounts. Major e-commerce players have been operating in the live-streaming e-commerce market. After several years of development, livestreaming e-commerce has become a new driver of consumption and a strong booster of the domestic economy. It has achieved explosive growth with the support of preferential policies from local governments.

Online shopping surged during the pandemic and therefore many traditional businesses moved or expanded their operations online, which has further driven the development of livestreaming e-commerce. According to data from the Ministry of Commerce, in 2020, China's major e-commerce platforms have hosted over 24 million livestreaming events, and the market size of the industry has reached around one trillion yuan.

This report presents an overview of the recent developments of the livestreaming e-commerce market, introduces the current industry landscape and players, discusses insights for brands and businesses, and forecasts future development trends of the industry.

The content in this report is based on the Chinese article published in the Blue Book of China's Commercial Sector (2021-2022).



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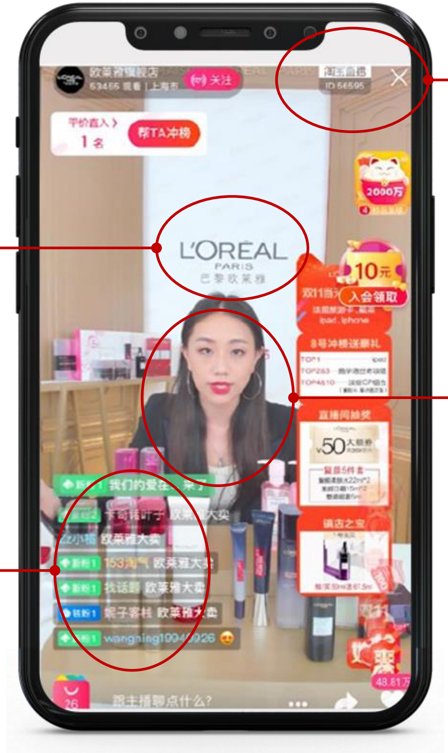
I. Overview of Livestreaming E-commerce

What is Livestreaming E-commerce?

Livestreaming e-commerce is a business model in which hosts promote and sell products or services through a live video stream. The host can interact with their audience and answer product-related questions.



Platform

connects retailers with consumers, driving traffic and facilitating purchase.

Retailer

gets their brand and products in front of consumers

Host

introduces products or services by displaying, explaining and promoting them and interacting with audience, directly driving sales.

Audience

watches livestreaming show, comments and interacts with the host, and purchases products

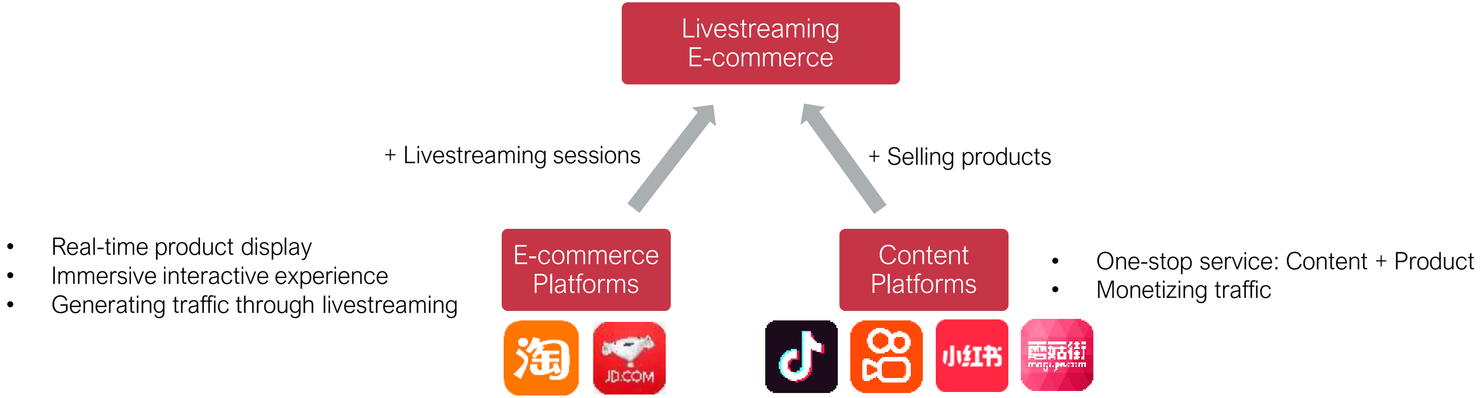
Source: Ministry of Commerce, KPMG x AliResearch

Livestreaming E-commerce: How it Started?

The livestreaming e-commerce model originated from two types of platforms:

- E-commerce platforms had been continuously upgrading their product display pages. They found live broadcasts provide a warmer and more interactive shopping experience that gained popularity with consumers. The most prominent example of this business model is Taobao Live.
- Content creators on short-video platforms such as Douyin and Kuaishou and KOLs on shopping communities such as Xiaohongshu (RED) and Mogujie began connecting with third-party e-commerce platforms to monetize their traffic through livestreaming e-commerce.

The development of the livestreaming e-commerce model



The History of Livestreaming E-commerce

Exploratory phase (2016-2017): Various platforms (Taobao, JD.com and Mogujie) began testing out livestreaming e-commerce.

Growth phase (2018-2020): An increasing number of platforms joined the industry, using steep discounts to drive consumer demands. This momentum was supported by the growth of the domestic economy, as well as the rise of smartphones and better Internet infrastructure. Some local governments enacted support policies to further support the industry. In early 2020, the COVID-19 pandemic became a catalyst for livestreaming e-commerce, as offline stores turned to livestreaming to save their business.

Regulated phase (2020-): Industry standards and guidelines have been implemented since 2H20, ensuring stable and regulated development of the industry.

Traditional e-commerce platforms

Content/social platforms

Platforms

Exploratory Phase (2016-2017)

March 2016: Mogujie added a livestream shopping function

March 2016: Taobao Live Channel began trial operations; it was renamed Taobao Live by May

September 2016: JD Live went online

Mid-2017: Kuaishou began testing livestreaming e-commerce

Growth Phase (2018-2020)

March 2018: Douyin launched its Shopping Cart function

May 2018: Douyin Shop went online

June 2018: Kuaishou Shop went online (in collaboration with Taobao, Youzan and MoKuai)

11 Nov 2018: Total GMV exceeded 300M

April 2019: Douyin linked up with JD.com, NetEase Kaola, Vipshop, etc.

June 2019: Kuaishou connected with Pinduoduo and JD.com

January 2020: Pinduoduo Live went online

January 2020: WeChat launched a livestreaming mini program

March 2020: Weibo Store went online

April 2020: RED added livestreaming function

Regulated Phase (2020-)

Many non-e-commerce platforms, such as Ctrip, Qunar, Meitu, etc. have added livestreaming functions

Policies

Feb 2020: Guangzhou publishes an action plan for livestreaming e-commerce industry development. Various cities have followed suit with support policies. A total of 33 areas (including provinces, cities, and districts) have implemented support policies in 2020

Zhejiang, Guangdong and Shanghai are the top three regions where livestreaming e-commerce developed the best, due to their solid industrial foundation, abundant MCN and talent resources, and comprehensive live-streaming ecosystem

July 2020: The first national standards and regulations for livestreaming e-commerce were implemented

Nov 2020: The State Administration for Market Regulation publishes *the Opinions on Strengthening the Regulation of Livestreaming Marketing Activities*

April 2021: Seven government departments jointly released *the Administrative Measures for Livestreaming Marketing (Trial Implementation)* which came into force on 25 May 2021

March 2022: Three government departments jointly issued *the Opinions on Further Regulating For-Profit Live Streaming Conduct and Promoting the Sound Development of the Industry*

Source: Cyberspace Administration of China, China Marketing Association x AliResearch, Yiou, Weibo E-commerce, Sina Technology, Jintian City, Guangzhou Daily, Shanghai Municipal Commission of Commerce, Alimama Digital Marketing, Open Pineapple Technology, compiled by Fung Business Intelligence

Market Size

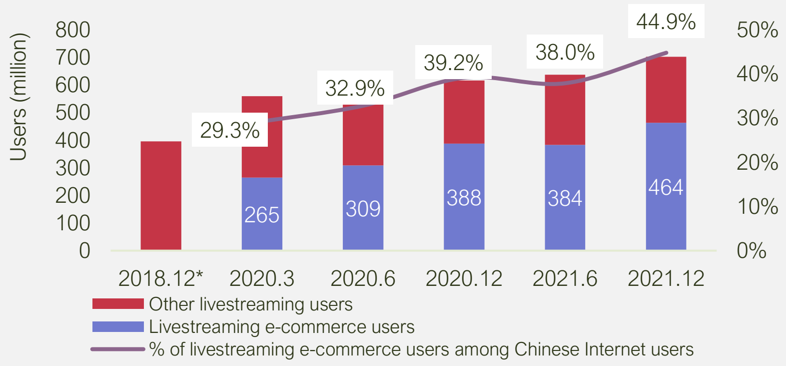
The pandemic has accelerated the development of online consumption habits, and livestreaming e-commerce emerged as a popular shopping method.

As of December 2021, China's livestreaming e-commerce users reached 464 million, an increase of 75% since the statistics was first released in March 2020, accounting for 66.0% of all livestream viewers and 44.9% of Internet users, according to China Internet Network Information Centre (CNNIC).

The huge user base have become the foundation for the development and monetization of livestreaming e-commerce.

According to a report by KPMG and AliResearch, the overall market size of livestreaming e-commerce surpassed 1 trillion yuan in 2020 , a yoy increase of 142%. The penetration rate of livestreaming is only 8.6% at the time. It is estimated that the market size approached 2 trillion yuan and the penetration rate reached 14.3% in 2021, thus there is still a lot of room for growth.

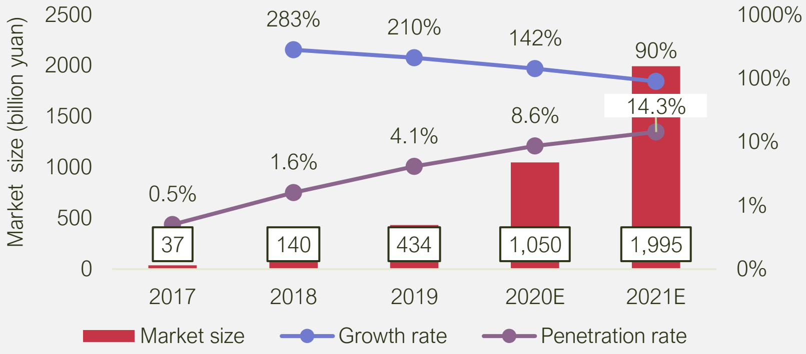
Livestreaming e-commerce users



**CNNIC began counting livestreaming e-commerce users in 2020

Source：CNNIC, compiled by Fung Business Intelligence

Market size, penetration rate and forecasts



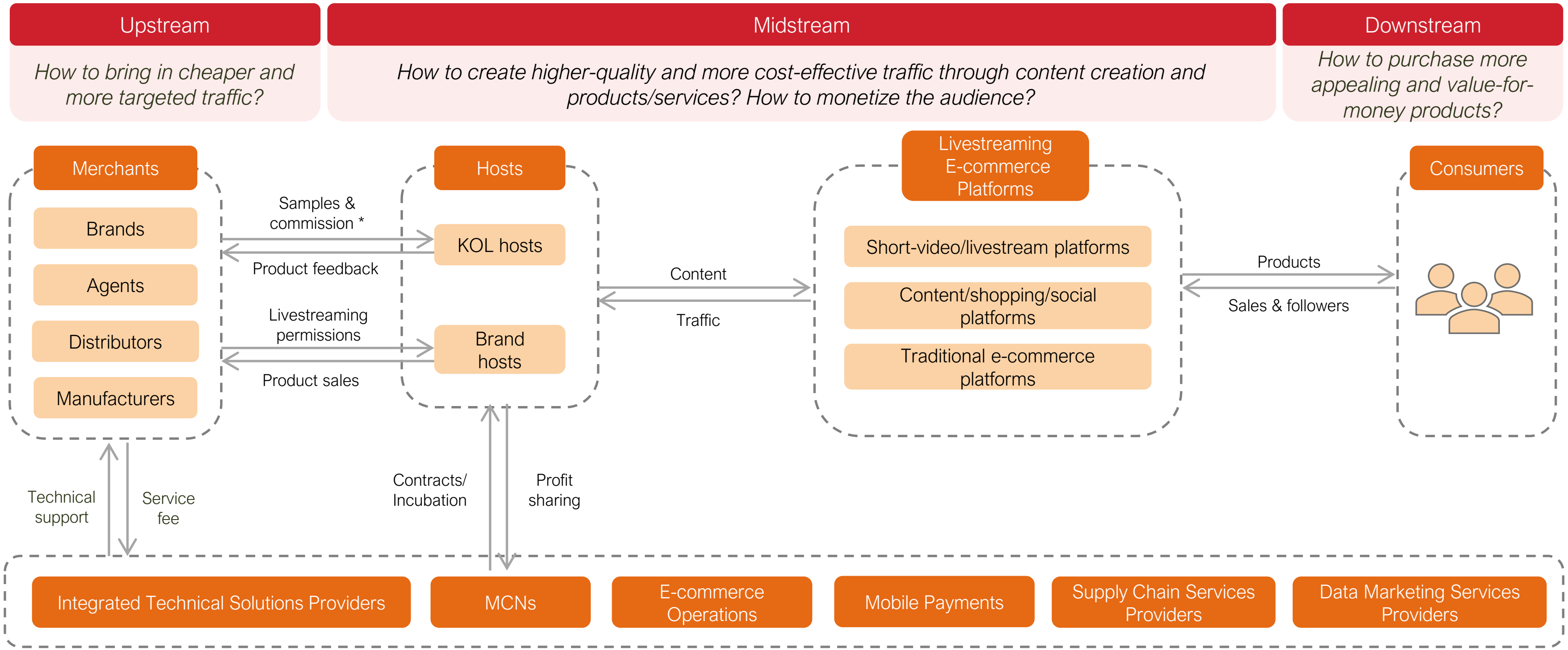
Source: KPMG, compiled by Fung Business Intelligence

II. Livestreaming E-commerce Ecosystem

Livestreaming E-commerce Ecosystem

In addition to the three basic elements (merchants, hosts and platforms), other parties, such as Multi-Channel Networks (MCNs), have begun providing professional services for both livestreaming platforms and merchants. These all contribute to a fast-developing and vibrant business ecosystem.

Livestreaming E-commerce Industry Chain



*Commission generally consists of a fixed fee and sales commission
Source: CNNIC, KPMG x AliResearch, compiled by Fung Business Intelligence

Downstream

The downstream refers to users of livestream platforms, or consumers. According to a survey conducted by China Consumers Association, consumers mainly watch livestream to learn detailed information about a specific product or they are just attracted by promotional events by merchants.

The main factors that attract consumers to make a purchase via livestream are value for money, product attractiveness and discounts. “Concerns about product quality" and “concerns about after-sales problems" are the two main reasons why consumers refrain from purchasing via livestream.

Source: Livestreaming E-commerce Consumer Satisfaction survey by China Consumers Association

Midstream

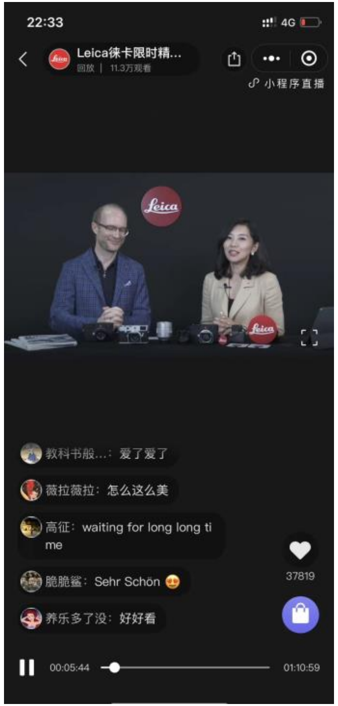
The midstream refers to hosts and livestream platforms that provide merchants with traffic and promote products to consumers. Hosts include Internet KOLs/anchors represented by Li Jiaqi (李佳琦) and Viya (薇娅), celebrity hosts such as Liu Tao (刘涛) and Wong Cho Lam(王祖蓝), executive hosts such as Dong Mingzhu (董明珠) and Luo Yonghao (罗永浩), and the brand's own anchors.

The role of MCN is to incubate and cultivate hosts and anchors. Hosts and anchors often choose to build their own teams to earn higher commissions.

Internet KOL —— Li Jiaqi

Executive Host — Dong Mingzhu

Celebrity Host——Liu Tao



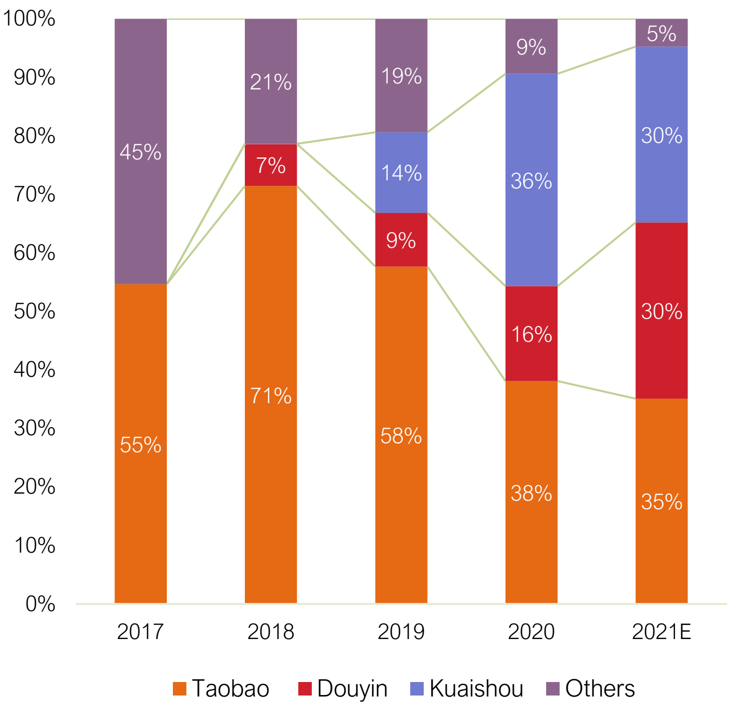
Brand broadcast - Leica

Image Source: Taobao Live & WeChat Live

Midstream (Cont'd)

In terms of the competitive landscape, the livestreaming e-commerce industry is led by Taobao Live, Douyin and Kuaishou. The three platforms aggregately accounted for 78.6%, 80.6% and 90.6% of the livestreaming market in 2018, 2019 and 2020, respectively.

Market share of major platforms



Comparison of top three livestreaming platforms (2020)

	Taobao Live	Kuaishou	Douyin
GMV	>400B	381.2B	170B
Daily active users	200M	260M	250-260M
Products on sale	Cosmetics, apparel, jewellery, F&B, etc.	F&B, household items, skincare products, etc. (featuring value-for–money products)	F&B, apparel, skincare products, etc. (with a focus on branded products)
Average product price	Wide range	37-177 yuan	43-293 yuan
Platform fees	Technical service fee, commission	Technical service fee, commission	Advertising fee, technical service fee, commission
Special features	Mature ecosystem and platform management	Self-developed supply chains; direct-from-manufacturer products	Bestsellers, branded products, mature marketing tools

Source: Company financial reports, Taobao, Mian Chao Research Institute, compiled by Fung Business Intelligence

Ecosystem – Midstream – Platform – Taobao Live

Since officially launching in May 2016, Alibaba's Taobao Live has become a leader in the livestreaming industry. It accounted for 38% of the livestreaming market with a GMV of over 400 billion in 2020. Meanwhile, livestreaming e-commerce only accounted for 6.1% of Alibaba's total retail GMV, so there is still a lot of room for growth.

As a traditional e-commerce platform, Taobao has a balanced male/female user base with a higher income level than that of Douyin and Kuaishou. It means its users are more likely to make purchases. Taobao livestreams also have shorter conversion paths than other platforms, with a livestream-to-store conversion rate of over 60%. Click rates, length of site visit and fan conversion rates directly influence traffic distribution to livestream channels on Taobao Live.

Top KOL hosts on Taobao Live include Li Jiaqi and Viya.* Self-hosted livestream shows by brands and merchants have also grown significantly, accounting for almost 90% of all livesteam shows streamed on Taobao Live.

Demographics

50.6% / 49.4%

Ages 20-40

Tier 2 & 3 cities and smaller towns

Top brands China's 618 shopping festival in 2021

1	花西子 Florasis	6	Midea
2	PERFECT DIARY 完美日记	7	三只松鼠 Three Squirrels
3	李子柒	8	babycare
4	L'ORÉAL PARIS 欧莱雅	9	ESTĒE LAUDER COMPANIES
5	HUAWEI	10	COLORKEY 珂拉琪

Top 10 product categories on Taobao Live by penetration rate

No.1 Jewellery

No.2 Cosmetics

No.3 Women's wear

No.4 Accessories

No.5 Home appliances

No.6 Food

No.7 Personal care items

No.8 Watches & glasses

No.9 Electronic devices

No.10 Underwear

*Both Li Jiaqi and Viya have disappeared from the internet, due to content censorship and tax evasion, respectively

Source: KPMG x Alibaba, 21st Century Economic News, Tao Charts, Feigua Data, compiled by Fung Business Intelligence

Ecosystem – Midstream – Platform – Kuaishou

Kuaishou started livestreaming e-commerce business in mid-2017. It accounts for 36% of the market by GMV in 2020. Unlike other platforms, the majority of its users are male, while users under 30 account for nearly 80% of its user base. Most users are located in Northern areas and lower-tier cities, with 75% of its users earning less than 5000 yuan per month.

Kuaishou is under a decentralized traffic distribution system. Traffic is distributed based on users' interests, whilst traffic directed to top hosts is limited to around 30%.

Popular hosts on Kuaishou have established their own supply chains and launched their own brands.

Demographics

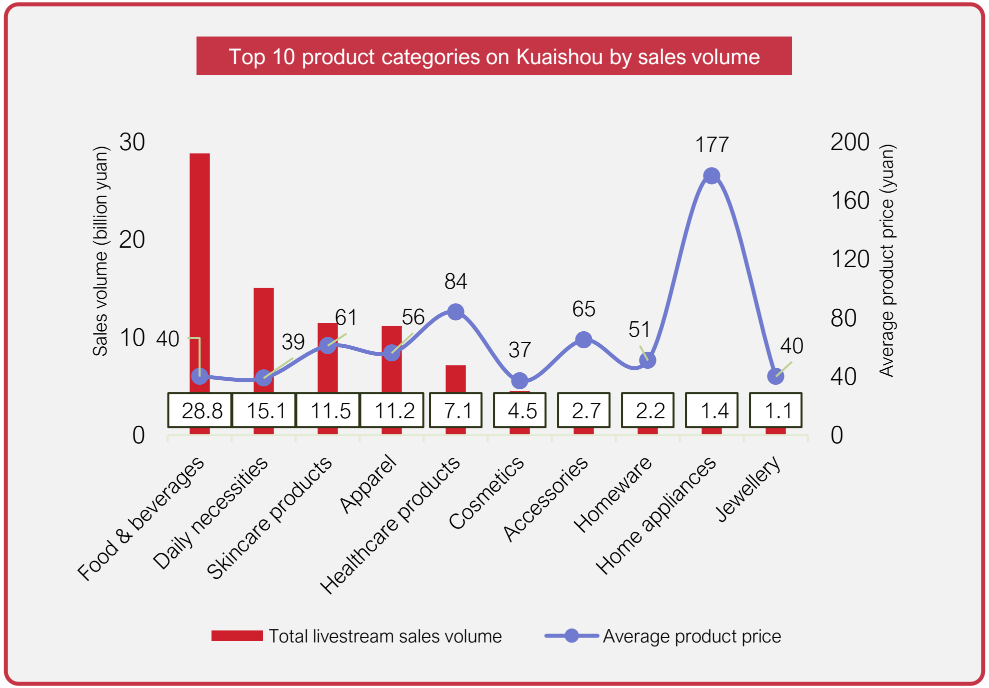
58.1% / 41.9%

Ages < 30

Northern areas, Tier 2 & 3 and below cities

Top brands
China's 618 shopping festival in 2021

1 南极人 Nanjiren
2 百草味
3 宏丰贵邦
4 可立克
5 三只松鼠
6 漫花
7 佰草世家
8 嗨吃家
9
10 AUX 奥克斯



Source: Mian Chao Research Institute, FeiGua Data, compiled by Fung Business Intelligence

Ecosystem – Midstream – Platform – Douyin

Douyin accounted for 16% of the livestreaming e-commerce market by GMV in 2020. It is similar to Taobao Live in terms of traffic distribution algorithms that popular content and top KOLs would get more traffic. Douyin has invited many celebrities to host livestreaming shows to boost viewership. It also offers rebates and other favourable incentives to attract named brands, such as Peacebird and Li Ning, to its platform.

In terms of demographics, users who are 30 years of age or younger account for nearly 80%, mainly located in Tier 1 & 2 cities. About 68% of users earn less than 5000 yuan per month, and 53.3% of users are female.

The top three product categories on Douyin are food & beverage, mens and women's wear, and skincare products.

Demographics

47.7% / 53.5%

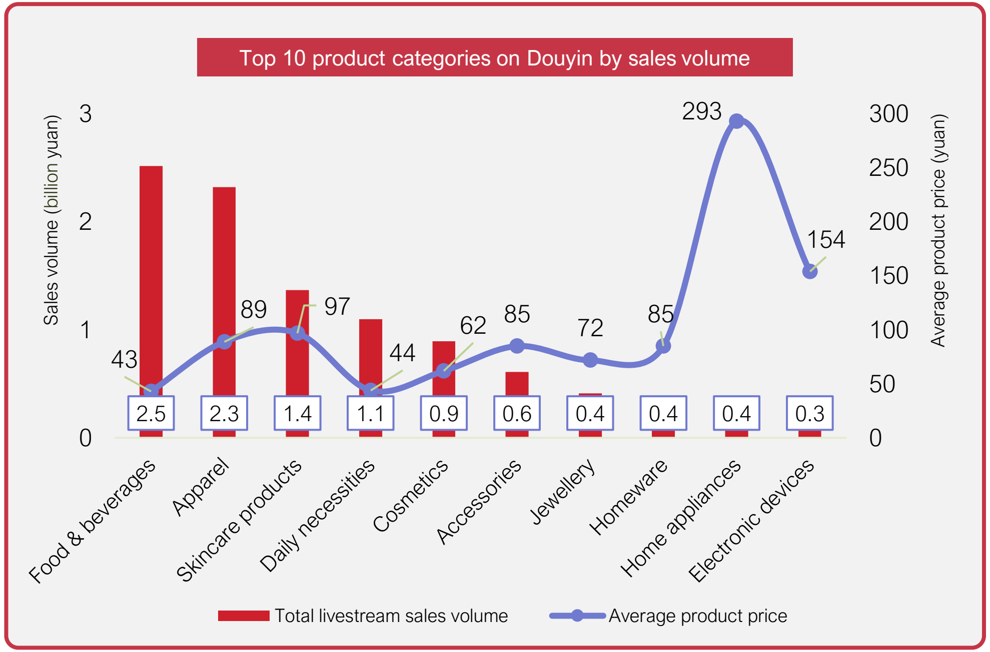
Ages 25-35

from Eastern and Central areas, Tier 1 & 2 cities

Top brands

China's 618 shopping festival in 2021

1	周黑鸭	6	李子柒
2	良仁 LIANGREN	7	L'ORÉAL PARIS 欧莱雅
3	百草味 Be & Cheery	8	PERFECT DIARY
4	三只松鼠	9	baby care
5	[illegible]	10	DÉTVFO 德德维芙



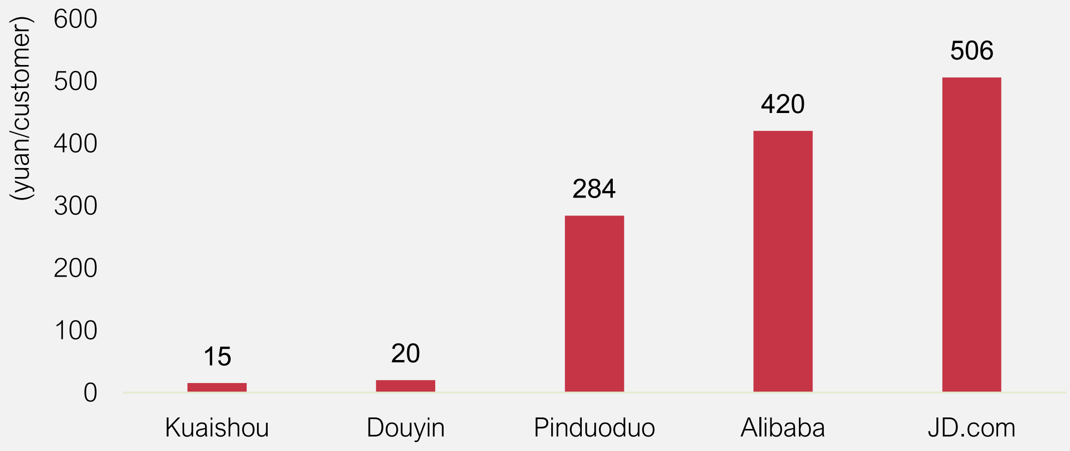
Source: Mian Chao Research Institute, Xinhua News, FeiGua Data, compiled by Fung Business Intelligence

III. Livestreaming as a Marketing and Distribution Channel for Brands and Retailers

Customer Acquisition Cost by Platform

Acquiring customers via traditional e-commerce channels can be expensive. Brands and merchants are committed to finding cheaper and more targeted traffic. Livestreaming e-commerce just provides them with the traffic they need.

Customer acquisition cost by platform



Source: Everbright Securities

Three Key Strengths of Livestreaming E-commerce

1. High entertainment value drives traffic
2. Interactivity improves user experience
3. A closed loop - marketing to sales

Three Key Strengths of Livestreaming E-commerce

（1）High entertainment value drives traffic

Traditional e-commerce

- Brands and merchants produce content (Images, videos and text) without interactivity. The tone of the content is usually more formal

1

Livestreaming e-commerce

- Livestreams are informative as well as entertaining. It has become a daily pastime for many people

Traditional e-commerce only displays still images

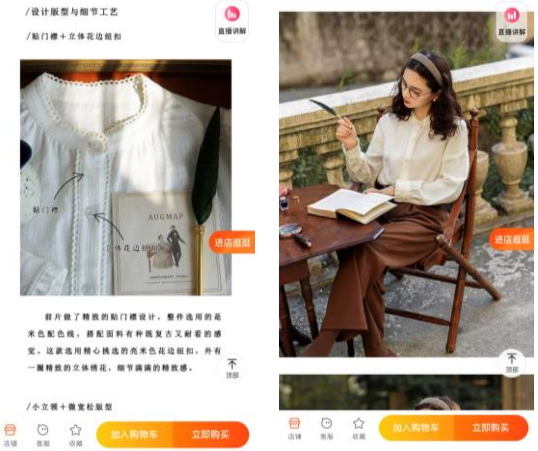


Image Source: Taobao

Livestreams are informative and entertaining

Image Source: Taobao Live

Three Key Strengths of Livestreaming E-commerce
（2）Interactivity improves user experience

Traditional e-commerce

- On traditional e-commerce platforms, product photos and videos can be highly edited which can lead to a gap between sellers' images and the actual product
- The lack of timely responses to consumer enquires fails to adequately meet consumers' requirements

2

Livestreaming e-commerce

- Livestreams allow hosts to answer consumers' questions in real-time, much like in-person shopping guide services
- Merchants can receive instant feedback from consumers

Merchant's photos vs customer's review

Image Source: Internet

User engagement on livestreams

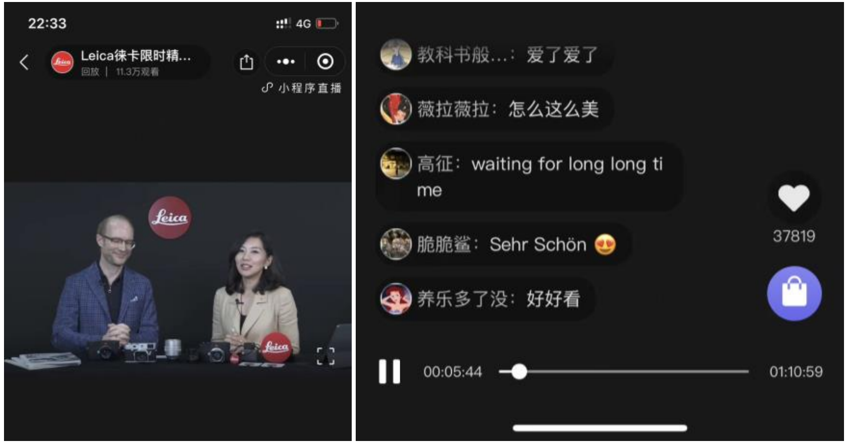


Image Source: WeChat Live

Three Key Strengths of Livestreaming E-commerce
（3）A closed loop - marketing to sales

Traditional e-commerce

- Consumers usually compare prices across platforms before making a purchase. They may be distracted and lose interest during this process

3

Livestreaming e-commerce

- Users are more focused. They are attracted by time-limited discounts and hosts' peddling which create a sense of immediacy to make a purchase
- The decision-making process is completed during the livestream. It has formed a closed loop from marketing to sales

Traditional E-commerce Customer Journey Mapping

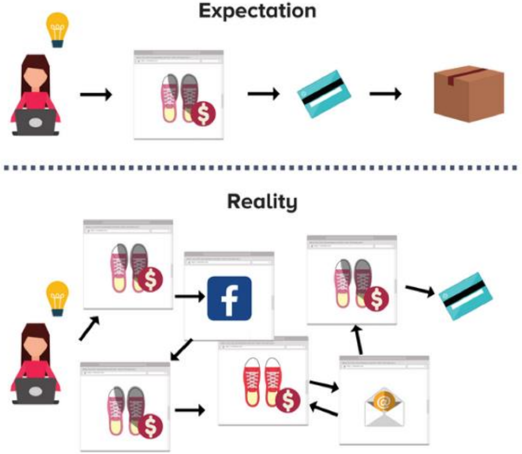


Image Source: Divvit

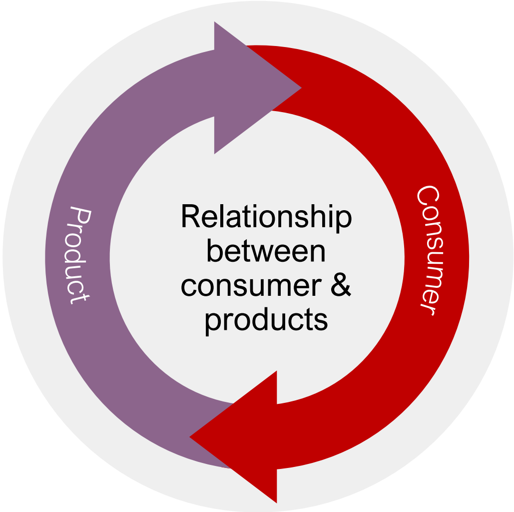
'OMG, Buy it!' – the signature quote of top live-streaming KOL Li Jiaqi

Image Source: Internet

Selecting the Right Host

In traditional e-commerce, consumers select stores and products. In livestreaming e-commerce, hosts recommend products to consumers. It means the host plays a key role during the process. Empowered by big data, brands and merchants can select hosts that best appeal to their target audience or incubate their own in-house hosts.

Traditional E-commerce
Consumers select products in stores



Livestreaming E-commerce
Hosts recommend products to consumers

Data-driven strategy

- Livestream platforms monitor hosts' performance and their audience demographics. Merchants have their own consumer data as well. Based on these data, they can choose a host which fit the brand image and its target audience.
- There are also third-party data marketing service providers that offer host-matching services, which can help improve product sales

Professionalism of hosts

- According to a report by KPMG and AliResearch, livestream hosts will become increasingly vertical and specialized in specific product categories.
- For example, Li Xuanzhuo (李宣卓, aka the "Kuaishou Wine Master") is deeply knowledgeable about the wine industry. He set a record of 96.5 million yuan in sales in a single livestream. Li has a team of over 300 people working behind the scenes to support his operation.

In-house livestreams

- In-house livestreams allow merchants to communicate and interact directly with their consumers. This helps the growth of private domain traffic and encourages follower activity and conversion rates.
- Merchants can build a team responsible for its livestreams. They can have a full control over the content, using platform data for analysis. They also can ask third-party service providers to offer such services.

Source: Shen Ran (深燃)

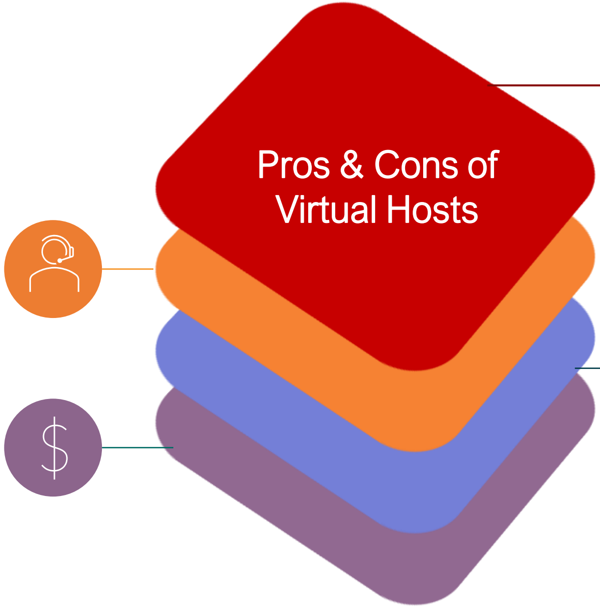
IV. The Future of Livestreaming E-commerce

Technological Innovation Empowers Livestream E-commerce Development

New technologies, such as AR/VR, can be applied to livestreams to improve user experiences and optimize operation.

(1) Virtual Hosts

The number of livestream sessions hosted by virtual hosts is gradually increasing, as is the sales volume within these sessions.



24/7 Service 👍

Virtual hosts can provide continuous (24-hour) livestreams

Higher cost 👎

Virtual hosts are created through 3D modelling, which can be quite expensive

Low-risk 👍

Virtual hosts avoid potential controversies & human error

Trendy 👍

Virtual hosts fit the preferences of younger internet users

L'Occitane livestream hosted by virtual host Luo Tianyi (洛天依) and Li Jiaqi

Image Source: Taobao Live

Despite the benefits, most brands and merchants are still adopting the "wait and see' approach towards virtual hosts. It is expected that virtual hosts will become more popular when the technology matures and costs are lower.

Source: CBNData

Technological Innovation Empowers Livestream E-commerce Development (Cont'd)

(2) 5G Network

5G network provides high speeds, low latency and widespread connectivity, making it the ideal foundation for the 4K/8K ultra-HD video and VR/AR applications. These commercial applications can enhance consumer experience and provide new capabilities for livestreaming e-commerce.

5G

- **5G + 4k**
  - The first 5G e-commerce livestream session occurred in Hangzhou in mid-2019. The 4K video provides a more realistic virtual shopping experience and allows consumers to zoom in on product details
- **5G + VR/AR/MR**
  - Text, images and animations can be displayed in the livestream in a better way, creating a more captivating and immersive experience to cut audience exodus
  - VR/AR/MR technology can construct immersive shopping experiences by replicating real-life products and scenarios and broadcasting them to consumers anytime, anywhere. In this way, audience can test lipstick colours or place a sofa in their own living room during the livestreams.

AR animations during a 618 Livestream in 2020

Image Source: Internet

AR/VR Livestream Setting

Image Source: Internet

Source: CBNData

Policy Support and Regulation

The livestreaming e-commerce industry is still in its development phase compared to the wider e-commerce industry. Since 2020, various regional governments have unveiled support policies to promote the development of livestreaming e-commerce. At the same time, the Chinese government has also issued a series of measures and regulations to regulate the sector.

Key Regulations on Livestreaming E-commerce

Issuance Date	Issuing Authority	Regulation	Key Messages
24 June 2020	China Advertising Association	Code of Conduct for Livestream Marketing	Defined and set out comprehensive standards of behaviour for merchants, hosts, livestream platforms, MCNs, supply chain and data marketing service providers
6 Nov 2020	State Administration for Market Regulation	Guidance on Strengthening the Supervision of Livestream Marketing Activities	Clarified the legal responsibilities of the parties involved in livestream marketing; regulated the scope of promotional and advertising activities for products and services on livestreams; set out eight types of illegal acts in livestreaming e-commerce that must be investigated (e.g. Infringing on consumers' legal rights, unfair competitive practices, product quality issues, infringement of intellectual property rights, etc.)
13 Nov 2020	Cyberspace Administration of China	Regulations on the Management of Livestream Marketing Content Services (Draft policy for public comment)	Clarified livestreaming platforms should prevent/remove false advertising, price fraud and other unethical behaviours; clarified livestreaming personnel should not engage in fraud (e.g. manipulating traffic/views/likes/transactions, and other forms of user engagement)
23 Nov 2020	National Radio and Television Administration	Notice on Strengthening the Management of Online Shows and E-commerce Livestreaming	Clarified livestreaming e-commerce platforms should verify the identity and business registrations of merchants and individuals who engage in livestream marketing activities
15 Mar 2021	State Administration for Market Regulation	Measures for the Supervision and Administration of Online Transactions	Clarified the responsibilities of e-commerce operators engaged in new e-commerce models, such as livestreaming e-commerce and social commerce; prohibited unethical platform behaviour such as forcing operators to "pick one from two" by manipulating search results, removing products, restricting business, etc.
6 Apr 2021	Guangzhou Judicial Bureau	Guidelines for Handling Legal Disputes in E-commerce Livestreaming	Defined responsibilities and mechanisms for resolving common disputes between various entities involved in livestream e-commerce (e.g. product quality issues)
23 April 2021	Cyberspace Administration of China, Ministry of Public Security, Ministry of Commerce, Ministry of Culture and Tourism, State Taxation Administration, State Administration for Market Regulation, and National Radio and Television Administration	Administrative Measures for Livestream Marketing (for Trial Implementation)	Clarified the rights and responsibilities of various entities within the industry to better regulate the industry; emphasized that livestream platforms should actively assist consumers in safeguarding their legitimate rights and interests
25 March 2022	Cyberspace Administration of China, State Taxation Administration, and State Administration for Market Regulation	Opinions on Further Regulating For-Profit Live Streaming Conduct and Promoting the Sound Development of the Industry	Tightened the management of various entities within the industry; pledged to eradicate crimes including tax evasion

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