



Uncovering the emerging players in China's e-commerce - Issue 6

Social commerce platform - Yunji Inc.

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In today's rapidly evolving and highly competitive online marketplace, emerging e-commerce platforms provide another option for businesses to market and sell their products. Fung Business Intelligence has identified some of these fast-growing players, each focusing on a specific area such as group-buying, O2O lifestyle services, social commerce, vertical online platforms and short videos. In this series of articles, we provide an overview of the key business and developments of these emerging player; we also identify their strengths, weakness, opportunities and threats.

In this issue, we look at the business model and latest developments of Yunji – a membership-based social e-commerce platform in China. It adopts a S2B2C model to source products directly from suppliers (S) and sells to micro-store owners (B) on its platform; micro-store owners then distribute the products to their social contacts, i.e. final consumers (C). Yunji has been growing fast and was listed on the Nasdaq Stock Exchange in May 2019. In 2018, Yunji's GMV amounted to 22.7 billion yuan.

Company background

Founded in May 2015 by Xiao Shanglue, Yunji Inc. (“Yunji”) is a membership-based social e-commerce platform in China. Yunji sources products directly from suppliers or brands, and sells via micro-store owners on Yunji platform; micro-store owners then share products with their social contacts and lure them to make purchase. As of 31 December, 2018, Yunji had accumulated 7.4 million micro-store owners.

The customer base of Yunji has been increasing fast since it started operation in 2015. The number of customers increased from 2.5 million for the year ended 31 December, 2016 to 23.2 million for the year ended 31 December, 2018. GMV in 2018 was 22.7 billion yuan, up 134.4% year-on-year (yoy). During the 2018 11.11 Global Shopping Festival, Yunji recorded 2.59 billion yuan of GMV during the seven-day promotion period from 5-11 November, 2018.

Yunji was listed on the Nasdaq Stock Exchange on 3 May, 2019, raising US\$121 million in its initial public offering.

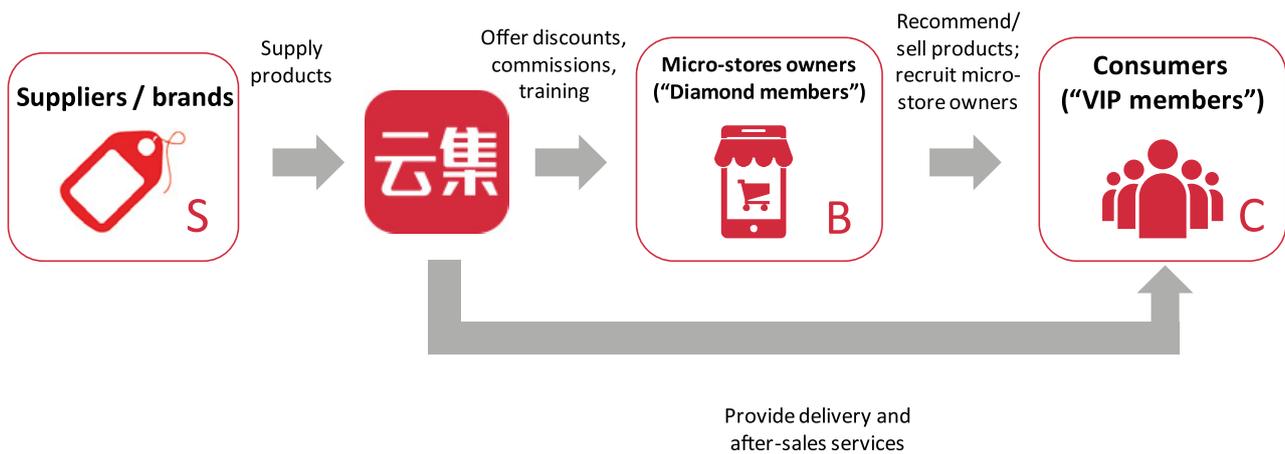
The business

Business Model – a snapshot

Yunji is a membership-based social e-commerce platform in China. Currently, it adopts a S2B2C model. Yunji sources products directly from suppliers (S) and sells to micro-store owners (B) on its platform; micro-store owners then distribute the products to their social contacts, i.e. final consumers (C). With its strong relationships with the suppliers, Yunji is able to source products at favorable pricing terms and supply to micro-store owners at a discount. Exhibit 1 demonstrates Yunji's business model.

Under Yunji's membership-based business model, both micro-store owners and consumers are considered as its members – the former are referred to as “diamond members”, while the latter are referred to as “VIP members”.

Exhibit 1: Business model of Yunji



Source: Fung Business Intelligence

Two types of memberships

Diamond members (micro-store owners)

Diamond members pay an annual fee of 398 yuan for a membership package, upon which they can have access to a variety of benefits (Exhibit 2) and discounts as well as the permission to open their own micro-stores on Yunji. Yunji empowers diamond members to help extend Yunji's reach by sharing their shopping experiences and promoting products through their social networks, mainly via WeChat, QQ and Weibo. Diamond members successfully selling to others and recruiting new members are rewarded in terms of Yun-coins – Yunji's virtual money. Yunji also provides tremendous support including supply chain, IT technology system, logistics, customer services, content generating tools, and training. As of December 2018, there are 7.4 million diamond members accumulated.

Exhibit 2: Members' benefits provided by Yunji

01	A package of selected products
02	Access rights to Yunji app and its member-exclusive features
03	Rights to receive member exclusive discounts for products sold on Yunji app
04	Rights to receive Yun-coins* upon a successful new member referral
05	Rights to participate in member-exclusive training
06	Certain units of Yun-coins

** Yun-coin can be used as credits when making purchases on Yunji platform, Yun-coins cannot be redeemed for cash. Members may transfer Yun-coins to others.*

Source: Yunji IPO document

VIP members (consumers)

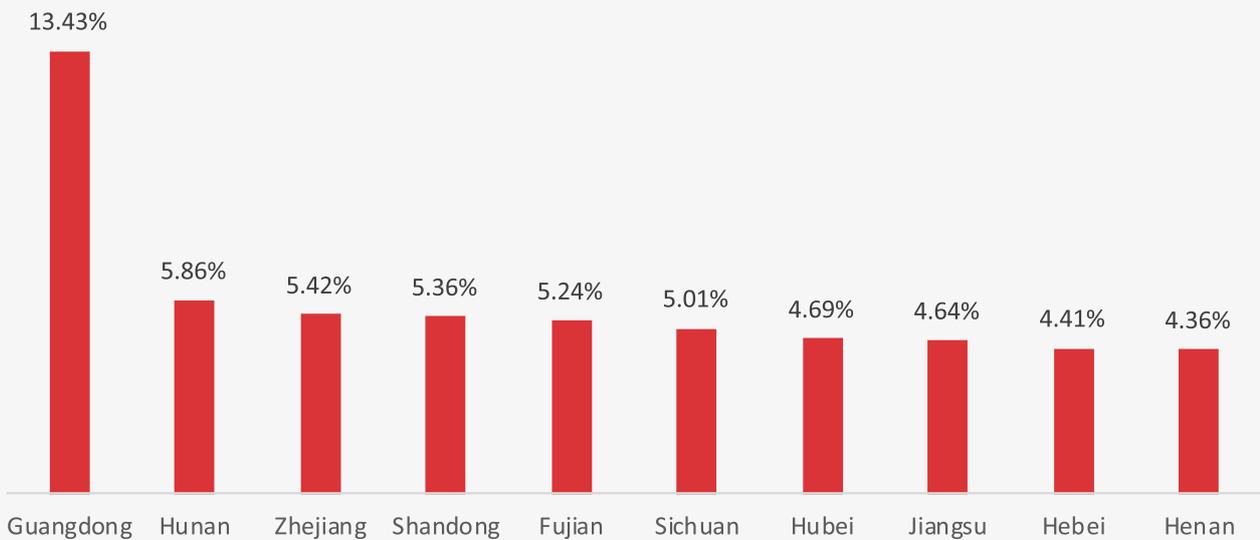
VIP members are people who only purchase on Yunji without paying a fee to become micro-store owners. VIP members (consumers) can buy Yunji's products at a discount from diamond members (micro-store owners). They can simply enter an invitation code provided by diamond members; diamond members can earn commissions once VIP members purchased products from them.

Profile of Yunji's members

According to iResearch, 80% of the micro-store owners of Yunji are female, and 70% are aged 26-35. Many of the micro-store owners are full-time mothers, or owners of boutiques or mom-and-pop stores, who usually run their micro-stores on Yunji during their free time. Micro-store owners can gain 5-35% commissions on referral sales and new members bringing to Yunji¹. According to Yunji, their target members are typically middle-class consumers who are highly social and are interested in discussing and sharing their shopping experience and product-user experience on social media.

As shown in Exhibit 3, Guangdong has the highest numbers of Yunji app users, accounting for 13.4% of total number of users².

Exhibit 3: Users of Yunji app, by region, 2018



Source: iResearch, Liu He Consulting, compiled by Fung Business Intelligence

Suppliers of Yunji

Yunji adopts a “Three 500s” strategy when working with suppliers – it targets to cooperate with 500 major brands, 500 innovative brands, and 500 high-standard factories³. Unlike many other e-commerce platforms which sell a wide range of goods, Yunji offers 6,613 popular standard product units (SPUs) of products on its platform as of December 2018.

Yunji partners with mainstream and emerging brands, and manufacturing partners in various categories including cosmetics, personal care, maternity and baby products, food and beverage, home products, home textile, digital products, home electronics, apparel and affordable luxury goods. Yunji has 1,369 suppliers on its network as of 31 December, 2018.

Meanwhile, Yunji also adopts the customer-to-manufacturer (C2M) model. Yunji helps suppliers to develop new and customized products to better fit users’ preferences. In some cases, Yunji also co-develops private label products with manufacturing partners, thus commanding better prices. Solo Life, Yuan Sheng Huang and Unibeautey are some of the examples.

Yunji App

Previously Yunji had two apps – Yunji app for diamond members (micro-store owners) and Yunji VIP app for VIP members (consumers). They were combined into one Yunji app in February 2019. Micro-store owners can search for newly listed products, generate product sharing links with their social contacts, attend training sessions, etc. via the app. They can also invite others to join the platform and become diamond members and get commissions or Yun-coins in return. Meanwhile, consumers who do not pay membership fee can view products, track logistics information, and enjoy coupons and collect Yun-coins via the app.



Source: Yunji app, Fung Business Intelligence

Screenshots of selected pages of Yunji app

The first screenshot, 'Invitation Page', shows a promotional banner for becoming a member. Red boxes highlight the text 'Become member by one click' and 'Choose membership package to become a member'. The second screenshot, 'Membership Package Page', displays various product bundles with prices like ¥398. Red boxes highlight 'Membership packages with various products' and 'More packages'. The third screenshot, 'Members' Benefits Page', shows a 'Gain 40 Yun-coins' badge and various discount offers. Red boxes highlight 'Gain 40 Yun-coins' and 'Enjoy various membership benefits and discounts'. The fourth screenshot, 'Personal Information Page', shows a registration form. Red boxes highlight 'Enter name, phone number and verification code'.

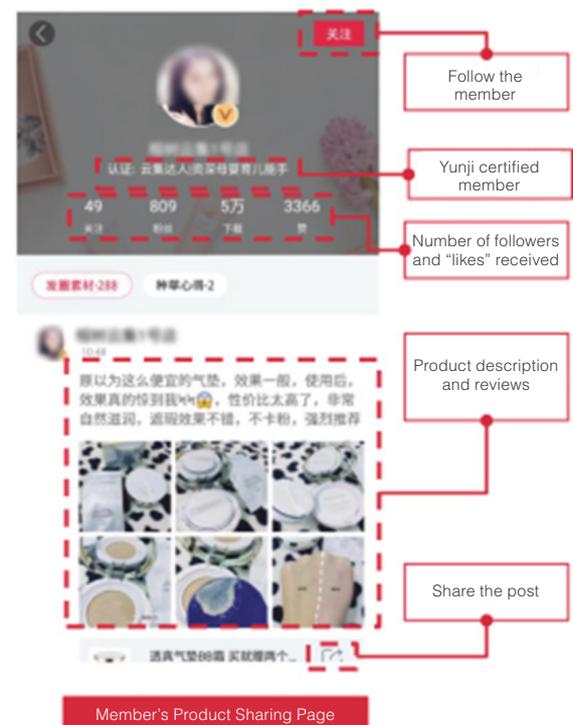
Invitation Page Membership Package Page Members' Benefits Page Personal Information Page

The first screenshot, 'Flash Sales Page', shows a time-limited sale for Laneige products. Red boxes highlight 'Acquire promotional materials and share', 'Product price / incentive', and 'Promotion launch time / status'. The second screenshot, 'Supermarket Page', shows a grid of products and categories. Red boxes highlight 'Promotion of the day', 'Products on sale', 'Product categories', 'Promotion banner', and 'Share with friends'. The third screenshot, 'Boutique Virtual Shops Page', shows a brand-specific page for baby care products. Red boxes highlight 'Product information' and 'Brand promotion banner'.

Flash Sales Page Supermarket Page Boutique Virtual Shops Page

Source: Yunji IPO documents, Fung Business Intelligence

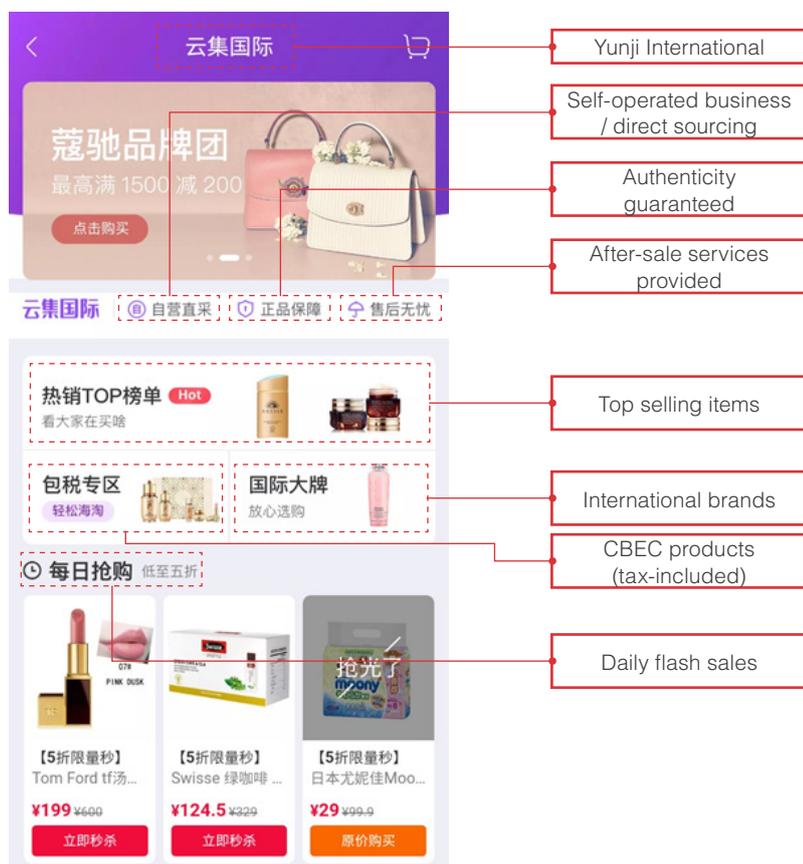
Screenshots of selected pages of Yunji app



Source: Yunji IPO documents, Fung Business Intelligence

CBEC business

Yunji started its cross-border e-commerce (CBEC) business in January 2016 to source popular overseas products via CBEC channels. It has launched a dedicated section "Yunji International" for diamond members to browse and source CBEC products. Diamond members can then share products to their social contacts to earn commissions. Yunji has six bonded warehouses in China (located in Hangzhou, Ningbo, Zhengzhou, Guangzhou, Chongqing, and Yiwu) to handle cross-border imported products and one warehouse in Hong Kong to handle imported products via direct mail. In 2018, total sales value on Yunji's CBEC platform is estimated to reach around 5.4 billion yuan⁴. In November 2018, Yunji launched a traceability function for CBEC goods on its platform, allowing consumers to verify the authenticity of products and logistics information by just one-click.



Source: Yunji app, Fung Business Intelligence

Logistics infrastructure

Yunji provides logistics services to micro-store owners. It currently has over 40 self-operated warehouses including 17 central warehouses, 17 regional warehouses, five front distribution centers and two supermarket warehouses in 23 cities across China. 88% of the orders can be delivered to customers across China in three days. Some orders may be delivered directly from suppliers too. Yunji has a warehouse management system which can automatically process consumers' orders and assign them to the most suitable warehouses with inventory. Yunji uses third-party logistics service to provider last-mile delivery. It has partnered with more than 20 logistics companies including SF Express, EMS, Yunda and JD Logistics.

Yunji in the past

In the early days, Yunji adopted a pyramid selling model, or multi-level direct selling model, which is forbidden in China. In May 2017, Yunji received a formal notice from the local Administration for Market Regulation in Hangzhou, saying that it has violated the *Regulations on the Prohibition of Pyramid Selling**; Yunji was fined approximately 9.6 million yuan for violating the law. In February 2016, Yunji adjusted its business model to comply with the *Regulations on the Prohibition of Pyramid Selling* and other related regulations. To avoid crossing the red line of awarding micro-store owners with material or financial benefits, Yunji resorted to virtual Yun-coins, which are not redeemable for cash and can only be used as coupons for future purchase. Although Yunji has modified its business model, it also warns in its prospectus that China could at any time redefine what constitutes pyramid selling; the company needs to keep a close watch on regulatory changes.

* In August 2005, the State Council promulgated the *Regulations on the Prohibition of Pyramid Selling*, which prohibits individuals and entities in China from engaging in pyramid selling.

Financials and other key facts

Yunji showed stunning financial performance during 2016-2018 in terms of GMV, number of orders and revenue. In 2018, Yunji's GMV amounted to 22.7 billion yuan, total orders fulfilled totaled 153.4 million, and revenue increased by 102.0% yoy to reach 13,015.2 million yuan. 87.5% of its revenue came from sales of merchandise, while 11.9% came from membership program (Exhibit 4).

Exhibit 4: Revenue breakdown of Yunji, 2016-2018

(million yuan)	2016	%	2017	%	2018	%
Revenues						
Sale of merchandise, net	1,129	87.9	5,912	91.7	11,388	87.5
Membership program revenue	155	12.1	511	8	1,552	11.9
Other revenues	n/a	n/a	21	0.3	74	0.6
Total	1,284		6,444		13,015	

Source: Yunji, compiled by Fung Business Intelligence

The number of consumers and transacting members on Yunji's platform has been increasing fast – in 2018, the former increased from 2.5 million in 2016 to 23.2 million in 2018, while the latter rose from 0.6 million in 2016 to 6.1 million in 2018 (Exhibit 5). The cumulative members (total number of members Yunji has accumulated since it started operation in 2015) were 7.4 million. In 2018, 66.4% of Yunji's GMV were from purchases made by its members. The repurchasing rate was high at approximately 93.6% among Yunji's transacting members.

Exhibit 5: Number of customers purchasing on Yunji, 2016-2018



Source: Yunji, compiled by Fung Business Intelligence

However, Yunji has yet to make profit. It recorded operating loss of 47.1 million yuan in 2016, 114.2 million yuan in 2017, and 99.4 million yuan in 2018 (Exhibit 6), raising questions about the profitability of its business model.

Exhibit 6: Operating costs and expenses of Yunji, 2016-2018

(million yuan)	2016	2017	2018
Total revenues	1,284.4	6,444.1	13,015.2
Total operating costs and expenses	1,331.5	6,558.3	13,114.6
Loss from operations	-47.1	-114.2	-99.4

Source: Yunji, compiled by Fung Business Intelligence

Recent developments

Yunji listed on Nasdaq Stock Exchange

On 22 March, 2019, Yunji filed for an IPO in New York and it successfully listed on the Nasdaq on 3 May, 2019, raising US\$121 million in its initial public offering. In its IPO prospectus, Yunji stated that it intends to use around 30% of the proceeds of the offering to expand its business operations, around 35% to enhance technological capabilities and technology infrastructure, around 25% to improve fulfillment facilities, and the rest for general corporate purposes.

Yunji announces completion of Series B financing of USD\$120 million

In April 2018, Yunji announced the completion of its Series B financing of US\$120 million, turning the company from a startup to a unicorn in the industry. CDH Investments led this round of financing and Huaxing Capital Partners and other funds made co-investment. Yunji said that this round of financing would be used to further integrate its upstream supply chain, improve AI big data infrastructure and enhance logistics & warehousing capacity of each region. Exhibit 7 shows the financing rounds of Yunji.

Exhibit 7: Financing rounds of Yunji, as of December 2018

Series	Date	Amount	Investors
A	8 December, 2016	US\$36.1 million	Crescent Point Capital, Eastern Bell Venture Capital
B	23 April, 2018	US\$120 million	CDH Investments, Huaxing Capital Partners

Source: Yunji, compiled by Fung Business Intelligence

Yunji signs cooperation agreement with various companies as sourcing partners

During the 2018 China International Import Expo in November 2018, Yunji signed agreement of purchase intent with several overseas brands including Nestlé, LG, Nittaya, with total sourcing value of around 5 billion yuan⁵. In December 2018, Yunji signed a cooperation agreement with Kotemein International Biotechnology Co., Ltd. to source products including facial masks worthing 200 million yuan⁶.

Yunji cooperates with technology companies to upgrade services

In October 2018, Yunji signed an agreement with Alibaba Cloud. Yunji leverages Alibaba Cloud to upgrade its services in areas including logistics, warehousing, customer services and database⁷. Earlier in May 2018, Yunji partnered with Geek+, a domestic logistics company which focuses on advanced robotics and AI technologies, to explore smart logistics and enhance warehousing system. Yunji has used robotics and AI in its smart warehouses to improve production efficiency. Productivity per worker has reportedly increased significantly – from handling 150 parcels per hour to 350 parcels per hour.

Comments from Fung Business Intelligence

Yunji maintains high control along the supply chain and provides one-stop services to consumers

Yunji sources directly from suppliers and brand owners, as well as authorized agents or distributors to ensure products are authentic, and are sold at lower prices. It also has a number of good quality and value-for-money private label brands which are unique to the market. It can attract “diamond members” to set up micro-stores on Yunji by providing them wide product choices so that they have the incentive to share with their social contacts to earn commissions.

Besides cooperating with suppliers and brand owners to ensure stable supply of products, Yunji also provides all-rounded solutions including logistics, IT support, training and consumer services to its members/ consumers, allowing them to set up micro-stores on Yunji and share products to their social contacts easily. Yunji closely monitors the supply chain activities to ensure service quality. However, Yunji outsources some of the processes such as customer services and logistics services to third-party companies. The business of Yunji would be affected if these third-party companies fail to provide good-quality services.

Yunji can increase membership base and build customer loyalty quickly; yet, growth of business depends on its ability to maintain and increase member numbers

Membership is one of the most valuable resources in today’s businesses. Yunji demonstrates high potential in its membership system. It can reach out to large group of target consumers via its diamond members (micro-store owners). In 2018, 66.4% of Yunji’s GMV were made by diamond members. Also, the repurchasing rate of its diamond members was very high, at over 93%. High customer loyalty in Yunji makes it unique among other e-commerce players.

However, future business success depends heavily on the ability of Yunji to retain members and expand its membership. If its current members shift to other platforms, Yunji would lose its competitive advantages. Moreover, it mainly uses WeChat, QQ and Weibo to promote its product. The effectiveness of reaching consumers may be affected if consumers start to feel frustrated reading selling posts from their friends on these social media platforms.

Financial challenges remain one of the major problems for Yunji

Although Yunji has reported high growth in terms of GMV, number of buyers and members, the company is still operating at a loss. Some product categories have low profit margins as Yunji usually offer big discounts to members. High warehousing and fulfillment costs as well as marketing costs also lead to reduced margins.

Regulations on social commerce may change in the future

The Chinese government is strictly regulating pyramid selling, or multi-level direct selling in China. In the early days, Yunji adopted a multi-level direct selling model which violated the *Regulations on the Prohibition of Pyramid Selling* and was fined 9.6 million yuan in 2017. It then readjusted its business model to comply with the laws and regulations in China. However, new laws, regulations or policies may change anytime, and there is no assurance that Yunji's current business model will be in full compliance with the future laws, regulations or policies. If Yunji's business model were found to be in violation of future laws, they will have to make adjustment to their business model or cease certain business operations, and that relevant governmental authorities may confiscate any illegal gains and impose a fine, which would have a material and adverse impact on Yunji's business.

E-commerce law lacks detailed implementation rules on social selling

China's first E-commerce Law was passed in August 2018 and took effect on 1 January, 2019. The scope of the Law is broad, encompassing different aspects of e-commerce. That said, there are no detailed implementation rules on social selling. It is expected that the government will continue to impose tight control on online businesses, especially social selling, which may affect the business of Yunji.

Competition in social commerce sector becomes more intense

Social commerce is trending in China and the sector is more competitive than ever. Besides the fast-growing Pinduoduo, other players such as Alibaba, JD.com, Suning, Gome, and other supermarket retailers such as Yonghui and Suguo are tapping the social commerce sector. To stay relevant, Yunji needs to devise strategies that could attract and retain members while encouraging them to sell more (share more) and recruit more new consumers.

SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none">• Large membership base• Has a large network of suppliers• Low cost of acquiring new users• Repurchasing rate of members is high• High customer loyalty	<ul style="list-style-type: none">• Limited SKUs• Low profit margin• Relies mainly on members to generate revenue• Yunji's pyramid-selling nature is still deep-rooted in people's minds
Opportunities	Threats
<ul style="list-style-type: none">• Social commerce is gaining popularity in China; increasing numbers of consumers like to sell and shop in social commerce app	<ul style="list-style-type: none">• May lose market share and users if competition intensifies• May fail to recruit and retain members if other competitors offer better prices/ commissions/ services• Government may change regulations on social commerce which may affect the business of Yunji

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