



DR2 CONSULTANTS

international business relations



White Paper

The Rise of Live Commerce
in China,
how will the West follow?

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BACKGROUND

Does home shopping from the television still ring a bell? Maybe only for some of you. Even though it may seem like quite a while ago and for newer generations probably something completely foreign, the home shopping channels industry was a multibillion-dollar business.

By 2014, China hosted a staggering 39 home shopping television networks, including 11 with a national license to broadcast all over the country. Even now you probably will be able to encounter a lost episode of home shopping on the traditional television. However, it has become a fossil formula already... Or has it not?

With the rapid development of the internet and streaming services, traditional television has become more or less obsolete. In addition, all the ecommerce developments have provided platforms for a lot of new digital trends to come into existence to replace the initial forms of home shopping.

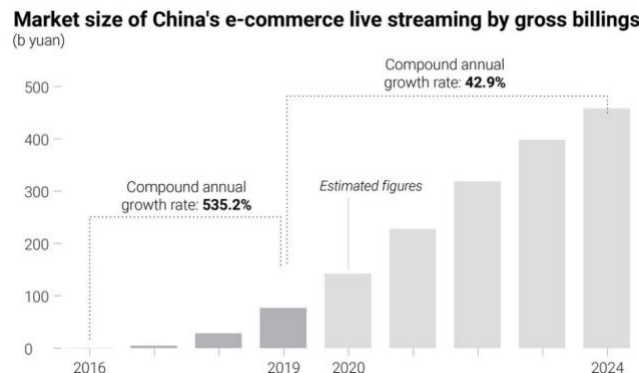
‘Live Commerce = E-commerce / Social commerce + Live Streaming’

Live Commerce, which is using live broadcasting within the current e-commerce / social commerce platforms, is one of the recent digital trends that have developed rapidly in recent years. But is this trend actually completely new? One may argue it resembles the traditional home shopping channels quite a lot in the e-commerce landscape of that time. It is definitely a development that sees a more integrated fit into the current digital landscape¹.

¹ <https://www.chinabusinessreview.com/home-shopping-in-china/>

DEVELOPMENT

Live broadcasting or streaming functionalities have existed in big e-commerce platforms such as Taobao or Tmall for quite some years but have seen a rapid rise in usage in recent years.



Source: 'E-commerce live streaming growth in China' by Frost & Sullivan/SCMP

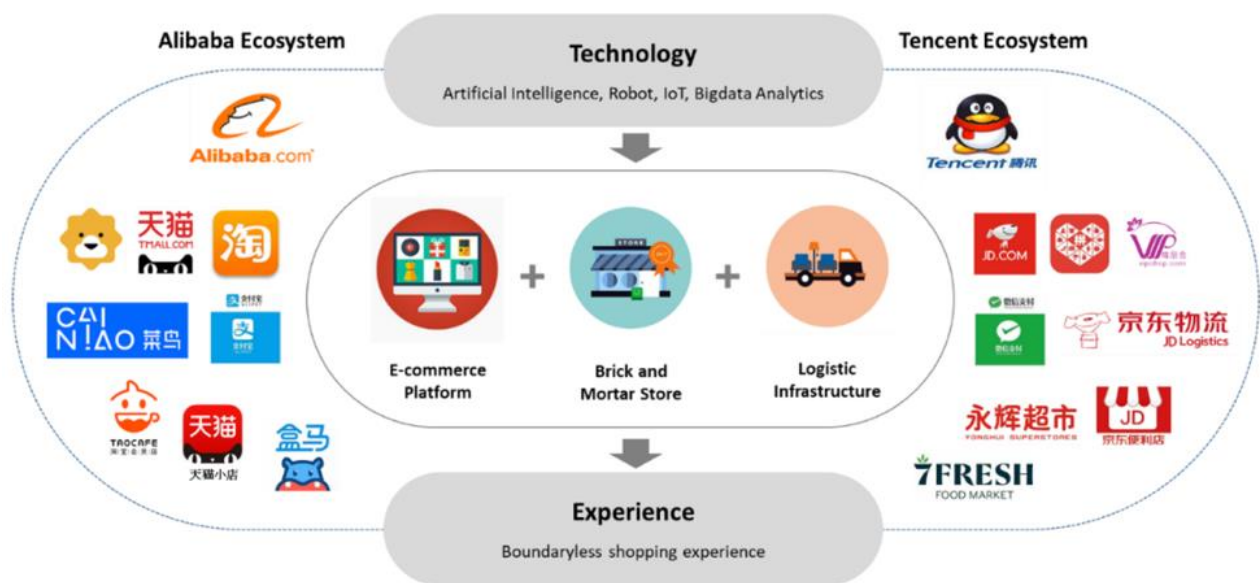
In 2018 the live streaming industry was estimated at USD 4.4 billion, with over 459 million viewers that constituted for a 37% growth rate to the previous year (Vogue China). In 2019 the value of the business increased by a factor of 15 - USD 66 million! (iResearch). The first half of 2020 saw 10 million live streaming session being hosted with 560 million viewers - which is more than the total viewers of the whole year in 2018! (China Internet Network Information Center).



Of course, especially in the last year Covid-19 has played a significant role in this rapid rise. It has provided (retail-)industries in China with a much-needed development to provide a boost for their business. Lockdown measures dictated the closure of the brick-and-mortar shops; for examples Burberry closing 24 of its 64 stores and Nike closing 50% of their owned stores. Although having online sales channels already set-in place, a new development to help boost sales was a welcomed one, with Burberry inviting a KOL Yvonne Ching to livestream directly from the closed Jing'an store, resulting in over 1.4 million views and only taking an hour to sell most featured products. On top of that it has proven to be a necessary platform for top global influencers to sell into the Chinese market (CNN Business).

Platform Integrations

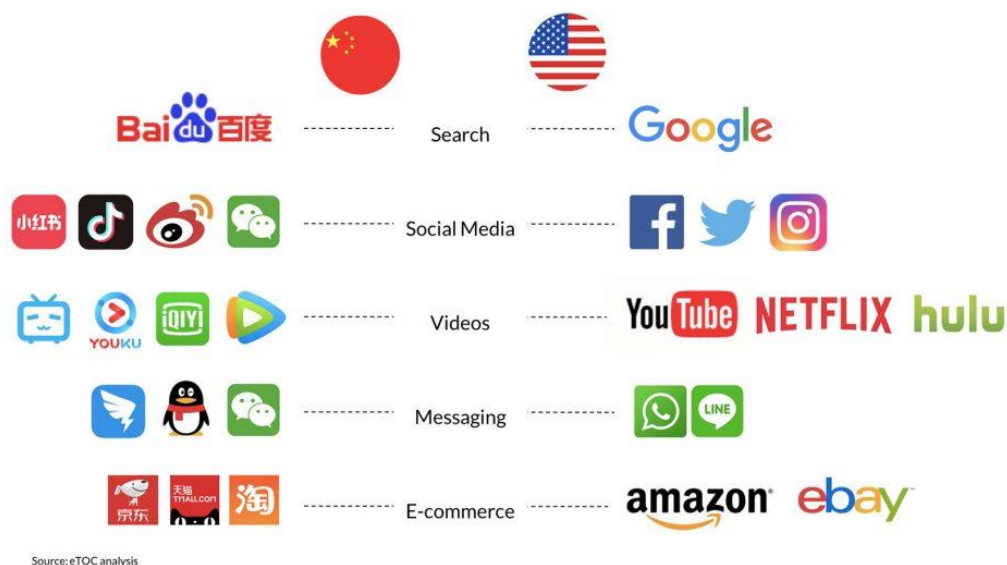
Another reason why live commerce has been able to develop so quickly, is because of the developments of the functionality over the different digital platforms and the integration with mobile social platforms.



In China, there is a fine line in how to define the use of specific digital platforms or how to classify them. Tencent which hosts WeChat, is a lifestyle infrastructure app - similar to what Jack Ma's empire is built upon; the Alipay and Taobao/Tmall lifestyle infrastructure. Everyday life without these infrastructures is unthinkable, as you use it to take a rent-a-bike, use the subway or cab, pay your utility bills, any online or offline purchases, book train & flight tickets, make hotel reservations, basically pretty much everything. On top of that, during this Covid-19 are we live in, the embedded health code is already unmissable.

And although these big competitors make it more difficult to integrate its services directly over the two infrastructures, there are still ways to use certain features to drive traffic to where you want to. This has also influenced the developments in live streaming, as these infrastructures provide live streaming functionality themselves and also the integration of other live streaming applications. So the threshold for people to get into livestreaming is a lot lower.

In a feeble attempt of such classification, all be it in a simplified manner, we can see the major e-commerce platforms in Taobao/Tmall (Alibaba), JD.com, PinDuoDuo, Kuaishou; the social & entertainment platforms in WeChat, Weibo, Xiao Hongshu, Bilibili, Douyin (TikTok); and for example the gaming platforms in Huya, Douyu.



In the clutter of all these different platforms that probably have some overlap in terms of functionality and use, the amazing thing is how the different platforms can be integrated and/or embedded links can be inserted for smooth transition. For example, the most normal integration is a live streaming on Douyin, or some KOL post on Xiao Hongshu, with direct links to a product page on Tmall on which you'll be able to purchase. Usually the transition is so smooth, you wouldn't even notice the switch between platforms (of course partly would be attributed to the mobile device OS - that taken aside, in some parts of the world we are still deciding on a desktop device between having another browser window open up or not when it comes to linking ...).

KOLs & KOCs



Picture KOL Austin

Now the development of live commerce didn't happen just because of the live streaming functionality and the cross-platform integrations alone. Without having the right person in front of the camera, saying the right things with the right number of products and discounts - the whole development of live commerce would probably be less high profile.

Of course, Key Opinion Leaders, how we like to brand these people, are needed to make a significant impact on your sales. But as this trend has become overly popular, the likes of Austin and Viya (Top 2 KOL celebrities that 'can sell anything') can run you up to significant costs for just a couple of minutes. (Top Voice) In answer of this development, the existence of Key Opinion Customers came into existence. It has created a lower threshold to making a living out at voicing an 'expert' opinion about products.

KOL	Fans (10K)	Influence Index	Category	KOL	Fans (10K)	Influence Index	Category
李佳琦Austin	2056.20	908 分	All	六公主	306.83	697分	Fashion/Beauty
薇娅viya	1643.49	858分	All	陈洁kiki	240.36	850分	Fashion/Beauty
张大奕eve	1121.17	766 分	Fashion/Beauty	ashui-AS	239.78	820分	Fashion/Beauty
赵大嘉daxi	1041.07	826分	Fashion/Beauty	李湘	225.86	780 分	All
于momo小饺子	926.53	812 分	Fashion/Beauty	张沫凡MOMO	195.23	770分	Fashion/Beauty
Lin张林超	549.35	832 分	Fashion/Beauty	小侨Jofay	190.07	801分	Food
安安anan	420.15	722分	Fashion/Beauty	雪欧尼Tiffany	190.06	872分	Fashion/Beauty
滕雨佳Amiu	381.82	854分	Fashion/Beauty	祖艾妈	187.80	774分	Mom/Baby
烈儿宝贝	361.83	813分	Fashion/Beauty	柔柔家柔柔	182.78	729分	Fashion/Beauty
余潇潇jessica	319.66	809 分	Fashion/Beauty	JUICY-WANG	174.70	815 分	Fashion/Beauty

Source: Kungfu Data

In fairness, even without these high profile KOLs or KOCs, in certain industries the use of live streaming by ‘normal’ people can already provide a new channel to boost sales that otherwise were not possible before. Think about farms in the outskirts of China that would not be able to reach an audience directly on the other side of town, let alone another side of China. During the China lockdown in January 2020, farms piled up with fresh produce. Pinduoduo helped by setting up a dedicated portal through livestreaming. Coaching was provided for the farmers so they could understand the basics and in the end resulting in 35,000 livestreaming channel that received 27.5 million orders selling over 120,000 tons of fresh produce in the first five weeks! (Pinduoduo Global Stories)

‘Pinduoduo further collaborated with the government of Hubei province, the hardest-hit area, to extend the initiative to 500 farmers two months later. As of May 2020, the nationwide programme had reached out to 180,000 farmers from nearly 400 agricultural regions, including 230 poverty-stricken counties that needed help most.’²

² <https://stories.pinduoduo-global.com/articles/pinduoduo-empowering-farmers-with-an-e-commerce-platform>

CHALLENGES OF LIVESTREAMING

Of course it will be very important to take into account to avoid violating consumer rights. On November 6th, 2020 the China Consumers Association drafted and issued a paper 'The Seven Types of Livestreaming Sales that Violate Consumer Rights';

1. False advertising
2. No return/Exchange policy
3. Prohibited products
4. Special links
5. Off-site transactions
6. Superlatives
7. Illegal content

It aims to warn consumers about the product quality and authenticity. For example Li Jiaqi's livestreams received complaints for not allowing consumers to return the products. Wang Han, a host on Hunan TV, was accused of being involved in creating fraudulent sales revenue, and Li Xueqin, a newly rising influencer known for a variety talk show, for using bots during her livestream.³

Government regulations

The Chinese government is eager to move the livestreaming sector into a more mature phase. While recognizing the huge potential of its contribution to the economy (being a 'live streamer' is now an officially recognized profession, with education being funded for learning skills in this field), at the end of 2020 President Xi has issued new regulations to protect consumers and retailers against fraudulent entrepreneurs. In order to create more transparency, a few rules are especially key⁴:

- All platforms need to adhere to the right direction of prioritizing the socially beneficial, actively spread positive energy, depict truth, goodness and beauty, focus on generating a healthy spirit and promote clarity
- Companies need to develop new technical abilities to boost good and punish bad content
- Companies must actively research and promote new ways to propagate positive content and ensure it is well-positioned and gets good traffic

³ <https://m.i21st.cn/translate/27187.html>

⁴ http://www.gov.cn/zhengce/zhengceku/2020-11/23/content_5563592.htm

More recently, on March 15 new rules regarding the responsibilities of platform companies have been released⁵;

- Platforms cannot force exclusivity from merchants through suppressing product listings, taking online stores offline, and/or by raising fees
- Platforms cannot force logistics operators and/or other support service providers to merchants
- Platforms have to ban misleading practices that display wrong selling volume, traffic data, and/or promoting favorable reviews
- Platforms need to perform due diligence on the information submitted by merchants and provide transparency about merchants' identities to the market regulator twice a year

Do's and Don'ts

In the equation of Live Commerce, the live streaming part should be seen as another part of the omni-channel marketing approach that is needed to succeed in China. Just blindly focusing on doing a live streaming event, could potentially get you some short-term gains, but it could also damage your brand if you do not have everything carefully thought out.

A lot of established Western brands often think that the Chinese market is so big it will be easy to sell into considering they have such a well-known brand. But things are changing, let's look at cosmetics, in 2012 only 2 of the top 20 brands were Chinese, in 2020 that increased to 10⁶. Although the Chinese customers still value quality Western brands, it is however necessary to appeal to them by adjusting or 'localizing' your message and offering for them. It's very difficult to create brand awareness that will last, as customers easily switch between brands, but very easy to damage your brand. Global brands have suffered from using wrong local adaptations to speak to the Chinese consumer; for example Victoria's secret using traditional Chinese elements to pair with lingerie⁷, Louis Vuitton, Piaget, and Nike all trying to incorporate traditional Chinese elements inspired by the Year of the Monkey, that stirred online ridicule by netizens⁸

So having an e-commerce strategy is vital in order to succeed. To that extent using KOLs/KOCs for example with your livestreaming efforts will only be feasible or sustainable if it fits the right event in the right overall strategy. The costs related to over using high profile KOLs/KOCs will outweigh the benefits.

In essence, building up a community of followers for your brand is worth more over time compared to the one-time live streaming event investment you may be thinking about to boost short-term sales figures.

⁵ http://www.gov.cn/zhengce/zhengceku/2021-03/16/content_5593226.htm

⁶ Kungfu Data

⁷ <https://jingdaily.com/how-chinese-consumers-reacted-to-dragons-on-the-runway-at-the-victorias-secret-fashion-show/>

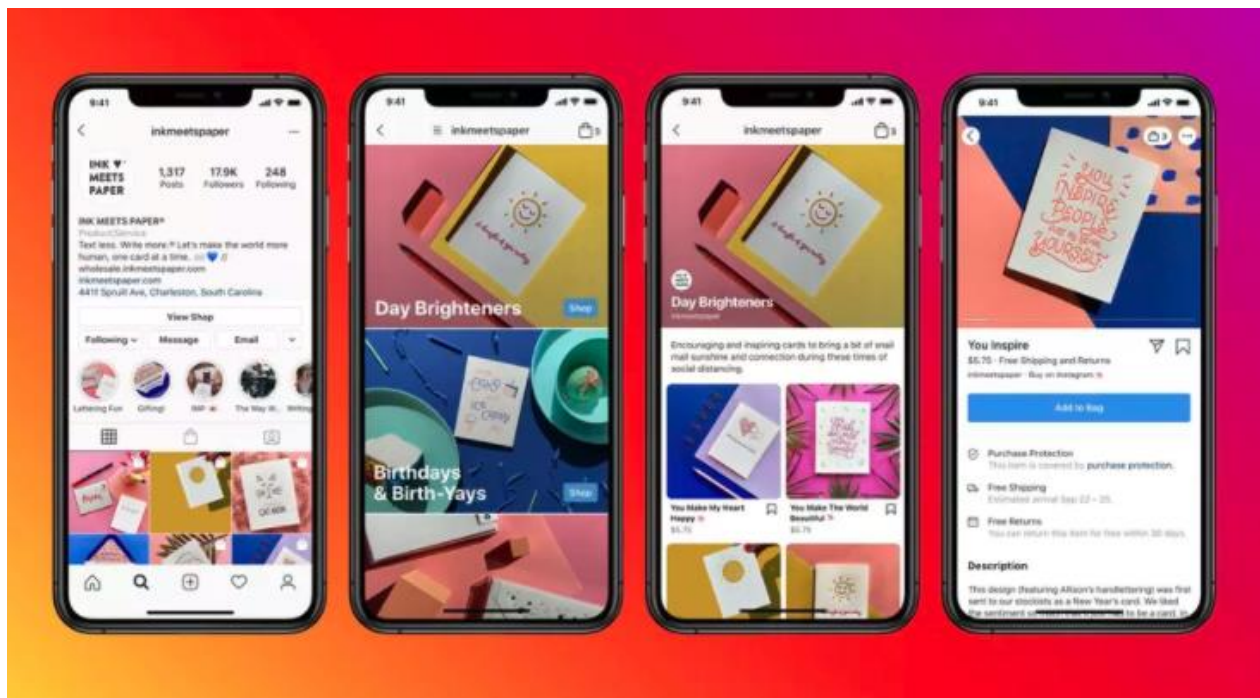
⁸ http://www.chinadaily.com.cn/china/2016-01/15/content_23107998.htm

CONCLUSION

To conclude, there are a lot of things to take into account when it comes to using livestreaming for your E-commerce efforts but I believe that it will become an increasingly normal feature, even in Western markets. It will all come down to how you choose and are able to adapt to developments within this space.

Key Takeaways

- Cross-border platform integrations;
The developments of Live Commerce in China will definitely influence the West, as can be seen with Amazon providing more live streaming functionalities for example native in their platform, the likes of Facebook and YouTube adding E-commerce features. Other platforms such as Shopify are providing integration possibilities with livestreaming platforms such as Live Scale. At the moment the difference is that the classification of categorization of Western digital platforms is still quite clear. There is a specific use for a specific platform. The development of these platforms in becoming more of an integrated digital lifestyle infrastructure is still far behind.



This will also influence in how the developments in terms of cross-border integrations with the different digital platform will go. Another factor that is also slowing down this process, is the notion of data security in terms of mobile paying solutions, or the different perceptions and attitudes towards it.

Live streaming is set to become very popular globally but without understanding your audience, being able to provide the smooth customers experience, knowing what to do and say and more importantly what not to do and say, it will be difficult to reach numbers of growth similar to China when it comes to the impact on Live Commerce.

- Knowing your audience;

In China, you will be amazed how tech-savvy people are when it comes to using mobile digital platforms for E-commerce use. Especially during the pandemic, it saw a rise of 50+ people using more and more digital tools for their everyday habits such as grocery shopping. Of course, Millennials and The Gen Z consumer group is vital to take into account when thinking of the developments that E-commerce has made in China. Especially the role of millennials has been described in 'China's Connected Consumers', a study by KPMG and Mei.com from 2017. Looking forward, considering that Gen Z are becoming more of age, are usually well-educated, not afraid to speak out and have purchasing power, they will be a very important factor to become successful. Quality of life is becoming more and more important for this group, so luxury items as well as personal healthcare will have huge potential but also taking into account the matter of sustainability.

As consumer groups in China and other markets are fundamentally different, don't think a one size fits all approach will work. Whether we are talking about using live streaming tools in your domestic markets or whether you are trying to sell into the Chinese market, make sure you know your target audience.

- E-commerce strategy;

Making sure that livestreaming is part of your overall e-commerce strategy. As the Chinese market is becoming increasingly competitive, navigating through it will require a long-term e-commerce strategy. As mentioned before, having an e-commerce strategy is vital in order to succeed. To that extent using KOLs/KOCs with your livestreaming efforts will only be feasible or sustainable if it fits the right event in the right overall strategy. The costs related to over using high profile KOLs/KOCs will outweigh the benefits.

- Monitor regulations;

As livestreaming will be subject to a lot of data privacy laws depending on where you are, taking into considerations GDPR and/or other data privacy laws will be very important. As the rapid developments with social commerce will increasing push authorities to regulate the industry and protect consumers, keeping an eye on these policy developments is a must in order to make sure you can run a sustainable long-term strategy.

ABOUT THE AUTHOR

Li-Xiong Chu, or in short Li, is based at the Dr2 Consultants Shanghai office as a Senior Advisor. He has Chinese roots but is born, raised and educated in The Netherlands. Graduated as MSc. in International Management from the Erasmus University Rotterdam, including an exchange program with the University of Manchester, UK.

Having worked and lived in Shanghai for the past 10 years, he understands the cultural differences you need to overcome in doing cross border business. Prior to joining the Dr2 team in Shanghai, Li was an Account Director at a well-established branding agency, servicing mostly MNCs in his portfolio of clients focusing on digital marketing.

If you would like to know more on the topic of Live Commerce or anything else, please feel free to connect with Li, he can also subscribe you to the Dr2 Monthly Newsflash, with important news about China and Europe:

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