WHERE TO PLAY
in a New Digital and eCommerce World

Whitepaper
eCommerce Size of Prize 2022: 18 Trillion CNY with 30% of total retail sales contribution

Source: National Bureau of Statistics, Kantar Consulting Analysis
Most FMCG and consumer health products continued high growth rate with only exception in Baby category.

Source: Kantar Consulting Data and Analysis
eCommerce takes 18% of FMCG total sales with various categories at different stage of development

Online Sales Percentage of Total FMCG Sales

Online Sales Contribution for Each Category (2017-2022E)

- Beverage: 2% → 10%
- Pet Products: 15% → 30%
- Foods: 20% → 30%
- Beauty and Personal Care: 25% → 40%
- House Cleansing: 25% → 40%
- Baby & Mums: 40% → 50%

Source: Kantar Consulting Analysis
Where the growth comes from?

01 Grow Shopper Penetration
- Young & Elder
- Female & Male
- High Tier & Lower Tier

02 New Business Model
- Cross Border eCommerce (CBEC)
- Social Commerce
- B2B
- O2O
- Go Abroad
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Digital and eCommerce quickly penetrate Chinese consumers across different age groups

<table>
<thead>
<tr>
<th>Age group</th>
<th>Internet penetration</th>
<th>Online shopper penetration</th>
<th># Online shopper</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 10</td>
<td>5% 13%</td>
<td>41% 65 Mn</td>
<td>/</td>
</tr>
<tr>
<td>10-19</td>
<td>74% 83%</td>
<td>99% 243 Mn</td>
<td>182 Mn</td>
</tr>
<tr>
<td>20-29</td>
<td>69% 73%</td>
<td>96% 182 Mn</td>
<td>182 Mn</td>
</tr>
<tr>
<td>30-39</td>
<td>28% 30%</td>
<td>54% 70 Mn</td>
<td>70 Mn</td>
</tr>
<tr>
<td>40-49</td>
<td>16% 19%</td>
<td>40% 18 Mn</td>
<td>18 Mn</td>
</tr>
<tr>
<td>50-59</td>
<td>4% 8%</td>
<td>32% 14 Mn</td>
<td>14 Mn</td>
</tr>
</tbody>
</table>

Source: National Bureau of Statistics of China, CNNIC, Kantar Consulting Analysis
Rapid consumption growth from elder people made giants take action

**Taobao in 2017**
- Number of elder users (>50) was nearly **30 mn**
- Average consumption was nearly **CNY 5,000 / year**
- Purchased **44 pieces** on average per year

**JD in 2017**
- Number of elder users (>60) grew by **60%**
- Consumption of elder people grew by **86%**
- Average spending of elder people was **1.3 times** higher than total average

**Launched on Feb. 1st, 2018**

- **Simplified Shopping Process and Elderly Centric Design**
  - **Simplified Interface**
    - Big Font Size & Concise Page
  - **Linked to Children Account**
    - Parent Order and Children Pay
  - **Special Offer**
    - Selected products and special discount

Source: Literature Research, Kantar Consulting Analysis
Male online shoppers’ proportion is also increasing across platforms.
Tier 3-5 cities have shown strong growth momentum and penetration growth potential.

<table>
<thead>
<tr>
<th>City Tier</th>
<th>Online Shopping Penetration (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1</td>
<td>87%</td>
</tr>
<tr>
<td>Tier 2</td>
<td>80%</td>
</tr>
<tr>
<td>Tier 3</td>
<td>72%</td>
</tr>
<tr>
<td>Tier 4</td>
<td>68%</td>
</tr>
<tr>
<td>Tier 5 &amp; Rural</td>
<td>45%</td>
</tr>
</tbody>
</table>

**National Avg. 73%**

Source: Kantar Consulting Analysis
“Small Town Youngsters” (小镇青年) as the key driver of lower tier eCommerce growth

18-30 years old
Living in tier 3-5 cities
Population: 212 Mn

Similar income level compared with Tier 2 Online Shopper

Monthly Income (CNY) Distribution of online shopper age between 18 and 30

- Above 10,000
- 5,000-7,999
- 8,000-9,999
- Below 5,000

<table>
<thead>
<tr>
<th>Tier</th>
<th>Tier 1</th>
<th>Tier 2</th>
<th>Tier 3-5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Above 10,000</td>
<td>52%</td>
<td>14%</td>
<td>20%</td>
</tr>
<tr>
<td>5,000-7,999</td>
<td>15%</td>
<td>35%</td>
<td>29%</td>
</tr>
<tr>
<td>8,000-9,999</td>
<td>20%</td>
<td>25%</td>
<td>30%</td>
</tr>
<tr>
<td>Below 5,000</td>
<td>13%</td>
<td>26%</td>
<td>21%</td>
</tr>
</tbody>
</table>

With much easier life

- 2-3 driving hours to tier 1&2 cities
- No housing loan, low living expenses, low working pressure
- More leisure time to consume and travel

Source: Questmobile, Survey data
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- Social Commerce
- B2B
- O2O
- Go Abroad
Alibaba and JD monopolize Traditional B2C China eCommerce but faced new competitors

China EC Sales Breakdown by Channel

<table>
<thead>
<tr>
<th>Year</th>
<th>B2C</th>
<th>C2C</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>56%</td>
<td>44%</td>
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<tr>
<td>2015</td>
<td>49%</td>
<td>51%</td>
</tr>
<tr>
<td>2016</td>
<td>45%</td>
<td>55%</td>
</tr>
<tr>
<td>2017</td>
<td>43%</td>
<td>57%</td>
</tr>
<tr>
<td>2018E</td>
<td>40%</td>
<td>60%</td>
</tr>
</tbody>
</table>

Major B2C eTailers Sales Breakdown

<table>
<thead>
<tr>
<th>eTailers</th>
<th>2018E Share</th>
<th>14-18E CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jumei</td>
<td>0.3%</td>
<td>+8%</td>
</tr>
<tr>
<td>Dangdang</td>
<td>0.3%</td>
<td>+3%</td>
</tr>
<tr>
<td>Amazon</td>
<td>0.4%</td>
<td>+5%</td>
</tr>
<tr>
<td>NetEase</td>
<td>0.9%</td>
<td>+252%</td>
</tr>
<tr>
<td>Gome</td>
<td>1.2%</td>
<td>+51%</td>
</tr>
<tr>
<td>VIP</td>
<td>1.8%</td>
<td>+42%</td>
</tr>
<tr>
<td>Suning</td>
<td>3.6%</td>
<td>+60%</td>
</tr>
<tr>
<td>PDD</td>
<td>7%</td>
<td>+442%</td>
</tr>
<tr>
<td>JD</td>
<td>24%</td>
<td>+52%</td>
</tr>
<tr>
<td>Tmall</td>
<td>51%</td>
<td>+36%</td>
</tr>
</tbody>
</table>

Note: *NetEase growth rate calculated as '15-'18 CAGR; PDD growth rate calculated as '16-'18 CAGR
Source: Kantar Consulting Analysis
New business model exploration by big eCommerce giants:

**Alibaba**
- Strengthen Core Business
- Expand Category Portfolio
- Explore Low Tier eCommerce
- New Retail
- New Market

**JD**
- Walmart
- 7FRESH
- JD CENTRAL
- Tiki.vn

**Other**
- Lazada
- Shopee
- Rakuten
- Tokopedia
- AliExpress
- JD.com
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China cross-border eCommerce to increase 4 times by 2022

**Import B2C Cross-Border eCommerce GMV**

- Unit: CNY, Billion
- CBEC GMV of Total Online Retail Sales

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</thead>
<tbody>
<tr>
<td></td>
<td>38</td>
<td>61</td>
<td>94</td>
<td>120</td>
<td>165</td>
<td>640</td>
</tr>
</tbody>
</table>

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**Chinese Cross-Border Online Shopper Population**

- Unit: Million
- CBEC Online Shopper Penetration

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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>15</td>
<td>23</td>
<td>41</td>
<td>65</td>
<td>88</td>
<td>193</td>
</tr>
</tbody>
</table>

Source: Kantar Consulting Research, Data & Analysis
Free Trade Zones and Pilot CBEC Cities have been further expanded to Western and Northern China in July 2018 as an encouraging signal.

**Pilot Cross-Border eCommerce Cities (2016)**

- Provinces of Pilot CBEC Cities

**2016**

- Total 15 cities

Fuzhou Pingtan Hangzhou Qingdao
Shenzhen Tianjin
Guangzhou Suzhou Hangzhou Ningbo
Shanghai Fuzhou Pingtan
Chengdu Zhengzhou
Chongqing Hefei

**Pilot Cross-Border eCommerce Cities (2018)**

- New Provinces of Pilot CBEC Cities

**2018**

- Total 37 cities

Shenyang Beijing Tangshan Weihai
Hohhot Harbin Changchun Shenyang
Lanzhou Xi’an
Wuhan Changsha
Xi’an Lanzhou
Nanjing Wuxi Yiwu Nanchang
Xiamen Dongguan Zhuhai
Nanning Haikou Guiyang Kunming
Guangzhou Nanning Yiwu
Shenzhen Hefei

Source: Kantar Consulting Research, Data & Analysis, Government Website
CBEC has shown obvious importance to certain categories already and grew shares across all-domestic EC.
International retailers and manufacturers are both aggressive towards CBEC opportunity, bringing new competition pressure.
For the same SKU, different pricing across different channels between Domestic and CBEC

- General Trade: ¥185
- Tmall Global Flagship: ¥175
- International Retailer: ¥139
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2 types of Social Commerce:

- **Group Purchase**
- **Social Promoter**
As a social sharing marketplace, the three y.o. PDD becomes the 3rd biggest B2C eTailer

**Business Model**

- **Self-run ➔ Marketplace**
  - Pinhaohuo (PHH, self-run business) & Pinduoduo (PDD, marketplace business) went online
  - PHH merged with PDD
  - Completely transited into PDD as a marketplace platform

**Social sharing encourages rapid growth**

- Encourage social media sharing for lower price
- 57% shoppers start to use PDD after receiving messages from WeChat group chat

**Business Scale**

<table>
<thead>
<tr>
<th>GMV (Unit: CNY, Billion)</th>
<th>Annual Active Shoppers</th>
</tr>
</thead>
<tbody>
<tr>
<td>4,751</td>
<td>515m</td>
</tr>
<tr>
<td>897</td>
<td>293m</td>
</tr>
<tr>
<td>141</td>
<td>245m</td>
</tr>
</tbody>
</table>

Source: Public financial release
Timing and the value-for-purchase goods contribute to PDD’s rapid expansion.

**Individual Merchants’ transition from Taobao to new Marketplace**
- 200k sellers left Taobao in 2015 due to quality control
- Juhuasuan was integrated to Tmall in 2016 – low priced group purchase no longer feasible

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**Lower priced smart phones and WeChat penetration**
- Enabled online purchase in lower tier cities

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**Easy to Operate: one-minute store opening on PDD**
- Easy online store opening by posting a product picture vs. Complex operation on Taobao/Tmall

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**Social networks generate low-cost organic traffic**
- Cost to acquire a new active shopper

| JD.COM | RMB 310 | RMB 225 | RMB 11 | VS. |
PDD’s current low-end positioning with copycat issues but high penetration of FMCG

Category penetration on PDD

<table>
<thead>
<tr>
<th>Category</th>
<th>Penetration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apparel</td>
<td>52%</td>
</tr>
<tr>
<td>Snacks</td>
<td>42%</td>
</tr>
<tr>
<td>Household goods</td>
<td>41%</td>
</tr>
<tr>
<td>Personal care</td>
<td>36%</td>
</tr>
<tr>
<td>Textile</td>
<td>35%</td>
</tr>
<tr>
<td>Sports &amp; outdoors</td>
<td>31%</td>
</tr>
<tr>
<td>Cosmetics</td>
<td>28%</td>
</tr>
<tr>
<td>Electronics</td>
<td>23%</td>
</tr>
<tr>
<td>Fresh food</td>
<td>20%</td>
</tr>
<tr>
<td>Mom and baby</td>
<td>18%</td>
</tr>
<tr>
<td>Dairy</td>
<td>17%</td>
</tr>
<tr>
<td>Oil &amp; instant food</td>
<td>16%</td>
</tr>
<tr>
<td>Instant drinks</td>
<td>16%</td>
</tr>
<tr>
<td>Drinks</td>
<td>16%</td>
</tr>
<tr>
<td>Car accessory</td>
<td>8%</td>
</tr>
<tr>
<td>Alcohol</td>
<td>5%</td>
</tr>
</tbody>
</table>

Basket size by platform

JD.COM

- Apparel: 52%
- Snacks: 42%
- Household goods: 41%
- Personal care: 36%
- Textile: 35%
- Sports & outdoors: 31%
- Cosmetics: 28%
- Electronics: 23%
- Fresh food: 20%
- Mom and baby: 18%
- Dairy: 17%
- Oil & instant food: 16%
- Instant drinks: 16%
- Drinks: 16%
- Car accessory: 8%
- Alcohol: 5%

Estimated based on each 2017 financial data

Copycat products as a big concern

Source: Alibaba, JD 2017 Financial Reports; PDD IPO
Kantar Consulting 2018 Online Shopper Survey - Q: Which product categories have you purchased on PDD before?
Brands start to open FS and officially manage business on PDD with product differentiation

**Differentiated product variants**

- **P&G**
  - Basic product variants
  - Value-centric products

- **Mondelez International**
  - Smaller bundle size with lower bundle price
  - More variants in a bundle

**Differentiated bundle offerings**

- 6 variants, 22 units in a bundle
  - Price: CNY 88

- 11 variants, 12 units in a bundle
  - Price: CNY 39

- **Basic product variants**
  - Bottled laundry detergent
  - Herbal natural soap

- **Basic soap**

- **Value-centric products**
  - Powder laundry detergent
  - Basic soap

- **Bottled laundry detergent**

- **Herbal natural soap**
Major eCommerce platforms have all launched group-purchase model to compete against PDD.
Yunji works directly with brands and fully leverages individual’s social power to promote its products.
Utilizing social network effect, Yunji is able to expand quickly and reaches out to more shoppers.

Fulfill requirements to be promoted

- **Shopper**
  - Purchase a CNY 398 product package

- **Service manager**
- **Sales manager**
- **Store owner**
  - Complete sales and other requirements to be promoted

Diagram:
- 33m Shopper
- 4.5m Shopper
- 30k Store owner
- 4k Sales manager
- Exploit social networking connections
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Traditional Trade, which is highly fragmented, still plays a vital role in lower tier city distribution

2018E Traditional Trade(TT) Store Count by Tier

- **Tier 1**
  - BJ SH GZ SZ
  - 0.47 million TT stores, **7%** of total

- **Tier 2**
  - Municipalities, Provincial Capitals, SEZs & Independently Planned Cities
  - 1.01 million TT stores, **16%** of total

- **Tier 3**
  - Other Prefecture-Level Cities
  - 1.60 million TT stores, **25%** of total

- County-Level Cities & Counties
  - 1.33 million TT stores, **21%** of total

- Towns & Rural Areas
  - 1.90 million TT stores, **30%** of total

Source: Kantar Consulting Analysis
Online B2B market presents a new way to transform our traditional RTM model

Challenges in Traditional RTM Model

- Manufacturer
- Distributors
- Sub-distributors
- Wholesalers
- Outlets

- Low distribution efficiency, esp. in lower tiers
- Lack of price control
- Untraceable commodity flow
- Challenging distributor management
- In lack of transparency in trade investment
- Lack of store level data

Value brought by B2B Model

- Manufacturer
- Distributors
- B2B
- Outlets

- Enhance availability in lower tier cities: 62%
- Minimize distribution complexities and lower cost: 54%
- Able to gain whole value chain data: 47%

% means number of manufacturers who started B2B would agree…
B2B gains popularity among store owners with positive feedback

**Online B2B Order Frequency**

- **2017**
  - Every 8 days

- **2018E**
  - Every 6 days
    - 4 times/month ➔ 5 times/month

**B2B Ticket Size**

- **2017**
  - 881 RMB
  - 10% of Total Order Value

- **2018E**
  - 1,200 RMB
  - 19% of Total Order Value

**Predictions**

- 74% would increase Frequency
- 70% would increase Ticket Size

*Source: Kantar Consulting Analysis*
Traditional trade stores evolve into modern grocery stores by B2B transformation

**Traditional GT**
- Traditional grocery store with limited assortment and inefficient operation

**New B2B Store**
1. Standardized retail banner
2. Renovated and modern layout
3. Improved assortment with internet products
4. Data management system and POS
5. Rich services available within Ali/JD ecosystem
6. Connect with delivery platforms to boost sell-out
B2B complements those brands without strong offline distribution, adding great pressure to big brands and required Designated B2B strategy.

Internet Brand Landing into Offline GT

Three Squirrel exclusive partnership with Alibaba

- Distribute exclusively on LST for 1 year
- Develop LST exclusive products
- Offer favorable traffic exposure on LST App in snacking category

CNY 15 million per month

Differentiated Portfolio & Tailored Activation

Special LST shelves in selected Tmall Stores

- Best selling segments from online
- Tailored for GT stores: smaller pack size for better trial and lower basket size
- On-going adjustment by store level performance

Detailed B2B Strategy called for Action

- Store Owner Demand Generation
- Portfolio Strategy
- Price Strategy
- Promotion Strategy
- B2B Online Perfect Store
- Store Owner CRM
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### O2O definition

<table>
<thead>
<tr>
<th>Online &amp; Offline</th>
<th>Offline to Online</th>
<th>Online to Offline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-run new retail store</td>
<td>Digitalizing physical store</td>
<td>Introducing online portfolio to offline for experience and consumer education</td>
</tr>
</tbody>
</table>

**Platform**

- Alibaba Group
- Tencent
- 7FRESH
- Walmart
- Vanguard
- Carrefour
- Walmart
- JD.com

**Offline Retail Partnership**

- BoxMart
- BOXmall
- SXIN<br>1小时送达
- SUNING<br>苏宁<br>Intime Retail
- 大润发<br>R-T Mart
- 百联集团<br>BAILIAN GROUP
- 綦泰商业<br>
- 新华都<br>- 三江<br>- 居然之家<br>- EasyHome
- 天猫快闪店

**Online to Offline**

- 京东
- 美团
Retail revolution in new retail context

- Traditional RTM
- New RTM B2B
- New Digital Activation Platform O2O
Channel is not separating shoppers and instead they connect shoppers

**Multi-channel**

- All Channels
- No Integration

**Omni-channel**

- All Channels
- Points of connection

**Channel-less**

- Fully integrated platform
Multiple retailers’ digital screens to manage to win omni-channel retailing
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Go Abroad
Untapped eCommerce Opportunities in SEA

Strong GDP Growth
by 5.5% Annually

Mobile-First Internet
260 mn Internet user, 90% with mobile

Encourage Internet start-ups
7,000 start-ups in the region

Large Population
560 mn in SEA*

Rising adoption of online shopping

Booming Digital Consumer
16-17 GR: 50%

2017 SEA eCommerce Size
11 Billion USD

Unsaturated eCommerce
Only 3% Online Retail Sales Contribution with 41% CAGR

* SEA refers to Southeast Asia
Alibaba, JD and Tencent’s footprint in SEA

**Establishment**

- **Alibaba Group**
  - LAZADA
    - Effortless Shopping
    - #1 B2C giant across SEA
  - tokopedia
    - #1 C2C platform in ID
  - 86% held by Alibaba

**Investment**

- **JD.com**
  - JD.ID
    - Golden Shopping
    - JD Indonesia Online Retail Site
  - TIKI.VN
    - #3 Retail Platform in VN
  - To be launched

**Partnership**

- **Tencent**
  - Shopee
    - #2 B2C giant across SEA
  - CENTRAL Group
    - JD CENTRAL
    - #3 Retail Platform in VN
    - To be launched
“We hope that we can change from “Made in China” to “Create in China” and hope to go abroad with manufacturers to make product available around the world”

- Director of Tmall Oversea
Where you want to play?
Highly dynamic and evolving China eCommerce market landscape

<table>
<thead>
<tr>
<th>C2C</th>
<th>Domestic EC</th>
<th>Cross Border EC</th>
<th>Social EC</th>
<th>O2O</th>
<th>B2B</th>
<th>Overseas Commerce</th>
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<td>C2C</td>
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<td>Marketplace</td>
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<tr>
<td>Pure Player</td>
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<td>Bricks &amp; Clicks</td>
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<tr>
<td>Category Specialists</td>
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Source: Kantar Consulting Data and Analysis
Business Model Transformation

Where to Play (short-term vs. long-term)

Role of the channel
THANK YOU!

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