

CHINA'S LIVE COMMERCE MARKET EXPANDING

Mie Takahashi
Asia, China & Oceania Dept.
Mitsui & Co. Global Strategic Studies Institute

SUMMARY

- The live commerce market in China doubled from 2019 to 900 billion yuan by the end of 2020. Its share of total online retail sales is also estimated to rise from 5% in 2019 to about 10% by the end of 2020 and expand to 15% in 2021.
- The high entertainment value of live-streaming hosts' performance and sense of reliability given through recognizing the faces of the producers or communicating with them in real time attract consumers. Live commerce also benefits sellers by allowing them to sell their products in various *locations*. These factors enable the live commerce to expand in the market.
- Further diversification of sellers and buyers can be expected in the future along with the of digital technologies advancement. Points to watch include catering to new lifestyle needs, market entry from overseas, and expanding sales methods to other countries.

1. CURRENT STATE OF LIVE COMMERCE IN CHINA

1-1. Definition of live commerce

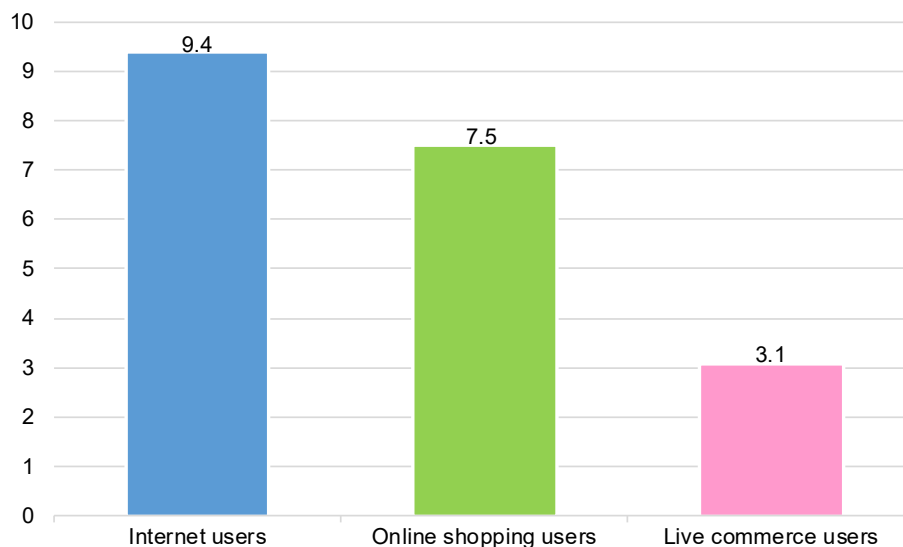
Live commerce is the method of introducing and selling products and services during a live stream, or live video broadcast on the Internet. Conventional Internet retailing only allowed consumers to see the product description, evaluation, and confirmation on the Internet. In contrast, live commerce provides easy-to-understand live explanations about the products or services. Consumers can not only check the products and services up close through the videos but also ask the sellers questions and discuss with them in real time. Live commerce has made the buying experience enjoyable for consumers by enabling real-time communication between sellers and buyers. At the same time, it is a new form of e-commerce (EC) that can help convert live stream viewers, who are potential customers, into live commerce users. Although live selling is also carried out through dedicated home shopping channels on cable TV and other methods, this report focuses on what is called "live commerce" (直播電商), which is growing at a remarkable pace in China.

1-2. Market size

As the COVID-19 pandemic has boosted consumers' "stay-at-home" demand, the number of live commerce users in China has increased significantly since the beginning of 2020. As compared to the end of March, the number of users surged by 44 million by the end of June, reaching roughly 310 million. This amounts to over 30% of all Internet users (about 940 million people) and more than 40% of online shopping users (about 750 million people) in China (Figure 1). A report by People's Daily estimates that the number of live commerce users in China will surpass 500 million by the end of 2020.

Figure 1. Number of users of the Internet, online shopping, and live commerce in China (as of the end of June 2020)

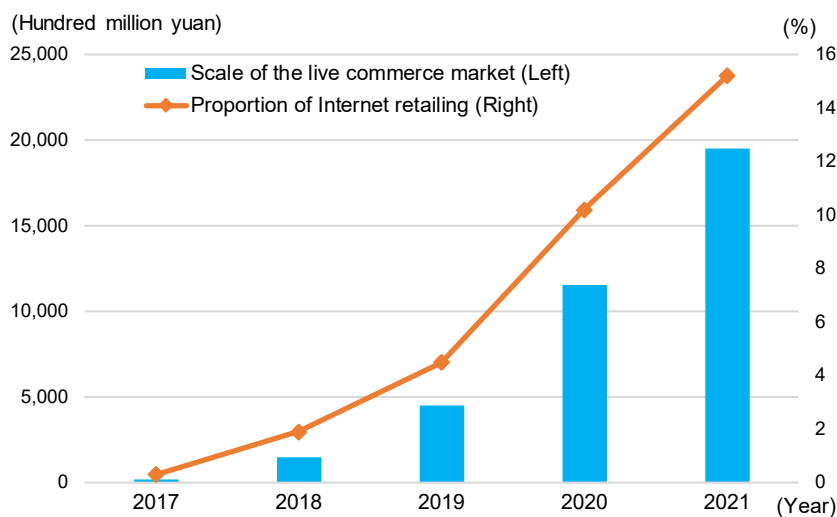
(Hundred million people)



Source: Prepared by MGSSI based on CNNIC's 46th Statistical Report on Internet Development in China

Along with this increase in users, the live commerce market in China is expected to at least double from 2019, to reach 900 billion yuan or about 14 trillion yen (iiMedia Research). Live commerce accounted for 5% of the total Internet retail sales in 2019, and that proportion is estimated to reach about 10% by the end of 2020, further expanding to 15% in 2021 (Figure 2).

Figure2. China's expanding live commerce market



Source: Prepared by MGSSI based on China Live Commerce 2020 by iResearch

In contrast, when it comes to TV-based shopping, which is popular in Japan and western countries, the number of Chinese users was only 5.9% (about 82 million people) of the country's total population. The total sales from TV-based shopping stand at a mere 0.1% (about 36.3 billion yuan) of the total retail sales in the country (2017). One of the reasons is that conducting a TV-based shopping business in China requires a license issued by the National Radio and Television Administration. Even TV-based shopping channels are diversifying their ways of reaching consumers, such as broadcasting program videos on the Internet, but most of the sales currently come from television. To consumers in China, TV-based shopping appears to be selling products through one-sided and excessive promotion, which may also be hindering the growth of the market.

1-3. Characteristics of product groups and their selling methods

The products that sell the most through live commerce in China include clothes and fashion goods, cosmetics, fresh foods, daily essentials, home appliances, and interior goods (Figure 3). Explaining these products more clearly through live streams helps make their characteristics and other details more real to consumers, thereby stimulating their desire to buy. For example, when live-streaming a presentation of products such as clothes, fashion goods, cosmetics, and home appliances, the live commerce seller or live-streaming host actually tries on the clothes or demonstrates products such as cosmetics or home appliances on the spot. For food products, it is possible to directly explain points of high interest to consumers, such as ingredients, place of production, and freshness. In other words, live commerce has the power to help the consumers experience and understand the products more closely. Therefore, it is advantageous to products that have a high *experience and understanding* appeal to consumers .

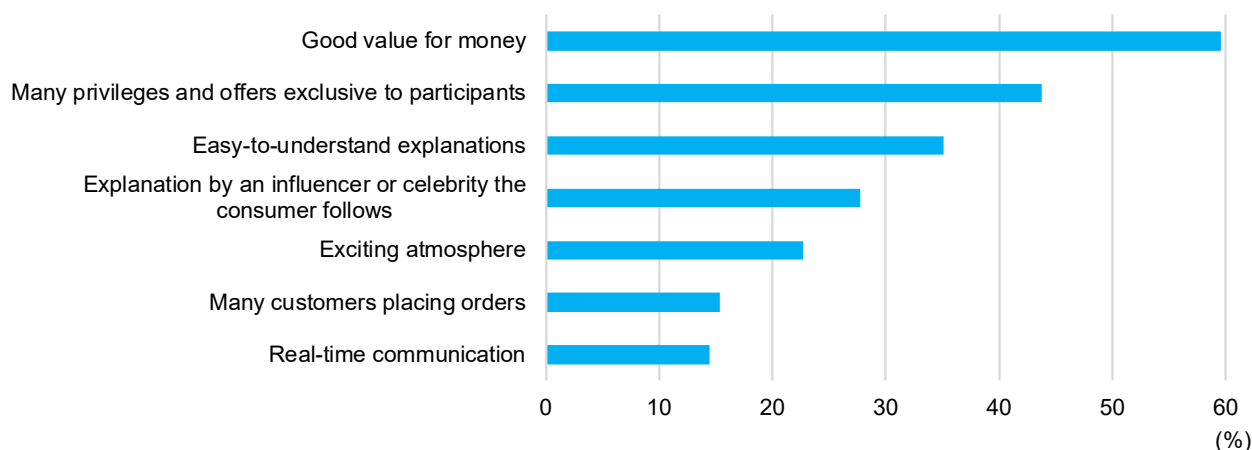
Figure 3. Examples of best selling products on live commerce and their sales

Product	Examples:
Clothes and fashion	<ul style="list-style-type: none"> • Thousands of clothing items sold in two hours of live streams • 440,000 viewers for a live stream by a shoes manufacturer, sales doubled
Cosmetics	<ul style="list-style-type: none"> • Skin care products by a company that suspended store sales due to the COVID-19 pandemic reached a sales of 2 million yuan in two hours of live broadcast • A cosmetics brand that used an influencer sold 100,000 units in 5 minutes, achieving sales worth about 7 million yuan
Fresh/food products	<ul style="list-style-type: none"> • Sales doubled for sweets, lactic acid beverage, instant food, snacks, alcohol, and agricultural products (fresh vegetables and fruits, dried fruits, specialty products)
Daily essentials	<ul style="list-style-type: none"> • Sales strong for tooth powder, tooth brushes, razors, and children's goods (milk, diapers) • 4.57 million people viewed live stream of milk for children and sales exceeded 10 million yuan
Home appliances and interior goods	<ul style="list-style-type: none"> • Sale strong for cleaning robots, blenders, air purifiers, television sets, washing machines, air conditioners, and other home appliances as well as furniture

Source: Prepared by MGSSI based on Tencent/Baidu reports

As explained later, live commerce is characterized by the live-streaming host's own attractiveness and the staging of products, making it much more entertaining than conventional Internet retailing. Even a live commerce consumer survey (Figure 4) conducted by the China Consumers Association shows that respondents cited "the exciting atmosphere" and "many customers placing orders" as the reason for becoming users. It was found that some consumers initially intended to just watch the live stream, but while watching, they became interested in the product and ended up buying it. Users first enjoy the live video itself from the perspective of a viewer, which eventually leads them to purchase the products. This is an excellent EC method of converting viewers directly into consumers.

Figure4. Reasons for becoming a live commerce user



Source: Prepared by MGSSI based on the online survey on live commerce consumer satisfaction level by China Consumers Association

2. WHY LIVE COMMERCE HAS EXPANDED IN CHINA

As mentioned above, a large part of the rapid increase in the live commerce market in 2020 can be attributed to the demand generated by people staying at home amid the COVID-19 pandemic. However, in general, Internet retailing has a price advantage in products and services because it can keep tenant costs, intermediate distribution costs, and other expenses lower than physical stores or TV-based shopping. A live commerce consumer satisfaction survey also shows that among the main reasons for using live commerce are “good value for money” and “many privileges and offers exclusive to participants.” Additionally, live commerce can also be said to be gaining acceptance not only among consumers but also sellers because of the following characteristics.

2-1. Enjoyable shopping experience through entertainment created by live-streaming hosts

A live commerce session requires a live-streaming host who explains the product or service live, as well as a live streaming platform. The host not only introduces the product to consumers, but also responds to chat messages from them in real time and gives instant demonstrations by their request, making the shopping experience enjoyable for them.

For this reason, live commerce with famous entrepreneurs, who have an influence on consumers, or with celebrities and influencers, have high selling power because they can convert viewers and fans into buyers. For instance, Viya, a top live commerce influencer, is known as the “queen of live selling” as she achieved roughly 300 million yuan sales in two hours. She is followed by Li Jiaqi, dubbed the “prince of lipstick” for selling a record 15,000 lipsticks in five minutes (Figure 5). However, even though celebrities and influencers boost the selling power of live commerce, the cost is also an issue. Therefore, most live streams in China are self-hosted by the store manager or staff, or the producer. Nearly 70% of live streams on Taobao Live fall in this category. Although they do not have as much influence as celebrities or influencers, consumers trust them because of their vast knowledge about the product. Watching videos on social media sites is a daily activity for consumers in China, and the COVID-19 pandemic has brought a drastic increase in the viewing opportunities. It seems that live-streaming entertaining experience offered by hosts to the viewers turned them into live commerce users.

**Figure 5. Top 10 live commerce influencers
(In the order of total monthly sales for August 2020)**

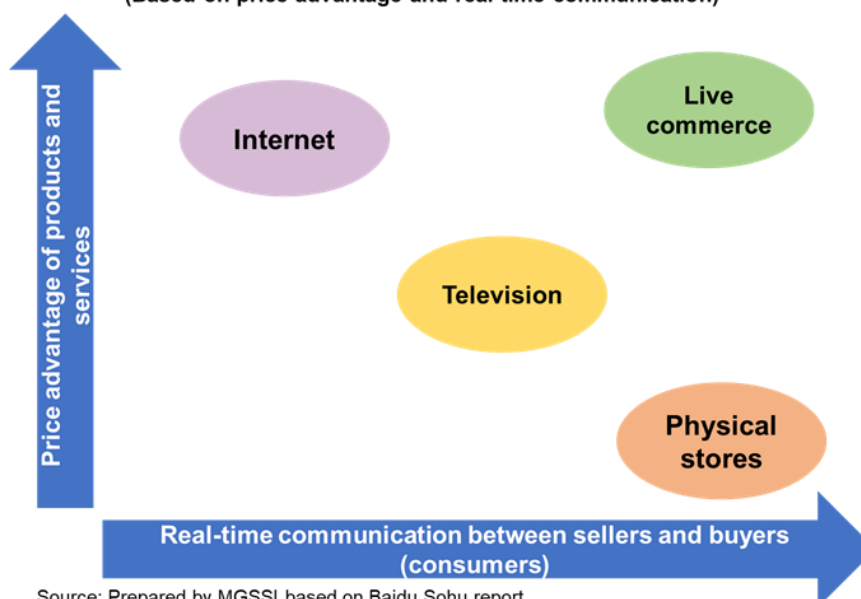
Rank	Name	Platform	Total sales (Hundred million yuan)
1	薇娅 (Viya)	Taobao Live	24.65
2	李佳琦 (Austin)	Taobao Live	12.92
3	辛巴 (Xinba)	Kuaishou Live	9.24
4	雪梨 (Cherie)	Taobao Live	5.55
5	蛋蛋小盆友 (Dandan)	Kuaishou Live	3.67
6	罗永浩 (Luo Yonghao)	TikTok Live	3.29
7	烈尔宝贝 (Lie er baobei)	Taobao Live	2.58
8	陳潔 (kiki)	Taobao Live	2.33
9	時大漂亮 (Shidapiaoliang)	Kuaishou Live	1.95
10	鄭健鵬夫婦 (Zhengjianpeng couple)	TikTok Live	1.91

Source: Prepared by MGSSI based on Tencent report

2-2. Sense of reliability through real-time, two-way communication

In China, it is known that the most trusted source of information for consumers is word of mouth on WeChat and other social media sites. In live commerce, it is possible to have direct two-way communication with sellers in real time. This is a huge advantage because consumers can directly ask questions about the products and lessen their various anxiety that usually accompanies online shopping. Thus, live commerce has a function to substitute for word of mouth, and excels over other existing sales channels by eliminating the consumers' worries, which probably led to a steady user base (Figure 6).

Figure 6. Positioning of Sales Channels in China
(Based on price advantage and real-time communication)



Source: Prepared by MGSSI based on Baidu Sohu report

One of the major reasons for the increase in the number of users in 2020 was the rise in live streaming from farmers who directly sold their products as the shipments stagnated due to COVID-19, and gained popularity among consumers. Live commerce of this kind not only offers relatively low prices but also helps visualize the production process of the products; it is a selling method by making the producer's face visible. This raised consumers' confidence and sense of reliability in the products and led to an expansion of sales. For example, a tea farmer selling their products became popular by live streaming the entire process from picking leaves to shipping. It is said that their sales doubled year on year, and this is also contributing to the improvement of the farmer's income and the promotion of farming villages. There are also cases where the head of each region (such as mayor) feature in live streams for local specialties, helping to enhance the consumers' confidence.

2-3. The seller's advantage of selling from multiple *locations*

Live commerce is advantageous for sellers because they can sell their products from various *locations*, such as production areas, wholesale markets, department stores, and overseas stores (Figure 7). For example, when Intime Department Store, a subsidiary of Alibaba, was forced to suspend store operations due to the COVID-19 pandemic, it started live streaming by employees from their homes. The average daily number of viewers reached 15,000, equivalent to the number of store visitors of six months, and a day's business was equivalent to two weeks' sales. Shanghai ranked high in terms of purchase value, although there is no Intime branch in the city. This fact provides an example of how live commerce led to an increase in new customers. While TV-based shopping is generally provided from a studio, live commerce is made possible from various *locations*. It helps sellers increase their sales regardless of their locations, which is an advantage to sellers and one of the reasons for the increase in live commerce.

Figure 7. Live commerce from various locations

<i>Place</i>	<i>Examples</i>
Area of production	<ul style="list-style-type: none"> •Live commerce for farm products, such as tea, fresh eggs, vegetables, and rice produced by unknown farmers, became popular and led to increase in sales •Heads of municipalities featured in live streams for direct selling of local specialties, leading to increase in farmers' income and promotion of local development
Wholesale market	<ul style="list-style-type: none"> •Live commerce in Guangzhou Baima wholesale clothing markets
Physical stores	<ul style="list-style-type: none"> •Live commerce at domestic department store (Example: Intime Department Store, a subsidiary of Alibaba)
Overseas	<ul style="list-style-type: none"> •Second-hand jewelry store in Japan, designer bag shop in the US, live commerce at Costco supermarket

Source: Prepared by MGSSI based on Baidu report

3. THE CHINESE LIVE COMMERCE BUSINESS MODEL

Online shopping consumers in China are mainly in the habit of shopping using platform apps downloaded to their mobile devices. For this reason, the basic structure of live commerce is based on the platform. This means that the value chain for live commerce comprises the seller (manufacturer, production area, distributor), platform, live-streaming host, and live commerce service provider. An overview of the value chain is provided in this section.

3-1. Platform

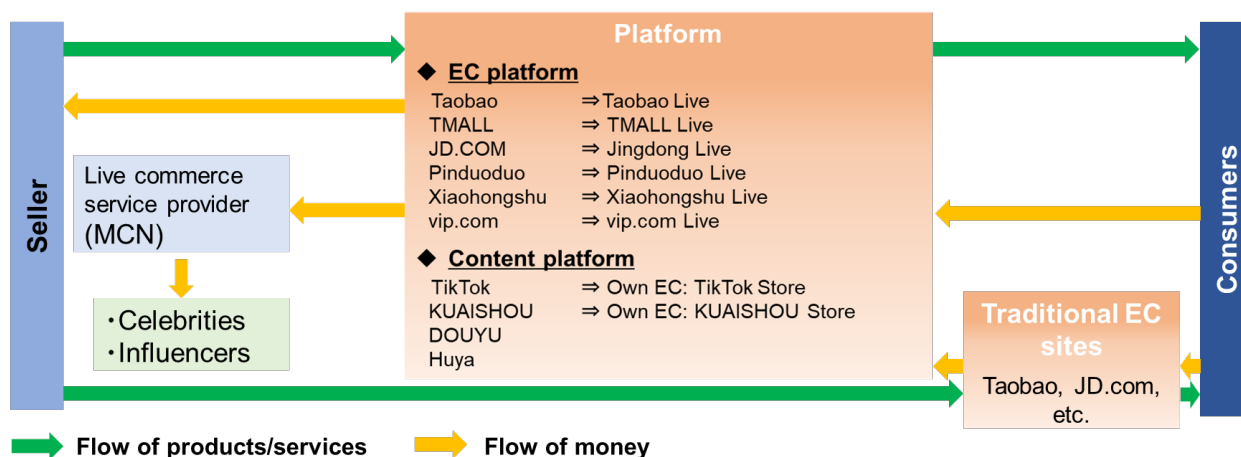
There are broadly two types of platforms. The first is major EC platforms, such as Alibaba, that launch a new live streaming tool so that retailers can use it for live commerce. This category includes Taobao Live and Tmall Live, live commerce channels by Alibaba's subsidiaries Taobao and Tmall, and Jingdong Live by JD.com. The second is existing content platforms for live-streaming entertainment such as music that make a fresh entry into e-commerce. This applies to TikTok, Kuaishou, DouYu, and Huya. According to the China Consumers Association, the EC platform Taobao Live has the largest number of live commerce users, followed by TikTok and Kuaishou. EC platforms have the upper hand by capitalizing on its vast existing customer base and superior EC function, but content platforms are also strengthening their EC function and fiercely chasing them.

3-2. Business model

The above two types of platforms are not very different in terms of business models. In both cases, live-streaming hosts and live commerce service providers promote the products and services, whereas the platform and sellers handle sales operations. The seller provides the products and services to the consumers through the platform. The platform receives payments from the consumers and pays the amount to the seller after deducting required commissions. However, there is a difference in that content platforms sometimes provide live commerce services through major EC platforms. In such cases, EC platforms receive commissions as well (Figure 8). Some sellers use live commerce service providers to expand their sales through live commerce. In these cases, the sellers pay commissions to the platform as well as the live commerce service provider and the celebrities or influencers who appear in the live streams to sell the products or services. Many influencers exclusively work for a particular platform, but there are also cases where sellers directly make contracts with other influencers.

Figure 8. Business model for China's live commerce platforms

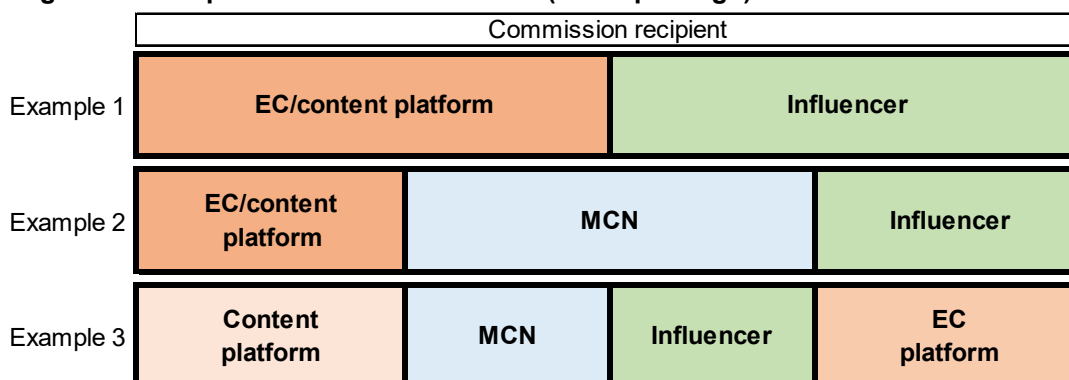
- The seller provides products and services to consumers through the platform. The platform receives the payment from the consumers, minus required commissions, and pays the rest to the seller.
- If a live commerce service provider is used, the platform first deducts its commission from the payment received from consumers, then makes payment to the live commerce service provider (MCN) as well as the celebrities or influencers who featured in the video for selling the products and services.
- Some content platforms also provide live commerce services through traditional EC platforms in addition to owned online shopping sites. In such cases, commissions are also paid to the major EC platform.



Source: Prepared by MGSSI based on View on Finance and Technology [in Chinese], iResearch announcement

Those fees paid to the persons concerned are mainly based on the commission model (Figure 9). For instance, in the case of the EC platform Taobao Live, which boasts the highest number of users, the seller decides the selling price of the product, and Taobao receives the payments from consumers for the live commerce sales, about 10% of which goes to Taobao as a commission. Apart from that, the influencer and the live commerce service provider together receive about 10% of the amount.

Figure 9. Examples of commission model (concept image)



Source: Prepared by MGSSI based on Baidu Sohu report

3-3 Live commerce service provider (MCN)

Companies that provide live commerce services are called multi-channel networks (MCNs). These service companies provide live commerce marketing functions and receive commissions in return. Their main area of work involves training and introducing influencers, creating and planning content, and expanding the viewer base. Shanghai-based MeiONE (美ONE) and Hangzhou-based Qianxun are examples of major MCNs (Figure 10). As competition intensifies between MCNs, differentiation is becoming difficult with conventional businesses. Both companies have severely enclosed best-selling products and are focused on building supply chains for live commerce.

Figure 10. Overview of live commerce service provider MCN in China

Company	MeiOne	Qianxun
Established	2015	2017
Head Office	Shanghai	Hangzhou
Overview	<ul style="list-style-type: none"> • After being established, the company raised millions of USD in funding from many investors including Alibaba, which owns it. • Collaborated with L'Oréal, which has the philosophy of developing influencers from retail sales staff have an excellent understanding and selling capability of products. Hired and trained Austin Li and developed him into one of the top influencers in China. 	<ul style="list-style-type: none"> • Trained over 40 influencers including Viya, who is a top influencer of Taobao Live. • Possesses influencer incubator in Hangzhou, live commerce studio in Beijing, and supply chain base in Guangzhou.
Main business	Incubation of influencers, creating and proposing live-streaming content, finding viewers, sales promotion planning, fan management	

Source: Prepared by MGSSI based on Baidu Sohu report

4. CHALLENGES RAPIDLY INCREASING WITH THE GROWING MARKET

While the market for live commerce is growing at a rapid pace, challenges are also emerging. About their concerns, consumers are saying that “consumer rights are not protected due to the lack of regulations,” “after-sales services are insufficient,” “there is no contact for complaints,” and “many products are fake.” Although live commerce is considered only a method of selling and actual responsibility lies with the platform and the seller, the rate of products returned after purchase by live commerce is about 30-40%, which is higher than the online sales return rate (about 20%). This can be attributed to the misleading of consumers with illegal and exaggerated expression by the live-streaming hosts amid the lack of regulations or the market entry by many sellers deviating from conventional EC rules.

Relevant rules are being prepared to respond to these issues. On July 1, 2020, the code of conduct for live commerce marketing by the China Advertising Association, the first industry regulation, came into effect, followed by the industry's first basic code of conduct for live commerce operation in the same month, which determines standards for live-streaming host requirements, quality of products or services, after-sales services, and other aspects (Figure 11). These regulations have been voluntarily set by the industry and are not legally binding. However, this voluntary move to set out rules and regulations is commendable. China's Ministry of Commerce clearly stated in a mid-September press conference that it would collaborate with relevant departments to fulfill its responsibility to supervise and control the live commerce market. Although autonomous development is expected under the government's supervision and control, such regulatory constraints may possibly put a brake on the rapid growth seen so far, and it is necessary to watch the situation carefully.

Figure 11. Key points of live commerce industry's voluntary regulation

Code of conduct for marketing	<ul style="list-style-type: none"> • Clarification of responsibilities of sellers, live-streaming hosts, platforms and other relevant parties • Eliminate illegal and exaggerated expressions that mislead consumers, eliminate inferior products and sale of fakes 				
Basic code of conduct for operations	<table style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td style="width: 30%; vertical-align: top;">About live-streaming hosts</td> <td> <ul style="list-style-type: none"> • Aged 10 years or more • Has received work training • Has used the product or service being sold • Respect the Advertising Act </td> </tr> <tr> <td style="vertical-align: top;">About consumer protection</td> <td> <ul style="list-style-type: none"> • Issuance of official receipts with company seals to consumers • Protection of consumers' personal information • Returns from consumers within seven days of the arrival of the product, and full refund if the products can be resold </td> </tr> </tbody> </table>	About live-streaming hosts	<ul style="list-style-type: none"> • Aged 10 years or more • Has received work training • Has used the product or service being sold • Respect the Advertising Act 	About consumer protection	<ul style="list-style-type: none"> • Issuance of official receipts with company seals to consumers • Protection of consumers' personal information • Returns from consumers within seven days of the arrival of the product, and full refund if the products can be resold
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Source: Prepared by MGSSI based on code of conduct for live commerce marketing, basic code of conduct for live commerce operation

5. FUTURE OUTLOOK

There is no denying that the stay-at-home lifestyle under the COVID-19 pandemic situation became a special factor in the rise of demand for live commerce. Therefore, it is likely that the growth speed will gradually slow down in China, which is heading toward the end of the pandemic faster than others. However, according to the results of a live commerce consumer survey released by the China Consumers Association at the end of March 2020, about 80% of Chinese consumers responded that they wished to have a live-commerce purchase experience. Moreover, during 2020's online shopping event "Singles Day" period (November 1 to 11), Taobao alone gained 300 million live commerce viewers and its gross merchandise value (GMV) was twice year on year. Transactions exceeded 100 million yuan (about 1.6 billion yen) for 28 live-streaming companies. This suggests the potential of China's live commerce market. The following four points should be noted in terms of its future market growth.

(1) Progress in digital transformation and acquisition of new users

With the spread of 5G and advancement in digital technology in the future, it may be possible to live stream with high-definition 4K and 8K images that deliver reality, and to provide users with a more immersive experience using VR and AR technologies. The methods of live commerce will also become sophisticated. Additionally, live commerce has already adopted the selling method used in Internet retailing—such as using AI to analyze information in big data and proposing personalized products that match the needs of each consumer. It is thought that solicitation for viewing will develop rapidly on the basis of personal information about program preferences.

Moreover, live commerce, unlike conventional Internet retailing, is based on video broadcast, which means that viewers do not need to search for detailed information on the product while looking at a computer or smartphone screen. In other words, even for people who are not used to online shopping, which requires them to operate their computers or smartphones, simply watching a live stream should be more comfortable, making them potentially new users. In these times, when anyone can easily watch a live video through a smartphone or other devices, live commerce may become a new tool for acquiring new EC users.

(2) Responding to new lifestyles, including support for production areas, safety and security, and consideration for the environment

Under the COVID-19 pandemic, direct sales of agricultural and other local products expanded through live commerce, which contributed to an increase in farmers' income and promotion of local development, showing clearly that live commerce is extremely advantageous for sellers. According to a press conference by China's Ministry of Commerce at the end of September 2020, the total number of live commerce viewers for the first half of 2020 exceeded 50 billion. Live commerce contributed particularly to direct sales of agricultural products that were affected by the pandemic. Varied sellers are expected to enter the live commerce market in the future. Apart from the example of the tea farmer as mentioned before, the expansion in demand for live commerce for fresh eggs, rice, vegetables, and other farm products was partly due to lifestyle changes in China, such as growing awareness of consumers' safety and security and consideration for the environment and the ecosystem. Live commerce maintains a high level of transparency by directly connecting producers with consumers, and it is likely to develop further as a tool to attract people who have a consumer-oriented mindset.

(3) Selling of overseas products in China

An increasing number of companies are already proactively leveraging live commerce as a tool for selling overseas products for Chinese consumers, successfully acquiring customers in the country (Figure 12). One example is a coffee producer in Africa struggling due to COVID-19. Once their production process and producer were introduced through live commerce, it gathered about 10 million viewers, selling 1.5 tonnes of coffee, equivalent to one year of sales, in one second. Backpacks from Germany, which were unknown in China, became popular overnight after a German living in China featured as a host in a live stream. In this way, overseas products with low recognition in China can build an affinity with the Chinese consumers by using live-streaming hosts effectively or conveying the situation of the production area, which makes it easy to have consumers make purchases.

Figure 12. Examples of selling overseas products via live commerce in China

- Used a popular host to promote South Korean agricultural products in a live commerce event and sold 200,000 cups of coffee in five minutes for approx. 1.76 million yuan. Also helped South Korean milk manufacturer recover from the difficulties caused by COVID-19.
- South Korean cosmetic manufacturer used a popular hosts to achieve 50% increase year on year in sales of cosmetics in China.
- African coffee, whose sales stagnated, sold out via live commerce.
- German backpack, little known in China, became overnight success through live commerce.
- Amid difficulties due to fewer Chinese tourists, luxury goods of Louis Vuitton, Lanvin, Tiffany's, and other brands sold well via live commerce.

Source: Prepared by MGSSI based on Baidu Sohu report

(4) Global spread of Chinese knowhow

The selling method of live commerce is expected to expand globally going forward. In developed countries, live commerce has many rivals as TV-based or online shopping is already prevalent there. In contrast, live commerce can grow explosively in emerging economies, where watching videos through the Internet on smartphones is more advanced than television and other conventional media. The live commerce know-how accumulated in China over the years may spread to emerging countries. For example, since Chinese and Korean dramas and music are now popular across the globe, the possibility comes into view that live commerce linked to such entertainment content will help it expand globally.

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