

# Research on China's Livestreaming E-commerce

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## 01 Overview of the Development of the Livestreaming E-Commerce Market

### 1.1 Definition and research scope

Livestreaming e-commerce refers to a form of e-commerce that uses live broadcast as a channel to achieve marketing purposes. It is an integration of live broadcast and traditional e-commerce in the context of the digital age. Embracing highly interactive live broadcasting transforms e-commerce from traditional static illustrations to engaging livestreams. Live broadcasts that integrate e-commerce capabilities employ the functions of e-commerce in live entertainment, information, and marketing, thereby boosting sales.

Livestreaming e-commerce is inseparable from the three pillars of retailing: people (customers and livestreamers), products (the hinge of product selection) and places (closed loops from “planting grass” to “pulling out grass”). Livestreaming e-commerce innovates products and places, integrating participants such as hosts and multi-channel network (MCN) agencies. Building on product detail pages, livestreaming e-commerce enriches marketing scenarios and promotes closer integration of the three pillars. Compared with traditional e-commerce, livestreaming e-commerce optimizes people, products and places with the end users' shopping experience, resulting in more effective marketing promotion and higher rates of user conversion.

### 1.2 Development background and driving force—customers

Traditional e-commerce companies mainly use pictures and texts to convey product-related information. The two-dimensional information display form is prone to the risk of asymmetry in product information acquired by the consumers, and it is also difficult to snatch the ever-declining consumer attention time in the era of information explosion. A recent report by the Microsoft research team showed that the duration of human attention has reduced from 12 seconds at the beginning of this century to 8 seconds in 2015. Consumers expect to be able to quickly capture comprehensive product information.

The emergence of live broadcast media has made product information more straightforward and has enabled companies to better meet the needs of consumers. On the one hand, the host's 360-degree display of a product can, to a certain extent, avoid the risk of “text trap” and “photo fraud” on the product detail page; on the other hand, through the host's introduction and description of the product, as well as real-time interactive Q&A with the consumers, product information is communicated to consumers, who can more easily capture and accept it than information communicated in a traditional way.

At the same time, the cultivation of online shopping and live streaming viewing habits also lays a solid user base for the vigorous development of livestreaming e-commerce. According to data from the China Internet Network Information Center (CNNIC), in recent years, the number of online shopping and live broadcast viewers has grown steadily. As of June 2020, the number of live stream viewers and online shoppers had reached 562 million and 749 million, respectively, and the penetration rates among live stream viewers and online shoppers were 59.79% and 79.68%, respectively (CNNIC). As a product of the integration of live broadcast and e-commerce, livestreaming e-commerce is more easily accepted by netizens.

### 1.3 Development background and driving force—sellers

In 2016, live broadcasts were gaining momentum. Real-time, interactive, live broadcasts opened a new entry for e-commerce platforms who were competing for consumers. Mogujie, representing shopping guide communities, and Taobao, representing traditional e-commerce companies started exploring livestreaming. The entry of industry giants and the relatively low cost of live broadcasts attracted various platforms to embrace livestreaming e-commerce. In addition to e-commerce platforms with strong consumption attributes, short video platforms also became involved in livestreaming e-commerce, leveraging existing stocks' commercial value and promoting traffic monetization. Various platforms continue to introduce relevant preferential policies such as host support, and merchants settle in, supporting the vigorous development of livestreaming e-commerce.

For merchants, the promotion of platforms is one motivation for opening live broadcasts. More importantly, the live broadcast format can increase user stickiness and potential revenue growth for merchants. Through live broadcasts and real-time interaction, product information reaches customers efficiently, greatly shortening customers' decision-making time and stimulating customer demand. In addition, the preferential commodity prices in the live broadcast scene are attractive to consumers, and consumer surplus is formed under the stimulation of price drops, coupons, and raffles. Coupled with product labels such as "limited quantity" and "first release in the live broadcast room," as well as the host's ability to "plant grass" (customers get to know a product and develop a desire to buy it), customer psychology can easily be transformed into purchasing behavior.

In 2020, the outbreak of the coronavirus pandemic stagnated offline sales of merchants and caused a great deal of inventory overstock. Livestreaming, a low-cost customer acquisition channel, is favored by merchants. Merchants have moved online one after another to revitalize inventory and ease pressure on cash flow through live broadcasts. CNNIC statistics show that in the first half of 2020, the total number of live broadcasts by merchants in China exceeded 10 million, with an average of nearly 1.5 million live broadcasts and up to 50 billion views per day.

During the pandemic, various platforms also increased their support for live broadcasts, reduced technical service fees for merchants, optimized entry procedures for merchants, encouraged offline merchants to livestream marketing models, launched traffic support programs to help merchants acquire exclusive traffic, provided training for hosts to improve their tactics to sell products, subsidized partial products, reduced commissions, etc. The platform opens the door to livestreaming for offline merchants in distress during the pandemic, in terms of fees, subsidies, entry procedures, and host training.

### 1.4 Development background and driving force—KOL fan economy and government policy support

With the rapid development of the Internet celebrity economy, a number of key opinion leaders (KOLs) with network influence have emerged in China. KOLs use their own influence and unique advantages to carry out precise and efficient marketing targeting a certain-scale fan group. KOLs with high conversion rates have gradually developed into the core element "people" in livestreaming e-commerce—namely, hosts. The formation of Internet celebrity culture and the penetration of KOL influence also drive the vigorous development of livestreaming e-commerce.

Internet celebrities attract customers to purchase products by virtue of good fan relationships, high-quality "oral" marketing, or charisma. Their "grass-growing" marketing advantages are not only valued by the platform but also attract the attention of government departments. Especially during the

pandemic, the advantages of celebrity online sales and consumption transformation have been highlighted. Local Chinese governments have actively built bridges between online celebrities and local enterprises to help the development of local industrial belts. The governments of Guangzhou, Hangzhou, Chengdu, Jinan, and other local governments have successively implemented strategies to support the development of livestreaming e-commerce, introducing high-potential KOLs and giving outstanding hosts cash rewards, Hukou settlement indicators, or subsidies for home purchases. The governments' incentives for KOLs promote the market to nurture more outstanding live broadcast talents, and at the same time spur the development of livestreaming e-commerce.

## 1.5 Market size analysis

The gradual development of users' livestreaming shopping habits, the resources invested by various platforms in the livestreaming marketing model, and government policy support for live-streaming products have jointly driven the rapid development of livestreaming e-commerce. Coupled with the stimulus of the "stay-at-home economy" during the pandemic, livestreaming e-commerce has ushered in explosive development.

According to iiMedia Research, from 2017 to 2019, the livestreaming e-commerce market maintained a relatively high level of growth, with a year-on-year growth rate exceeding 200%. It is expected that in 2021, the revenue of the livestreaming e-commerce industry will exceed one trillion yuan. The Baozun Research Center predicts that livestreaming e-commerce will continue to develop at a high speed in the future, but the revenue growth rate will gradually slow down. The main reason is that with the increase in the penetration rate of livestreaming e-commerce, the traffic dividend of "rough growth" will gradually become more rational. With the popularity of logistics and mobile payment, the potential of traffic dividends in remote areas is expected to be released, but its relatively limited consumption capacity will limit the rapid growth of revenue. In the future, industry competition will shift from traffic increments to traffic stocks.

Behind the rapid growth of the industry's market size, the pain points have gradually become prominent: The average return rate of livestreaming e-commerce is 30%–50%, which is higher than the 10%–15% return rate of traditional e-commerce and is 2–3 times the official e-commerce sales channel of the brand. For industry participants, while focusing on the high growth of gross merchandise volume (GMV), product quality control should also be strengthened to retain customers and guide their repurchase behavior.

## 02 Analysis of Livestreaming E-Commerce

### 2.1 Analysis of various players in the industry—platform

In the livestreaming e-commerce ecosystem, platforms are mainly divided into three categories: traditional e-commerce platforms, such as Taobao; entertainment content platforms, such as TikTok; and shopping guide community platforms, such as Mogujie. Each of the three types has a different logic and focus of its livestreaming e-commerce. The driving force for platforms to transform from traditional e-commerce to livestreaming e-commerce is to expand customer acquisition, bring in traffic, and retain customers. With rich traffic pools, entertainment content platforms enter the e-commerce market through live broadcasts to explore traffic monetization. On a shopping guide community platform, the mission of shopping guides is to "plant grass" and convey the products to customers, so they have the advantage of direct interaction with customers. It is natural for them to consolidate their e-commerce business through strong, interactive, live broadcasts.

The different characteristics of the three types of platforms have their strengths and weaknesses. Traditional platforms and shopping guide community platforms have abundant stock-keeping units (SKUs) and relatively stable supply chains; thus, the customers have strong purchasing minds, but the traffic is not as good as that for entertainment content platforms. Although the latter have a dominant traffic, fans are mostly entertainment-oriented, resulting in a low conversion rate. Different operation logics and characteristics lead to slightly different marketing effects on the three types of platforms, which are specifically manifested in the difference gross merchandise value (GMV) and host fans. Fan value is the amount of GMV/number of fans in a single game; it is used to measure customer retention and traffic value.

The Baozun Research Center selected Taobao, TikTok, and Mogujie as representatives of the three types of platforms based on the celebrity point set data and measured the value of the head and mid-waist fans of each platform from November 1 to 11, 2020 (the waist host has an average single GMV of one million to ten million per session). The study found:

*Taobao*: High GMV, high fan value. Fans have a strong consumption purpose, resulting in higher turnover.

*TikTok*: medium GMV, fan value needs to be improved. Platform algorithm distribution and operation logic are not conducive to the accumulation of private domain traffic, and the emotional bond between fans and hosts is relatively weak. Therefore, although TikTok has the dominant traffic and the GMV through livestreaming sessions is considerable, the average fan value is low.

*Mogujie*: Low GMV and high fan value. Mogujie's products and core customer groups have obvious vertical characteristics, and the GMV is no match for traditional horizontal e-commerce platforms. However, platform fans' strong consumption desire and their close bond with shopping guides stimulate the formation of high fan value.

## 2.1 Analysis of various players in the industry—MCN institution

A multi-channel network (MCN) originally referred to third-party service providers that affiliated with multiple YouTube channels to offer services such as audience development, content programming, creator collaborations, digital rights management, monetization, and/or sales. After MCNs entered China, the functions of MCNs have been continuously expanded. From 2015 to 2020, the number of MCN institutions has grown from 150 to more than 20,000 (TOPKLOUT). The new players in the battlefield have diverse backgrounds: they include traditional film and television entertainment companies, MCN agencies built by celebrities, MCN institutions built within the enterprise, and MCNs invested in by Internet giants.

Domestic MCN institutions can be divided into three categories: entertainment, information, and livestreaming e-commerce. Their services cover seven types of business, including content production, operation, marketing, brokerage, knowledge payment, copyright, and live broadcasting. The monetization model of entertainment-based MCN institutions is mainly advertising and marketing; information-based MCN institutions use knowledge-based payment as the source of revenue; and livestreaming e-commerce MCN institutions share commissions with platforms for commercial monetization.

Since 2019, livestreaming e-commerce has exploded, driving MCN institutions to increase their live broadcast business. According to TOPKLOUT's survey of major Chinese MCN institutions in 2020, about 58% of the institutions have shown their determination to develop livestreaming e-commerce in the future. In the live broadcast e-commerce ecosystem, MCN organizations play the role of an "intermediary," cultivating anchors throughout the life cycle and delivering high-quality anchors to the platform.

## 2.1 Analysis of various players in the industry—host

The host provides a three-dimensional description and display of the product, shortens the path for the product to reach to the customers, and builds the link between the product and the customer and between the merchant and the user. Under the trend of livestreaming e-commerce, the host group is growing day by day, with obvious cross-border characteristics. Although it may be premature to mention "all broadcasting," the job's low entry requirement and decent average salary have attracted a large number of people. In addition, in July of 2020, the "live broadcast salesperson" was certified by the National Human Resources and Social Security Bureau, making live broadcast host one of the hottest positions at the moment.

It is easy to enter the game but difficult to go in-depth. The Matthew effect in the field of livestreaming hosting is obvious, with 2.16% of head hosts occupying nearly 90% of the market share (Global Association for Mobile Communications Systems). The waist-tail hosts who want to take a share in the fierce competition need to pass assessments such as product bargaining ability, oral broadcast level, and endurance. Generally, the domestic livestreaming e-commerce market mainly includes four types of hosts, including talent hosts, celebrity hosts, virtual idol hosts, and business self-broadcasters. Various hosts have different characteristics, and there are certain differences in costs and marketing effects. Merchants choose one type of or combination of hosts based on marketing scenarios to maximize benefits. In the new product release scenario, celebrity hosts and head hosts can bring in more exposure and traffic to merchants; while in daily marketing and promotion scenarios, lower-cost waist-tail hosts and merchant self-broadcasting can meet the basic needs of business.

## 03 Trends and Outlooks of Livestreaming E-Commerce

### 3.1 Industry Trends and Outlooks

"New Infrastructure" has accelerated the implementation and popularization of 5G. Since China officially launched 5G commercial use in November 2019, a total of 690,000 5G base stations have been built, basically achieving prefecture-level coverage (Global Association for Mobile Communications Systems). With high speed, low latency, and wide connectivity, 5G has become the technological foundation for 4K/8K ultra-high-definition video and VR/AR applications. The optimization and integration of technologies has injected new momentum into livestreaming e-commerce.

5G makes 4K/8K ultra-high-definition live broadcasting possible, meeting consumers' expectations for high-quality live broadcasts and high fluency and optimizing consumers' shopping experience. The high transmission rate and high mobility of 5G are expected to continue to enrich the livestreaming scenarios. In particular, with the increase in coverage, 5G provides a channel for live broadcasting of production factories in remote areas, shortens the distance between commodity production and customers, and imperceptibly stimulates transactions. The integration of VR/AR with livestreaming e-commerce brings users an "immersive" shopping experience. In the VR/AR livestreaming scenario, virtual makeup and clothing try-ons have gradually become reality.