

Joseph C. Tsai -- *Executive Vice Chairman*

Thanks, Rob. Thank you all for joining us. In past earnings calls, we have kicked off Company management remarks with my overall observations on strategic issues or macro trends. Starting this quarter, and going forward, Daniel Zhang, who has assumed our Executive Chairman role will deliver the overall strategic and macro state of affairs, as well as his usual discussion of business operations. I will continue to make myself available for Q&A after our prepared remarks. Daniel, please go ahead.

Daniel Yong Zhang -- *Executive Chairman and Chief Executive Officer*

Thanks, Joe. Hello, everyone, and thank you for joining our earnings call today. In September, Alibaba just celebrated our 20th anniversary. We truly appreciate our shareholders' support in the past years. Today, I'm honored to speak to you in the role of the Executive Chairman of Alibaba Group for the first time, I would like to take this opportunity to share my thoughts about the opportunities and our strategy over the next several years.

Our mission has not changed since day one. It is to make it easy to do business anywhere. Today our consumers, merchants and our partners are entering a new journey in the digital era. We will continue to create value for them by leveraging the power of data technology, to make it easy to do business for them, anywhere for the decades to come. We have set a goal for the near-term to serve over 1 billion consumers and achieve at least RMB10 trillion consumption by fiscal year 2024.

Geopolitical uncertainties have placed additional pressure to global growth. We believe this is both a challenge and opportunity for the Chinese economy and finding more opportunities in such an uncertain environment is the key to our business and strategy.

I would like to point out two long-term developments that are in Alibaba's favor. One is to consumers 2C and the other is to business 2B. In terms of just 2C, we see great potential in domestic consumption as an important driver for Chinese economy. The overall size of consumption keeps growing with increasing penetration of digitalization, specifically, China retail sales reached around RMB30 trillion in the first nine months of 2019, growing at 8.2% year-over-year. This outpaced the overall GDP growth at 6.2%. More importantly, online e-commerce is still a key driver of China consumption, growing faster at 17%.

We are growing even faster than the overall online e-commerce sector. Alibaba is the only platform to meet the diverse range of consumer's demand in physical goods, local consumer services and the digital entertainment. As we disclosed in our Investor Day, these three consumer-facing businesses as a whole already served 730 million unique consumers in the Alibaba digital economy.

Over the next several years, we will continue to grow our user base and at the same time, drive user synergy by enabling merchants to cross sell products and services in

the digital economy. Our new retail strategy, further enlarge our addressable market. We aim to enable the digital transformation of brands and the retailers empowering them with data technology, and the consumer insights to better serve their -- better serve their customers.

Another secular growth driver is enterprise digitalization. IT spending in China for Internet companies amount to around \$80 billion, while the spend for public sectors and the various industries is over \$300 billion, according to our estimates. This represents a huge opportunity for -- in the [Phonetic] enterprise-facing business. We leverage Alibaba's cloud computing technology and a big data insights to empower the enterprise. The adoption of cloud services in China will be driven by not only the need of lower IT costs, but also by digital transformation of business models and the processes.

As a digital technology Company, we are uniquely positioned to provide businesses with more intelligent and cost effective cloud services. We call our solutions for enterprises as Alibaba Business Operating System as we provide not just technology infra services, but rather Business-as-a-Service solutions.

Now, I will turn to the highlights of this quarter. We had another outstanding quarter with excellent business performance. We enjoyed robust revenue growth of 40%, as we capture significant growth opportunities to reach an increasingly wide group of Chinese consumers.

During the quarter, we continued to invest in user experience and the technology solutions to create tremendous benefits for our customers. We have developed -- we have delivered solid profit growth for the quarter benefiting from measures to improve our operating efficiency. For China retail marketplaces, our strategy is very clear and unchanged.

We want to add value to consumers and the sellers through consumer segment, product enrichment and the platform innovations. This strategy has provided us the ability to scale and grow our consumer base. In September 2019, our China retail marketplace had 785 million mobile MAUs, a quarterly net increase of 30 million.

Our annual active consumers grew 19 million to 693 million. Consumers are the core of Alibaba's digital economy. They want choices that are relevant and their spending preferences are dynamic. Today, we are China's only e-commerce platform that offers the broadest and the deepest range of goods and services for Chinese consumers.

We will further strengthen our suppliers in branded, imported, direct sourced and the long-tail products. During the quarter, we see strong user engagement and stickiness as reflected by higher buying frequency and accelerating order growth. We also noticed the spending of our new users from less developed areas reached about RMB2,000 in their first year on our platform.

This is a result of our diversified and a comprehensive product supplies, as well as targeted recommendations to connect the right product with the right consumers. In Alibaba digital economy, we also provide services and the entertainment to our 730 million annual active consumers across the platforms.

We will still -- we see still low penetration for Youku and the local services users, in the digital economy if we compare the overlap of consumers across the platforms. Last, we see huge opportunity in terms of synergies between these groups. We are identifying and executing new initiatives to convert the users from our China retail marketplaces to users of the local services and the digital entertainment platforms.

We believe these platforms will add tremendous value to the digital economy. Local consumer service segment has more consumption use cases, introduces more merchants and creates an on-demand delivery network that benefit more location-based commerce use cases.

Digital Media and Entertainment segment provides a portfolio of quality content that resonates within Chinese consumers and thereby creating opportunities in digital advertising, memberships and cross selling within Alibaba digital economy.

Let's turn to our cross-border and international businesses. In September, we acquired NetEase's import e-commerce platform Kaola. Tmall Global and Kaola platforms have relatively low consumer overlap. We will integrate areas such as technology, procurement and the supply chain to achieve optimization. The Kaola app will continue to operate independently.

In Southeast Asia, Lazada is showing solid operational performance with order growth more than doubling for the fourth consecutive quarter. In the case of the Indonesia market, order growth more than tripled. Lazada's, key priority is to maintain strong user growth and the user engagement in the coming year.

Our cloud computing business continues to exhibit strong growth. Revenue grew 46% year-over-year to RMB9.3 billion, primarily driven by an increase in average revenue per customer. Alibaba Cloud serves customers from a broad range of industries beyond Internet and media.

Based on the most recent available data, in August, 59% of China, Asia-listed companies are customers of Alibaba Cloud. The reason why we are widely recognized by the market is that we have developed proprietary technology and the solutions which makes us different from other players in the China market.

To conclude, we have a proven track record of innovation in the past 20 years. In the coming decade, we will continue to innovate with the goal of fulfilling our mission, and to keep investing for the long term.

Now, I turn the call over to Maggie who will walk you through the details of our financial results.

Maggie Wu – *Chief Financial Officer and Head of Strategic Investments*

Thank you, Daniel. Thank you all for joining us. We had another strong quarter. So for today's call I will start by going over financial highlights and with how we view the coming quarters.

Now let's go over to financial highlights. In the September quarter 2019, we delivered another strong quarter of user growth with mobile MAUs reaching 785 million, up 30 million, compared to our June quarter. User engagement continues to improve with mobile DAU growing faster than MAU.

In the first six months ended September, the Taobao app's DAU growth accelerated as a result of healthy organic traffic growth, effective user targeting and increasing engagement with interactive and entertainment features. For the September quarter, annual active consumers on our China Retail marketplace reached a 693 million, which increased by 19 million compared to our June quarter.

The increase in consumer growth reflected our continued penetration in both developed and less developed areas in China as we launched the more effective consumer segmentation initiatives. These initiatives have been well received by consumers, as evidenced by accelerating order growth from higher purchase frequency. Our total revenue grew 40% year-on-year to RMB119 billion in September quarter.

Excluding the effects of the consolidated acquired businesses, revenue would have grown 37% year-on-year, still very strong growth. The increase was mainly driven by robust growth over China commerce retail business and Alibaba Cloud. We are very pleased to see that our operation is running in a very efficient way, costs and expenses are very well controlled, while our business has been continuously growing fast.

Let's turn to our business segments. Our core commerce segment continued to be very strong. Core commerce revenue grew at 40% year-on-year to RMB101 billion. The fundamentals of our China retail business continue to be strong. Customer management revenue grew 25% in the quarter, which primarily reflected the increase in the average unit price per click and to a lesser extent the volume of paid clicks. Commission revenue increased by 24% year-on-year, primarily due to the growth in Tmall physical goods GMV. China retail others which is mainly these new retail business like Hema, Tmall Import, grew at 125% year-on-year.

So this quarter we acquired and consolidated Kaola, this is starting from September. For international retail segment, revenue was RMB6 billion, which grew at 35% year-on-year. Revenue growth was driven by AliExpress and Lazada's growth. For Lazada, as Daniel has mentioned, it continued to perform well for the fourth consecutive quarter, achieved over 100% year-on-year order growth reflecting strong consumption demand in apparel, accessories and FMCG categories.

AliExpress revenue growth remains strong due to increasing number of consumers and the robust GMV growth. As an update, on October 9th, we completed the formation of a social commerce joint venture in Russia with local partners.

In terms of the financial impact, AliExpress businesses in Russia will be de-consolidated next quarter because we own just less than 50% of the JV. For our local consumer services, revenue grew 36% year-on-year to RMB6.8 billion. The robust revenue growth was primarily driven by strong order volume and increasing user order frequency.

We have also been penetrating in the new markets in less developed areas with strong growth potential. During the quarter, GMV from less developed areas grew 45%. Local consumer service segment is strategic to Alibaba Group and they were committed to invest in a business and create long-term value.

We're focused on increasing average spending per consumer as well as acquiring new users by leveraging assets within the Alibaba digital economy. In the quarter, about 39% of new food delivery customers came from Alipay mobile app. The potential for further penetrating users in Alibaba digital economy is significant as only 25% of our annual active consumer from our China regional marketplace have used our local consumers services.

We are going to continue to take a targeted and systematic approach to investing in this business. Let's look at the profitability. In our commerce segment, we continued to generate strong market base -- marketplace based core commerce Adjusted EBITA. Compared to a year ago, we have increased the Adjusted EBITA by RMB10 billion, while the losses in four strategic areas only increased by RMB1.2 billion.

So this reflects our targeted approach to allocate resources in key strategic growth areas, while also systematically optimizing costs and improving efficiency. After incorporating these losses, our core commerce adjusted EBITA grew strongly at 29% year-on-year to RMB38.6 billion. Cloud computing revenue increased by 64% year-on-year to RMB9.3 billion. This was primarily driven by increase in average revenue per customer.

Adjusted EBITA was a loss of RMB521 million reflecting small widening losses versus the same quarter last year because we continue to invest in talent and technology infrastructure. Revenue from digital media entertainment business increased by 23% year-on-year to RMB7.3 billion. Excluding the consolidation of Alibaba Pictures, revenue would have increased 8% year-on-year.

Despite industry rationalization, and tighter regulations on content, we continue to enrich our portfolio with original content that appeal to Chinese audiences. During the quarter, Youku was able to launch popular drama and the variety shows with high viewership that resulted in 47%, year-on-year growth in average daily subscribers.

Adjusted EBITA for DME was a loss of RMB2.2 billion which narrowed year-on-year as we continued to focus on cost efficiency and return on investment for content

spending. Revenue from innovation initiatives and others increased by 14% year-on-year to RMB1.2 billion. Adjusted EBITA for innovation initiatives was a loss of RMB1.9 billion.

The increase in the loss was primarily due to our investment in technological research and new business initiatives such as Ding Ding, Tmall Genie, Amap. Looking at the free cash flow and the capex, our business continued to show a strong profitability and cash flow. As of September 30th, cash, cash equivalents and short-term investments were RMB235 billion. For September quarter, free cash flow was RMB30.5 billion, which is \$4.3 billion, which increased by 90% year-over-year.

The increase in free cash flow was due to our robust profitability growth, timing of the capital expenditure spending and less content costs. So let's quickly go over the major items that impacts GAAP and non-GAAP net income calculations. GAAP net income during the quarter was RMB70.7 billion, up 288% year-on-year. The year-over-year increase was primarily due to a one-time gain of RMB69.2 billion recognized upon the receipt of the 33% equity interest in Ant. Partly offset by impairment charges and net losses from changes in fair value relating to certain investments and the goodwill.

Excluding these gains and losses and certain other items, our non-GAAP net income would have increased by 40% year-on-year. Looking ahead, last year this time, Daniel and I spoke about our commitment to deliver robust revenue growth and a healthy, sustainable profit growth. We have delivered. In the first six months of fiscal year 2020, our revenue grew 41% that outpaced global technology peers and at the same time, we achieved 36% adjusted EBITDA growth.

We were able to achieve these results by achieving robust growth of active consumers, enhancing user experience and generating operating efficiencies through synergies within the Alibaba economy. Looking into the second half, we will continue to execute our strategy. Specifically, we will be very focused on three things. Number one, improving user experience, which will result in higher engagement and customer spend.

Number two, aggressively reinvesting our discretionary profit in strategic areas to further our competitive advantages. Number three, leveraging the synergies of Alibaba economy to achieve operating efficiencies. We believe our commitment to invest and deepen our moat will ensure robust revenue growth and deliver a healthy profit growth in the long term.

Now let's turn to Q&A session. Thank you.

Daniel Yong Zhang – *Executive Chairman and Chief Executive Officer*

Operator, we're ready.

Questions and Answers:

Operator

Yes. Thank you. Ladies and gentlemen we'll now begin the question-and-answer session. [Operator Instructions]. Your first question comes from the line of Alicia Yap of Citigroup. Please go ahead.

Alicia Yap -- *Citigroup -- Analyst*

Hi, good evening. Thanks for taking my questions. Congratulations on the strong quarter. My questions is related to the upcoming Singles' Day this year. So, does management view these as any big difference than the previous year?

For example, in terms of the countries and the platforms that will be participating in the event? And in terms of product category, any specific product that management believe will be a big traction for consumer and it also seems like there will be so many platforms are throwing more discounts to consumer this year.

So do you think that the consumption demand will be there to stop [Phonetic] the spending and allow other platforms to win and gain? So any colors on the upcoming events will be helpful. Thank you.

Daniel Yong Zhang -- *Executive Chairman and Chief Executive Officer*

Thanks. This is Daniel. Let me answer this question. I think everybody understand that we are approaching to the 11th Singles' Day -- is the 11th day. So after the past ten years efforts, I think first of all, I think this November 11 has become a consumer's shopping day and people widely recognize that shopping day and that's why we have a very organic momentum to -- for the consumers to join it -- to enjoy that day. So people are ready to shop on that day. So this is the -- basically, this is the habit of people -- people from in the last 10 years.

And the other side of the coin is the supply. And after ten years efforts, and all the merchants, all the brand companies, retailers, they are actively preparing for this upcoming shopping day -- shopping festival. So they will provide the best products with the best price and services to the consumers. And commercial wise, they view this as more like a commercial Olympic Games, and everybody want to be the champion in their sector.

So that's why we get the momentum from both demand and the supply side, and this year, I think we -- all the -- actually we have many new and tailor-made products for this November 11th. And we even work with many brand companies to tailor-made products exclusive for November, 11th, but with limited addition. So this is not -- not only a shopping day, but also a marketing day for brand to market their brands and also engage the new customers.

In terms of the market, I think not only China, but also our cross border and the international marketplaces, Lazada and AliExpress, all of them, they will participate in this shopping festival. But we localize the operation to meet the local demand of

the customers. But we do see -- do see the synergies and in terms of the product supply because most of the supply from China can be consumed by the people in other markets as well by cross-border export.

And we apply many, many new technologies into this November 11 preparation and so far, we see a very, very good progress in terms of the warm-up activities. And we - we've [Phonetic] the interactive features we created in our mobile Taobao app and other mobile apps in Alibaba ecosystem.

We -- so far we have achieved a very good, I mean, user engagement for these -- I mean, upcoming shopping festivals. So what we are -- we're ready for that day and we will do all we can do to make sure we have another success on that day. Thank you.

Alicia Yap -- *Citigroup -- Analyst*

Thank you.

Operator

Thank you. Our next question comes from the line of Eddie Leung of Bank of America Merrill Lynch. Please go ahead.

Eddie Leung -- *America Merrill Lynch -- Analyst*

Good evening. Thank you for taking my questions. I'm curious to hear your thoughts on the competitive environment you see today in the less developed areas versus a few years ago when you competed in the tier one and two cities.

At the moment, it seems to us that one similarity is the heavy discounts on certain standardized products. So just wondering how do you compete differently today versus a few years ago? Thank you.

Daniel Yong Zhang -- *Executive Chairman and Chief Executive Officer*

Well, actually if you look at our customer base today and we have nearly 700 million, I mean, annual active consumers -- 693 million annual active consumers, as of September in our China retail marketplaces. These customers not only come from the top-tier cities and many, many of them are from low-tier cities.

So we have got wide coverage. And I think for -- today, I think for the new customers, our platform and our advantage is that we have the rich -- we have a rich -- we have the in-depth selection covering all the categories, covering all the price point, price range which are available for all the customers.

So in this case, technology play a very, very important role in terms of matching the right demand with the right supplies. So, so far as I shared with you in my script and for the new customers on our platform within one year, we saw very, very robust

growth in ARPU and that's a very good signal for us to show the power of our platform.

And I would say, and for the newcomers they may spend a lot of so-called marketing dollars to subsidize the customers, subsidize the merchants, but as a marketplace I always believe that the key thing is generate a sustainable value for both merchants and customers.

And as a platform, if the bar is set as they transact between each other. But as a platform you always subsidize. I don't see this as a single model in the long run. I'm sure all the investors will agree this and from our side, we invest, acquire new customers and all, as we always do, and so that's why we see a very robust user growth and we add another 30 million MAU in this quarter. But we are -- we care more about the retention of the customers. And so technology play -- will continue to play a very important role to improve the stickiness of the users.

Eddie Leung -- *America Merrill Lynch -- Analyst*

Understood. Thank you, Daniel.

Operator

Thank you. Our next question comes from the line of Binnie Wong of HSBC. Please go ahead.

Binnie Wong -- *HSBC -- Analyst*

Hi, good evening, management. Thank you for taking my question. My question is also on the less developed market strategy. I recall the Company disclosed the percentage of new users coming from low-end has been over 70% in the past several quarters. I just wonder if there's any update and also as you are expanding into the lower tier products, how do you see that our Taobao or Tmall merchants spending on the advertising budget would behave differently? And I guess also a quick follow up on Maggie's comments on the 25% cross selling on the local consumer services. How do we tap in? What is our strategy to tap into the incremental, the 75%, the cross selling from our China retail marketplace into our consumer services? Thank you.

Maggie Wu -- *Chief Financial Officer and Head of Strategic Investments*

Okay. In terms of the low-tier user add, overall, we still are showing very strong in the user acquisition. So after several quarters, strong acquisitions from lower-tier cities, if you look at user coming from lower tier city as a percentage of total, it come down a little bit.

But I think overall it's a very strong growth. We are not only acquiring users from low-tier, from top-tier cities. We also continuously to add consumers. I think one thing that's very important is that, it's not only the user growth, but also the ARPU growth,

it's is very healthy. And one more thing is very important is the retention. So as I talked with you in the Investor Day, if you look at our customers retention, it's very high. Take an example of our high-end customers who spend over RMB10,000 per annum, you know, they are like over 100 million of them -- 130 million actually for this year.

And then, when you look at the percentage, they are in platform, it's like 98%. So that gives you a sense that were -- that's not only fast growing, but a more balanced, more healthy growth.

Robert Lin -- *Head of Investor Relations*

The other question was about cross-selling to the other 75% of the users.

Daniel Yong Zhang -- *Executive Chairman and Chief Executive Officer*

Yeah, I think that this is the synergies we are in the process of realizing in the local consumer services and we have an integrated consumer marketplaces. And today, 25% of the channeled AAC annual active users from the China retail marketplaces are the -- are the users, purchases in local services. We see -- we see huge synergies to improve these penetration. So that's why we make continuous efforts to integrate our product and our technology infrastructure to make the whole platforms in our platforms in Alibaba digital economy fully integrated.

And going forward, we will continue to have more -- to strengthen our supplies from the local cities to have more coverage in the local cities to make sure we have the goods supplied to the local based -- to the location-based consumers, which we know very clearly about their profile.

Robert Lin -- *Head of Investor Relations*

One other question was the App spending of the Taobao or Tmall merchants in the lower-tier cities. How do we target them?

Maggie Wu -- *Chief Financial Officer and Head of Strategic Investments*

I think the fundamentals is still user growth and consumer experience, and then like we said several times in past that our model is that merchants, they themselves make decisions on how much budget they want to allocate to the platform and they bid for the price they're willing to pay.

So that's -- if you look at our revenue growth, it's an ultimate proof of the value we've provided to not only the consumers, but also the merchants. So I think it's not the lower tier city and merchant -- merchants across the country, right, or the brands, I think they have been making decision to add the budget and increase their spending on our platform.

Binnie Wong -- *HSBC -- Analyst*

Thank you.

Operator

Thank you. Our next question is from the line of Grace Chen of Morgan Stanley. Please go ahead.

Grace Chen -- *Morgan Stanley -- Analyst*

Thank you. Thank you for taking my question. My question is about the differences in Alibaba's approaches, to capitalize on opportunities in the affluent middle class and urbanization in low-tier cities.

It will be great if the management can talk about the differences in the consumer behaviors, preferences in these two segments and your strategies and also the differences in the compound landscape in these two segments.

If possible can you use the coming Double 11 promotion as an example to elaborate your strategies, especially in the less developed regions. And a follow-up is that, we see the growth of users have been coming from the incremental user group have been coming from the developed -- less developed areas. What will be the implications on the financial numbers or cost structure with more users now coming from less developed areas? Thank you very much.

Daniel Yong Zhang -- *Executive Chairman and Chief Executive Officer*

Well, so I would say the -- if you look at the user's habits from different tier cities, I think that this is highly relevant to their local lifestyle and their addressable income.

So but I think in the different shopping events like especially like November 11, I think all the people want to get their best products even from the -- maybe some of them they don't spend in the day to day on the brand products, but in the Shopping Festival they will because of the good prices and the good products available on the platform. So most of the people will try to explore the branded products and -- but at the same time, I think for the day-to-day necessities for a lot of categories, which are not focused, people make shopping decisions don't focus on brands. So people will care more about the functions and the -- of course the price advantage.

So that's why we strongly believe that technology is so important to reflect this real -- reflect this customer needs on a real-time basis. So, I think that's the important successful factor in both the day-to-day operation and also in the big events like November 11.

Maggie Wu -- *Chief Financial Officer and Head of Strategic Investments*

In terms of the spending from the lower-tier cities and high-end, so I talked about the high end consumer spending pattern, a very strong spending power and high retention, lower tier city, we actually observed that the ARPU from the lower tier city

consumers are not as low as people imagine. The spending I think is more tied to the user experience, right, the consumer experience. The experience also include -- includes they can find whatever they want. So we talked about the product supply, different supplies and we talked about segmentation of the consumption. I think we have addressed that very well in our Taobao's different demands from different level of consumers.

Robert Lin -- *Head of Investor Relations*

Next question?

Operator

Thank you. Our next question is from the line Zachary Schwartzman of RBC Capital Markets. Please go ahead.

Zachary Schwartzman -- *RBC Capital Markets -- Analyst*

Great, thank you. Profit growth trends across the business as a whole and on the core comm marketplaces have stabilized or even accelerated, I guess giving you some more flexibility as you said in discretionary investing, to strengthen your strategic modes. Maggie, can you [Technical Issues] more on expense discipline and operating efficiencies as you expand some of the recently integrated business in core commerce? And then just to confirm, was there any change in priority here with your final comments in your prepared remarks for the second half of the year? Thank you.

Maggie Wu -- *Chief Financial Officer and Head of Strategic Investments*

Yeah. I mentioned that we're going to focus on three key things, right, the improved user experience is always the most important thing. This will result higher engagement in customer spending. And -- so I also talked about reinvesting back to these competitive areas. Just like what we did in previous years to expand our B2C market leadership, I think that we have been very successful on that round of reinvestment and expand our market share.

So we're going to continue to do that in this strategic important areas. And number three, I also talked about the discipline, right, the operating efficiency. I think it's very important, because Daniel mentioned that we don't believe continued subsidizing or just tremendous spending in the marketing would bring us a sustainable business. We're going to be smart spend our money, and continue to focus or emphasize on our operating efficiencies.

Daniel Yong Zhang -- *Executive Chairman and Chief Executive Officer*

Yeah. And also, Zachary, I just wanted to address sort of -- the sort of the seeming conflict between expense operating efficiency with discipline, versus being aggressive and reinvesting our profits into strategic areas that are discretionary.

I'll give you an example, in terms of acquiring new users, for example in lower-tier cities, we can now acquire users in our -- for the Taobao China retail marketplace, but the same user could also potentially be a user for our local service business. So we only have to spend the marketing dollars once to acquire that user, but then use our cross-selling with our multiple platforms to further penetrate those users that have not used, for example, local services before.

So the discipline is a result of the synergies because we have multiple platforms and multiple services targeting the same user base and that creates -- those synergies create operating efficiencies. But we could be -- at the same time aggressively investing into the lower-tier cities.

Robert Lin -- *Head of Investor Relations*

Okay. Next question?

Operator

Thank you. Our next question is from the line of Alex Yao of J.P. Morgan. Please go ahead.

Alex Yao -- *J.P. Morgan -- Analyst*

Hi. Thank you management for taking my question, and congratulations on a very strong quarter. I would like to follow up with the previous question, specifically regarding Maggie's comment that you guys plan to reinvesting the discretionary profit in the second half back in the strategic areas. I think that if we take a look at your first half financial results, the financial impact from new initiatives under core commerce continue to be narrowing which leads to a very strong profit growth. So should we think that you will be incrementally more aggressive in those initiatives in the second half, such that the financial trend in the first half cannot be extrapolating into the second half?

And also, can you talk about your priorities across the full initiatives, i.e., local consumption international, logistic and the new retail? Thank you.

Maggie Wu -- *Chief Financial Officer and Head of Strategic Investments*

Sure, Alex. Firstly, I want to highlight again to our investors that if you look at our revenue growth and profit growth, both are very strong, right, way ahead of our -- almost all of our global peers. So we do have this luxury, if you recall to reinvest because strong core and very good management managing the business.

And so to talk about the second half, we -- in those strategic areas like things like local consumer service, things like globalization and also the DME, also logistic, we are going to continue to invest. At the same time if you look at the competitive landscape, right, so we've seen competitors have been very aggressive investing in the China retail commerce business also in the local service businesses.

So we -- it's not reactive to the competition, but also for only to expand the user base also to deploy this user base. We're going to -- it's a good time for us to reinvest. And profit trend etc, although we don't guide on the profitability, but I mentioned that we still care about the efficiency of the business and also the profit growth.

So I think this is a very important measure among our senior management of the business growth. Yeah, I think the prioritization of the investments -- we list out on this -- our PPT the investment areas. I would say that these areas are equally important, that not only the Cloud and the DME, but also the local consumer service and the -- like logistic, new retail and globalization.

Robert Lin -- *Head of Investor Relations*

Okay, next question?

Operator

Thank you. Our next question is from the line Gregory Zhao of Barclays. Please go ahead.

Gregory Zhao -- *Barclays -- Analyst*

Hi, management. A very strong quarter, and thanks for taking my question. So a question to Daniel. So as you highlighted during the prepared remarks and in the Investor Day, so BABA is enhancing the digital economy strategy, and you split it -- the economy into two groups, the two consumer and two business segment.

And given the difference between the two business, the nature, just wanted to understand more about the execution and how do you coordinate between the two segments as in globally, we see several successful examples like Amazon, like Microsoft. And how is your strategy different from this peers? And also a very quick follow-up on the Singles' Day.

So obviously some delivery companies announced to increase the delivery fee during the Double 11 promotion this year. So can you help us understand about the implication to you and your competitors? Thank you.

Daniel Yong Zhang -- *Executive Chairman and Chief Executive Officer*

Okay. I think the first one is a very good question. I think when we -- when we say that we are having two flying wheels, 2C strategy and 2B strategy, I think these two strategies are relevant to different type of businesses, which requires different skill set and even DNA of the team. So that's why we said Alibaba is a digital economy, which compare -- which have a diversity of the skill sets of people and even the way of working.

So from a consumer business, as we always said, we encourage young people to take more responsibility to innovate the product features, which fit for the needs of

the young customers. So we always do these top -- do this bottom up on the innovations. But for the enterprise services, and actually, while the past ten years efforts in Tmall, we've already built a enterprise services model like to serve big brands and retailers.

And now we roll this over to more categories even into cloud services to corporate clients. And we have already build a very good team in terms of the call services and also to integrate multiple services from Alibaba to one corporate client. So we will continue to do so. And we believe, to have two flying wheels 2C and 2B, but with a well -- with a good connection and with a good chemistry is the -- is the core value of Alibaba, is the core competitive advantage of Alibaba.

And in terms of the -- logistics, company's performance or pricing strategies in November 11, I don't -- so far, I don't hear -- I don't hear any, I mean big pricing change -- policy change from our logistic partners. Actually, we are working very, very closely with all the logistic partners, and we prepare for a long time to make sure we have the right capacity and the right service available for the upcoming shopping event.

Gregory Zhao -- *Barclays -- Analyst*

Thank you very much.

Robert Lin -- *Head of Investor Relations*

Next question?

Operator

Thank you. Our next question is from the line of Tina Long of Credit Suisse. Please go ahead.

Tina Long -- *Credit Suisse -- Analyst*

Hi, thank you. Thank you management for taking my question. Congratulations again on the results. I have one quick question on the live streaming. As the format of live streaming gets increasingly popular, can you give us an update on the GMV contribution for this format in first half this year? And also I want to understand the monetization for this format especially when live streaming is native versus those from third-party sites like Douyin and Kuaishou. Thank you.

Maggie Wu -- *Chief Financial Officer and Head of Strategic Investments*

Sure. Live streaming, if you look at the GMV size, this is already what we call this new swimming lane that generates over RMB100 billion GMV per annum. So if you look at our -- the merchants, who have been using this service, over 50% of them are using live streaming. So this is a very popular and value-added service to these merchants.

And in terms of the monetization, we haven't really started. They are a very early stage test. So there are multiple ways we can monetize the service, and we'll give you update when we start a formal monetization.

Tina Long -- *Credit Suisse -- Analyst*

Okay, thank you.

Robert Lin -- *Head of Investor Relations*

Next question.

Operator

Thank you. Your next question is from the line of Jerry Liu of UBS. Please go ahead.

Jerry Liu -- *UBS -- Analyst*

Hi, thank you for your time. I have two quick ones. One is, at the Investor Day we talked about multiple new revenue drivers, whether that's livestreaming at the second hand platform. Just thinking ahead into next year as we look at these opportunities in addition to the feed. Is the feed still the primary one, we're looking to monetize are some of these other opportunities also possible as we head into next year? Thank you.

Maggie Wu -- *Chief Financial Officer and Head of Strategic Investments*

Sure. In terms of a growth driver -- as I mentioned, I'm happy that you heard that we have so many new business and services that already generated quite big size of business. And they are opportunities for us to monetize these business such as Idle Fish, that's the biggest secondhand platform in China and also like our live streaming platform. Also like Taobao factory, if you look into next year, yes, we do have opportunities or I should say, it's possible that we start to monetize, because these are certainly big businesses that we can start thinking about that. Monetization on the recommendation fees, I think the way we look at this is that, like we have been always doing where we tend to rather under monetize them or over monetize. We already have a test, and extended a little bit on the test on monetizing recommendation fee, but whether we're going to expand it, we'll see and decide later on.

Overall, we already have shown 40% year-on-year revenue growth, right, so for the past two quarters. And our guidance shows like a 30%-ish, which is way ahead of a lot of global peers. So we're going to have a more balanced approach on monetization to look after consumer experience merchants ROI as well as our revenue growth.

Jerry Liu -- *UBS -- Analyst*

Thank you.

Robert Lin -- *Head of Investor Relations*

Next question?

Operator

Thank you. Our next question, right, is from the line of Youssef Squali of SunTrust. Please go ahead.

Youssef Squali -- *SunTrust Robinson -- Analyst*

Excellent. Thank you. Two quick questions. First, can you provide us with an update on the food delivery traction in lower-tier cities, maybe number of cities and the competitive intensity there. And second, the kind of a broader question for either Joe or Daniel. We've seen some conflicting data on the Chinese economy recently, NBS for July and September suggest a slowdown in the economy in general and even online this morning, there was a new private survey that showed actually manufacturing expanded, I think in October, much faster than expected.

So just what do you make of it and just generally how much of a predictor is this of demand for BABA's services, when particularly from us looking at this from the outside. Thank you so much.

Daniel Yong Zhang -- *Executive Chairman and Chief Executive Officer*

Let me answer the first question, actually in the local service food delivery business, actually we are -- we are expanding our coverage in the low-tier cities in terms of the local suppliers, and in the past one year, we have already successfully expanded to many low-tier cities. But I think that's not enough. We will continue to do so, to strengthen our supply, which we believe is very important in the local service business. We have huge advantage in the consumer side and we can leverage a lot in there. As we said in the digital economy in terms of the cross-sell to the consumers in the ecosystem. But I think that from supply side and we have done a lot and so far we see a very good, I mean, opportunity and very good trend if we have the right supply in a particular region. But we will continue to do so, and have a more strong local supply.

Yeah. On the other question about sort of whether the total macroeconomic data is a good predictor of Alibaba's performance, well, I think you have seen that we have just multiple quarters where Alibaba's business outperforms the whole economy and even outperforms the total retail sales.

So currently we're looking at total retail sales growing at around 8% and yet, e-commerce based on the NBS data is growing in the high teens, in the latest data that's available. But Alibaba's growth is-- we are outgrowing the entire retail sector as well as the e-commerce sector.

I think there is a secular trend. Obviously, e-commerce is taking share away from the traditional retail economy. So Alibaba is very much driving that secular trend, but vis-a-vis peers, we're also outgrowing the peers in e-commerce because now, as Daniel has referred to many times, we are getting synergies from a few areas.

Number one, technology. Being able to match a variety of product supply in different formats and also different types from standardized products to long-tail products, our technology will match the right products to the right consumers, that is giving us a leg up vis-a-vis competitors.

And the other area of synergy is that now we have close to 700 million annual active consumers in our China retail marketplace that we're able to do the cross selling of additional services like local services and entertainment to our base of close to 700 million active consumers in the China retail marketplace. So these synergies are now starting to come through and that's also giving us an advantage over our peers.

Youssef Squali -- *SunTrust Robinson -- Analyst*

Okay, thank you both.

Operator

Thank you. Our last question comes from the line of Piyush Mubayi of Goldman Sachs. Please go ahead.

Piyush Mubayi -- *Goldman Sachs & Co. -- Analyst*

Thank you for taking my question. Maggie, on the points you made about improving user experience that will result in high engagement and customer spend, and the customer spend factor. Can I just ask where you are on user experience in terms of how you -- how you're defining that, and where do you want to take it.

And second, does that not mean and I know that Joe talked about the contradiction - - assuming contradiction here, where does this -- what does this mean for the ability for you to control or to bring down your -- your spend in particular in the second half?

And there was a specific word you used that was, aggressively reinvesting. Just wanted to ask why that word aggressively was used. And I'm sorry, I'm being very picky. Thank you.

Maggie Wu -- *Chief Financial Officer and Head of Strategic Investments*

That's fine, Piyush. So in terms of the user experience, we have many measures actually. But on the ones for your easy understanding there, we see user expansion, first of all is the word of mouth besides our marketing activities, they are also word of mouth. And, more importantly it's the user retention and also user spending, and also user time spent on our platform. And also cross platform, time spending by the users. So there are many ways.

And the other matters you may be interested is the conversion, right, it's the -- how many just users convert into buyers, and then the buyers convert into the repeated buyers. So -- and then the loyal customers where we have 88 VIP members on our platform, who actually spending level is very high. So this is what we are very happy to see.

And in terms of our spending and why we use the word, I think -- OK, this is a question very interesting. If I talk about this -- if I -- we say, we are very disciplined in spending right. Some people may be worried about you might lose -- you might give more room to the competitors, because they are spending very aggressively and you're emphasizing on discipline.

But if we're talking about aggressive spending, then other people are worried about how this is going to impact your profit margin, etc. So actually, this is a game that we play every day. It's a decision we need to make every day. So this is where -- first of all, when you look at our strong profit growth that gives us the bullet as well to fight.

So we do have a very strong profit and cash flow and -- to invest. And secondly while in the past several quarters, you've seen the efficiencies out of our platform. When you look at the marketing spending as a percentage of revenue, when you look at SG&A, when you look at all of these spendings as a total revenue, it's -- we have very good control on these spendings and we measure ROIs at very -- at different levels. So I think today we still see the potential in so many areas and we do believe we have -- we are the ones that have the best -- in the best position to extend our service across all of these areas in commerce, and to help merchants and consumers.

So I think it's -- we're in a good position to spend aggressively. I think we have said that several times like in the past year, when we expand our -- when we invested in our cost business, we talk about aggressive spending when we invest into our B2C business, we always talk about aggressive spending. The key thing is that, we spend aggressively, but the return should be ensured. So that's our thinking of that.

Daniel Yong Zhang -- *Executive Chairman and Chief Executive Officer*

I think what Maggie means is simply that we can afford to be aggressive when we want to be and there is a market conditions may change from quarter-to-quarter and at -- but we have the luxury. So if you look at our quarterly earnings before interest tax, and amortization, the EBITA measure, this quarter we had RMB45 billion of EBITA and we're taking about 15% of that number to aggressively invest into the core commerce areas, like local services, international, new retail and logistics.

And so we could be very aggressive, but still just spend 15% of our EBITA in those core areas. I think, we simply mean, we've got the luxury to do that.