

**E-COM  
MONTHLY  
UPDATE**



# GLOBAL RETAIL RESEARCH



馮氏

GLOBAL RETAIL  
RESEARCH & INTELLIGENCE  
Fung Business Intelligence Centre

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## FROM THE DESK OF DEBORAH WEINSWIG

*Hello Everyone,*

*Alibaba's pre-IPO moves around the world and Amazon's entry into China's Shanghai Free Trade Zone (FTZ) signifies intensified cross-border activities in the e-commerce sector. Amazon's memorandum of understanding (MOU) with the Shanghai FTZ and Shanghai Information Investment Limited (SII) on August 20 paves the way for Amazon to bring millions of its e-commerce product offerings from around the world directly to Chinese customers, the exact opposite of what Alibaba is trying to do with AliExpress.*

*Retailers must be prepared for the increasingly globalized e-commerce landscape, where disruption by a foreign start-up can appear out of nowhere.*

*In the U.S., stagnant income continues to impact American shopping plans for the season, but at the same time, more price-conscious consumers are hunting for shopping bargains online. According to ComScore data, July desktop sales grew 14% YoY.*

*Warmly,  
Deborah*

## U.S. E-COMMERCE UPDATE ONLINE SALES GROWTH FAR OUTPACED OVERALL RETAIL SALES IN Q2

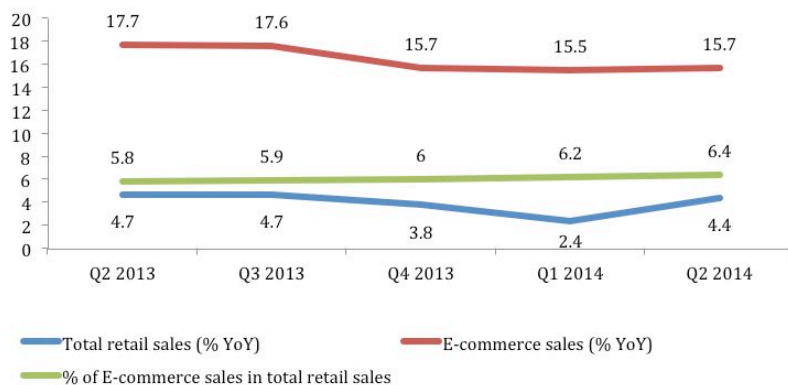
### U.S. E-COMMERCE SALES GROWTH REBOUNDED:

Online sales growth rebounded slightly to 15.7% YoY in Q2, after falling for 3 consecutive quarters, according to the U.S. Census Bureau. At the same time, growth of total retail sales also rebounded, but kept a much slower rate at 4.4% YoY in Q2.

### E-COMMERCE HIT RECORD HIGH SHARE OF RETAIL SALES

Although e-commerce sales growth has slowed significantly after Q3 2013, e-commerce sales revenue was still taking up an increasingly higher proportion of total retail sales, and has gained 0.2 percentage points every quarter since Q1. This indicates even weaker brick-and-mortar sales growth. (Exhibit 1)

Exhibit 1: Quarterly retail and e-commerce sales, Q2 2013 – Q2 2014



Source: U.S. Census Bureau

### TOP RETAILERS ARE RELYING ON E-COMMERCE SALES TO SAVE THEIR TOP-LINES

As consumer sentiment continues to be weak in Q2, retailers struggle to grow their top-lines. Many big players underperformed the Q2 national retail sales growth rate. Staples, Sears Holdings and Kohl's saw negative growths within their top-lines. In contrast, e-commerce pure-play Amazon grew its revenue by 23.2% in the period, and e-commerce sales of many traditional retailers also saw double-digit growth. (Exhibit 2)

DEBORAH WEINSWIG

Executive Director-Head, Global Retail Research and Intelligence

Fung Business Intelligence Centre

[deborahweinswig@fung1937.com](mailto:deborahweinswig@fung1937.com)

646.839.7017



**Exhibit 2: U.S. retailers' e-commerce growth**

	E-commerce sales (YoY)	
	Q1 FY2014	Q2 FY2014
Amazon	22.800%	23.200%
Staples Inc.	6.00%	8.00%
Walmart.com	~27%	~24%
Sears Holdings Corp.	26.00%	18.00%
The Home Depot Inc.	40.00%	38.00%
Target Corp.	NP	30.00%
Gap Inc.	13.00%	11.00%
Kohl's Corp.	>10% *	<20% *

Source: Company financial results

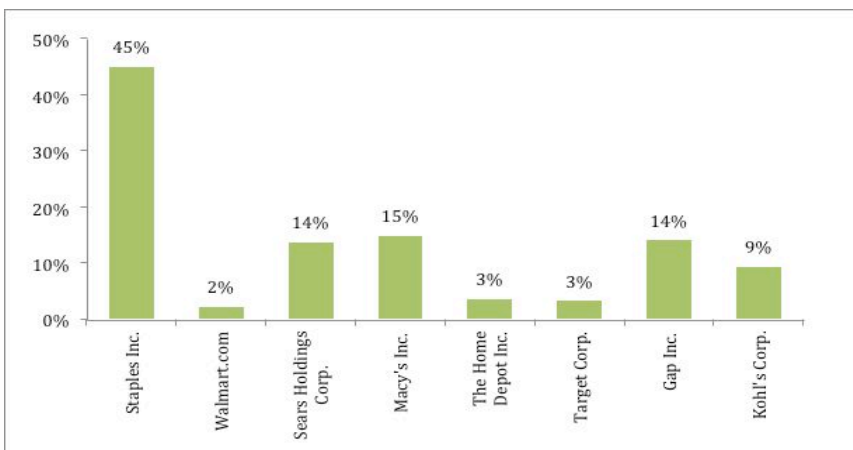
\* Information provided to analysts during earning calls

Note: YoY growth rates are rounded to whole numbers or 1 decimal place as reported

## PERCENTAGE OF E-COMMERCE SALES REMAINED BIFURCATED ACROSS DIFFERENT RETAILING FORMAT

Staples has emerged as the most successful brick-and-mortar retailer adapting itself in the e-commerce space in 2013. Many department stores and discount retailers derived more than 10% of their total sales from e-commerce in 2013, but a few big names are still lagging behind (Exhibit 3).

**Exhibit 3: Share of e-commerce sales in total retail sales 2013 (selected U.S. retailers)**



Source: Internet Retailer, Wall Street Journal, and company financial results.

Note: Figures include sales worldwide.

## E-COMMERCE SALES GREW 55.2% YOY, ON TOP OF STRONG YOY GROWTH THROUGHOUT 2014

Growth of total retail sales remained stable at about 12%, suggesting that the worst of the crackdown on luxury spending has passed. E-commerce sales have benefited as resources are being diverted away from conspicuous consumption toward middle to lower-middle range spending – the price range where more e-commerce purchases are being made.

## E-COMMERCE SHARE STILL GROWING RAPIDLY

E-commerce share of total retail sales rose to 10.4% in July, more than double the figure from March. We expect this trend to continue, as China has just entered 4G this year, and people have yet to experience the enhanced purchasing experience with higher Internet speed on mobile devices.

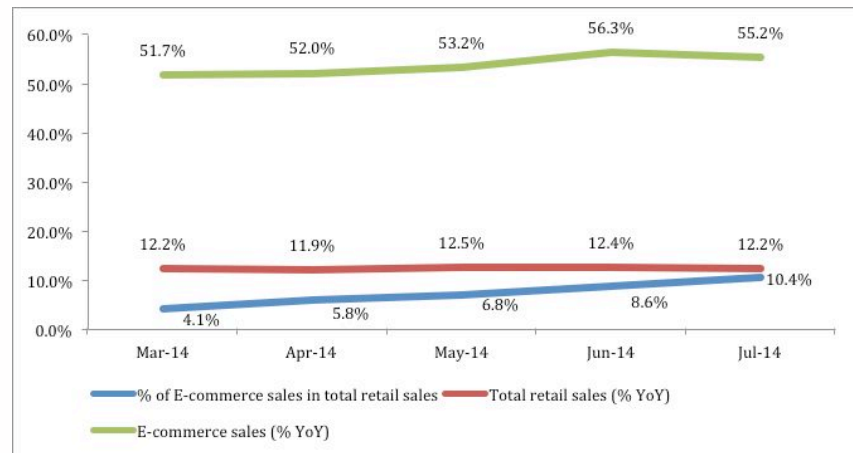
## OFFICIAL MONTHLY NATIONAL E-COMMERCE SALES FIGURES NOW AVAILABLE

Starting March, the National Bureau of Statistics is including e-commerce sales figures in its monthly national retail sales report, which is usually released two weeks after the end of each month (Exhibit 4).

# CHINA E-COMMERCE UPDATE

## ONLINE SALES GROWTH SLOWED TO 55.2% YOY IN JULY

**Exhibit 4: Monthly retail and e-commerce sales, March-July**



Source: National Bureau of Statistics, China.



## E-COMMERCE PURE-PLAYS CONTINUED TO DOMINATE

The Chinese e-commerce landscape continues to be dominated by pure-plays, unlike the U.S., where traditional retailers' online sales amount to a significant share of total e-commerce sales.

## MARKETPLACE MODEL OUTPERFORMED VERTICAL PLATFORM IN TERMS OF TOP-LINE GROWTH

All e-commerce companies in China are now adapting to a mixed model, in which they provide a platform both for third-party vendors (the marketplace model) and for trading as the principal (TIP) to receive a higher margin. In Q2, marketplace model sales grew much faster than TIP sales, especially for JD.com and Dangdang.com. (Exhibit 5)

Exhibit 5: Selected Chinese e-commerce companies

Company	Period	Vertical Platform Sales	Marketplace Sales (GMV)	Total Revenue
Alibaba (not yet listed)	Q1 (ended March 31)	N/A	69,172 (46%)	69,172 (+46%)
Tencent (HKEX:0700)	Q2 (ended June 30)	N/A	N/A	3,209 (+7%)
JD.com (NASDAQ:JD)	Q2 (ended June 30)	6,300 (+66%)	3,900 (+245%)	10,200 (+107%)
Dangdang (NYSE:DANG)	Q2 (ended June 30)	316 (+31%)	231 (+82%)	534 (+49)

Source: Company financial results

Note: Alibaba's e-commerce sales figures represent GMV and do not include its B2B businesses or income generated outside of China

# INDUSTRY UPDATE



Alibaba was said to have set new IPO target date of September 16.

Alibaba restructured agreement with Alipay. The new deal entitles Alibaba to 37.5% of Alipay's profits before tax, down from 49.9% in the previous agreement. Alibaba thinks the claim on the earnings of a bigger business more than compensates for its reduced share. Its accountants calculate that the restructuring has increased the company's value by roughly 1.3 billion yuan (\$211 million).

Alibaba introduced self-pickup delivery across Hong Kong for goods purchased on Taobao Marketplace Hong Kong, in partnership with 7-11 and Hongkong Post, the city's government-run postal service.

Alibaba signed an agreement on August 9 with the Xiacheng district government of Hangzhou city, Zhejiang province to transform the Wulin commercial area in the district into an omni-channel commercial area. Over 400 stores in the area will offer consumers services such as restaurant and hotel bookings, food deliveries, taxi services and other online payments on Alipay and other mobile internet platforms.



Amazon's branch in China signed a memorandum of understanding (MOU) on August 20 with the Shanghai Free Trade Zone and Shanghai Information Investment Limited (SII). The deal paves the way for Amazon to bring millions of its e-commerce product offerings from around the world directly to Chinese customers.

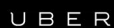


Yahoo unveiled a new version of Yahoo Stores, a service aimed at helping small business owners market and sell their goods online, in the hopes of juicing revenue from the booming area of e-commerce.



Google is buying travel app startup JetPac, which creates visual city guides by analyzing photos from social media to infer key information about the places they were taken.

Google is working on a plan to allow kids under 13 to have their own personal accounts on services such as YouTube and Gmail.



Uber's Corner Store leveraged couriers in NYC to deliver goods a few months back, and now it is offering drop-offs of over one hundred convenience items to people in certain areas of Washington, DC.



Wayfair filed S-1 on August 15. The Boston-based home goods e-commerce company showed nearly a billion dollars in 2013 revenue and a track toward 1.5 times that in 2014. It was No. 52 in Internet Retailer's 2013 Top 500 Guide.



Wal-Mart issued a profit warning on August 14 indicating that footfall through its major stores in the U.S. is flat, but it has also placed a big emphasis on e-commerce investments to drive growth in the future.



Kohl's Corp. in the coming months will enable shoppers to buy products online and pick them up in stores, improve its mobile app and strive for 20% e-commerce sales growth, the retail chain's executives said during its Q2 financial conference call.





## TECHNOLOGY UPDATE

### 3D printing

Four-color blending 3D printer 3D4C now allows user to print 3D objects with full color.

OwnPhones 3D-print earphones that are wireless, custom-fit and stylish.

### Online and mobile payment

PayPal's new feature One Touch is storing users' information on their phones to make mobile payment a "one-touch" affair.

South African payment firms BitX and PayFast partnered to assist over 30,000 African merchants with accepting Bitcoin.

BitAccess joined the race to build a worldwide Bitcoin ATM network.

Amazon launched Local Register, a mobile credit card reader and app combination that enables small businesses to receive credit card payments.



### Marketing tools

Google has launched new AdWords tool "Website Call Conversions" to let advertisers track their ads success at generating phone calls following user clicks.

Tumblr partnered with analytics firm Ditto, which scours pictures in social media looking for branded products in the frame.

It'll then pass this data on to the companies involved for a fee.

Facebook has rolled "cross-device reporting" to let advertisers see where a consumer saw an ad, the device they used and then the device they used when they "converted" or bought the product.

## REGULATORY UPDATE

### China to curb counterfeiting on e-commerce sites

China will conduct a specific campaign against infringement and counterfeit products in the e-commerce industry in the second half of this year, Shen Danyang, a spokesman for the Ministry of Commerce, told a press conference on August 18.

## FEATURE: ALL ABOUT ALIBABA

Alibaba Group is the largest e-commerce company in China operating under three major marketplaces: Taobao, Tmall and Alibaba.com. Founded by Jack Ma, a former English teacher in the Southern Chinese city of Hangzhou, Alibaba has developed businesses in consumer e-commerce, online payment, B2B marketplaces, and cloud computing, and has now expanded into new areas such as mobile apps, mobile operating systems, and entertainment, education and healthcare. Jack Ma envisions that the company will create an e-commerce ecosystem which enables users to buy or sell online anywhere in the world.

The company dominates China's e-commerce market. Last year, its transaction volume amounted to \$248 billion, or a lion share of 80% of the e-commerce market in China. As the Chinese e-commerce market is expected to be \$713 billion in 2017, Alibaba has tremendous growth potential in the next five years.

Yahoo, Softbank, Jack Ma and Joseph Tsai currently own the company. After failing to reach consensus with Hong Kong financial regulators on Alibaba's ownership structure, the Chinese e-commerce giant is seeking to go public on the New York Exchange after Labor Day this year. With a valuation of \$200 billion, the deal will be the biggest IPO in U.S. history. The long-awaited IPO is being delayed until Sept. 16 in anticipation of U.S. market slowdown in late summer.



**“Alibaba is not just a job.  
It's a dream. It's a cause.  
Let the Wall Street investors  
curse us if they want.”**



	Description	Buyers	Sellers	Revenue model	Key metrics
<b>Taobao</b> 	A predominantly free C2C platform for buyers and sellers to establish transactions at a low cost	Chinese consumers	Chinese individuals and small businesses	Subscription fee, and P4P (pay for performance) and display marketing services from sellers (optional)	<ul style="list-style-type: none"> <li>• GMV: RMB 1,678 B (no. 1 in China)</li> </ul>
<b>Tmall</b> 	A B2C platform featuring brands and retailers with each seller having a uniquely identifiable online storefront	Chinese consumers	Chinese brands and foreign brands (Tmall Global)	Sellers pay an annual upfront service fee, and commissions based on a pre-determined percentage of GMV, which typically ranges from 0.5% to 5%	<ul style="list-style-type: none"> <li>• Annual active sellers*: 8 MM</li> <li>• Annual active buyers*: 255MM</li> </ul>
<b>Juhuasuan</b> <b>聚划算</b>	A group buying platform, which aggregates consumer demand mainly through flash sales	Chinese consumers	The majority of sellers on Juhuasuan are Tmall sellers	Sellers pay a placement fee for promotional slots for a specified period and a commission based on GMV	
<b>AliExpress</b> <b>AliExpress</b>	A B2C and C2C marketplace that enables consumers around the world to buy directly from China. In addition to the global English-language site, AliExpress operates two local language sites in Russia and Brazil	Global consumers (top three countries with most buyers: Russia, the U.S. and Brazil)	Wholesalers and manufacturers in China (most are SMEs)	Sellers generally pays 5% of GMV for transactions settled through Alipay*	GMV settled through Alipay: U.S. \$2.4 B



## Alibaba 1999 - 2013







Revenue (2014)			
	U.S.\$ million	% of revenue	YoY growth
China commerce			
Retail	6,890	81.6%	+59%
Wholesale	370	4.4%	5%
Total China commerce	7,260	86.0%	+55%
International commerce			
Retail	151	1.8%	+139%
Wholesale	629	7.4%	+4%
Total international commerce	780	9.2%	+17%
Cloud computing and Internet infrastructure	124	1.5%	+19%
Others	282	3.3%	+224%
Total revenue	8,446	100.0%	+52%

Operating Cost		
	% of revenue 2014	% of revenue 2013
Cost of revenue	25.5%	28.2%
Product development expenses	9.7%	10.9%
Sales and marketing expenses	8.7%	10.5%
General and administrative expenses	7.9%	8.3%
Amortization of intangible assets	0.6%	0.4%
Impairment of goodwill and intangible assets	0.1%	0.5%
Yahoo TIPLA amendment payment*	---	10.1%
Total operating cost	52.5%	68.9%

Margins (2014)			
	U.S.\$ million	% of revenue	YoY growth
Income from operation	4,009	47.5%	+132%
Net income	3,764	44.6%	+171%

## WHY DOES IT MATTER TO U.S. RETAILERS?

**OPPORTUNITIES IN CHINA MARKET:** For U.S. companies that consider entering China's e-commerce untapped space, Alibaba will be a strong business partner. China is now the world's second largest retail market after the U.S. In 2013, the total retail sales of consumer goods in China was 23.4 trillion Yuan, up by 13.1%. EIU predicts that China will overtake the U.S. to become the world's largest retail market by 2016. By 2020, the Chinese e-commerce market will be bigger than that of America, Britain, Japan, Germany and France combined. Alibaba has hundreds of millions of users, and hosts millions of merchants and businesses in China. In particular, Alibaba's customer data is valuable for U.S. retailers who are interested in the spending habits of Chinese consumers and information of millions of Chinese merchants.

**SHEER SIZE OF THE COMPANY:** Alibaba is a big player in both retail and technology. Alibaba's transaction volume was more than that of Amazon and Ebay combined in 2013; it will be one of the most valuable tech companies in the world by market capital, just after Apple, Google and Microsoft (top-end estimate). The upcoming IPO will be the biggest in U.S. history, and will surpass that of Facebook, Visa Inc. and GM.

**RECENT EXPANSION INTO U.S. MARKET:** Jack Ma once described Alibaba as the "crocodile in the Yangtze river". The firm envisions itself as a strong competitor against Amazon and Ebay. Alibaba launched a U.S. shopping website, 11 Main, in June 2014. With over 1,000 merchants in categories such as clothing, fashion accessories and jewelry as well as interior goods, arts and crafts, 11 Main aims to offer a small-town shopping experience to consumers on the internet. The launch of 11 Main shows Alibaba's ambition to compete with U.S. e-commerce platforms. 11 Main is Alibaba's third U.S. based subsidiary. Alibaba has also helped U.S. based retail companies to source their products to cheap Chinese factories.