

# bda

## DD on Xiao Hong Shu

2015/7/18  
H Capital

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- **Executive Summary**
- Cross-border Ecommerce Market Overview
- Introduction to XHS
- Assessment on XHS' Supply Chain Capacity
- Assessment of XHS' Product and Service Offerings
- Feedback from the Customers

**Haitao Market**

- **Market Size:** Current Chinese Haitao market is a RMB 60 BN market with food (health food), cosmetics & personal care, and Mom & Baby as primary categories. The market will grow into a RMB 300 BN or larger market by 2019
- **Leading Players:** Current leading players in the market are Tmall.HK, Netease Kaola, and Jumei Global. Xiao Hong Shu is a tier 3 player still after Amazon, Ymatou, and Mia.
- **Business Model:** Current players either apply proprietary sales model or POP platform model, or both, and they do not distinguish from each other on the source of good.

**Xiao Hong Shu's Business**

- **Business Description:** Xiao Hong Shu (XHS) started as an online community **sharing overseas shopping experience and comments on niche foreign products**. It later developed an e-commerce service that sells niche foreign products to its customers.
  - **Primary Function 1 - Shopping Note Sharing:** Xiao Hong Shu has its own community where users share photos and comments on various products and discuss with each other. The UGC promotes user stickiness and shopping conversion rate, as well as brand value.
  - **Primary Function 2 – Fu Li She (E-Commerce):** Fu Li She sells some niche products that are recommended by its note generators. The endorsement of users might increase the sell-through rate of the products. XHS applies primarily proprietary sales model, and sources good both through bonded zone and domestic traders / distributors.

### Xiao Hong Shu's Traffic and Engagement

- DAU reached 387 K and MAU reached 2,853 K in June;
- **Efficient traffic conversion:** About 55% of the traffics on XHS' app also went to the e-commerce channel – Fu Li She;
- **Frequent Engagement:** an active user opened the app 5 to 6 times a day in average;
- New users acquired by heavy marketing investment in May and June diluted the activeness of the community, as average note sharing, average likes given, and average notes collected are all dropping.

### Xiao Hong Shu's E-Commerce Performance and Operation

- **GMV:** achieved RMB 107 MN GMV in June, with a CAGR of 51% in the past 10 months;
- Xiao Hong Shu has **three major warehouses**, two of which are bonded warehouses (in Zhengzhou and Shenzhen) that are responsible for cross-boarder trade, and another is in Shanghai that is responsible for intra-national trade, where XHS **exposes to supply chain risk**.
  - The warehouse in Shanghai Jiading might engage in unauthentic sources of goods, such as merchants from Taobao, Tmall, or individual suppliers; **we estimate the questionable source might take ~20% in the total order volume**, while the management only acknowledge less than 1%
  - Apart from the Shanghai warehouse, **the two bonded warehouse seems to be in good operation**. Delivery from the bonded warehouse is 1 day later than from the normal warehouse.
- **Long-tailed SKU:** The vast majority of XHS's selling products are long-tailed SKU, which increase its supply chain risk.
- Xiao Hong Shu has a **slight price disadvantage**, 1 ppt higher than its peers on average. Xiao Hong Shu has a price advantage over Jumei and Ymatou, but witnesses a disadvantage when compared to Taobao and Kaola ; XHS' skincare and personal care appliance enjoy lower price than peer's average, while other categories have higher price.

### Xiao Hong Shu's Customer Feedbacks

Customers are generally satisfied with the experience of shopping on Xiao Hong Shu

- **Demographics:** our survey demographics confirmed that Xiao Hong Shu's customers are predominantly young females; we also found that they were mostly middle- or low-income.
- Customers are mostly acquired through **word of mouths**, and are quite **sticky with Xiao Hong Shu** where 56% of customer check XHS once or more than once everyday.
- Most customers are not actively writing notes on Xiao Hong Shu, but they think others' experiences are **valuable and trustworthy**.
- Xiao Hong Shu's customers **prefer Xiao Hong Shu to other Haitao channel** if the item is universally sold; if the desired item is not found on Xiao Hong Shu, customers will try to buy them through other channels such as Taobao or personal purchasing agents.
- KSFs
  - Most customer trust Xiao Hong Shu with their authenticity.
  - Customers feel Xiao Hong Shu do not have abundant product.
  - Customers feel Xiao Hong Shu's price is normal and reasonable; neither too cheap nor too expensive.
  - Customers are generally satisfied with Xiao Hong Shu's delivery speed and quality.
  - Most customers have not experienced customer service yet, but those who had provided mediocre feedbacks.

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We estimate the Chinese Haitao market will grow from RMB 60 BN in 2014 to over RMB 300 BN in 2019

Calculation Method		Foods (Health Food)		Cosmetics and Personal Care		Haitao Market Mom and Baby	
		2014	2019	2014	2019	2014	2019
Chinese Retail Market Size	RMB MN	1,879,786	3,247,037	233,516	392,777	323,240	615,394
✖							
Penetration Rate of the Taobao System	%	3%	8%	34%	40%	24%	30%
=							
GMV in the Taobao System	RMB MN	54,568	256,610	80,268	157,111	76,012	184,618
+							
Taobao's Share in E-commerce	%	82%	69%	82%	69%	82%	69%
=							
Chinese e-commerce market size	RMB MN	66,287	372,168	97,506	227,862	92,336	267,757
✖							
Haitao's Share of the Category	%	15%	30%	22%	50%	36%	50%
=							
<b>Haitao's Market Size of the Category</b>	<b>RMB MN</b>	10,000	<b>111,650</b>	21,000	<b>113,931</b>	33,000	<b>133,878</b>
<b>CAGR of Haitao's Market Size</b>	<b>%</b>		<b>62%</b>		<b>40%</b>		<b>32%</b>

Major e-commerce companies engaged in cross-boarder business since 2014; for now, Tmall.HK, Netease Kaola and Jumei are taking the lead, and covering categories like mom & baby, cosmetics, and health food

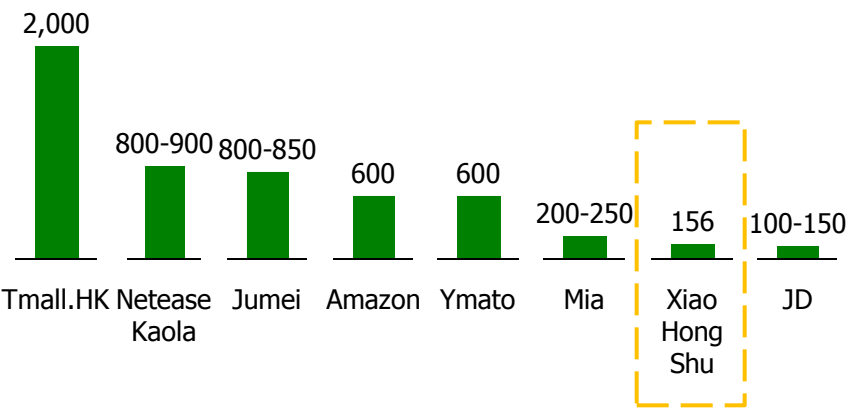
## Haitao Market

### Market Size and Competition

- According to BDA research, the mainstream business model in Chinese Haitao market is still personal purchasing agent (个人代购), accounting for 70% of the 2014 Haitao market size. Transporting from overseas source is also a popular model.
- Major e-commerce platforms engaged in cross-boarder business since 2014, and their business size are still small. The total GMV of cross-boarder business by the e-commerce platforms was about RMB 5 – 6 BN from January 2015 till May 2015.

**GMV of Major E-commerce Platforms, 2015.01 – 2015.05**

Unit: RMB MN

























Platform E-Commerce

	Structure of Category	Daily Order	Average Order Value
<b>Jumei</b> 聚美 极速免税店 GLOBAL STORE	Cosmetics Apparel Mom & Baby Food and Health Others 60% 15% 10% 14% 1%	• 70-110K	• RMB 100-300
<b>Mia</b> 蜜芽宝贝 MIYABABE.COM 进口母婴限时特卖	Diaper Powder Food Supplement Personal Care Others 30% 20% 15% 10% 15%	• ~10K	• RMB 200
<b>Kaola</b> 考拉海淘 www.kaola.com	Mom & Baby Cosmetics Health Others 65% 20% 10% 5%	• 10-20K	• RMB 500-800
<b>Xiao Hong Shu</b> 小红书 找到国外的好东西	Cosmetics Health Home Food 50% 25% 15% 10%	• 20-30K	• RMB 280
<b>Ymatou</b> 洋码头	Mom & Baby Health Luxury Cosmetics Apparel 35% 25% 15% 15% 10%	• 20-25K	• RMB 350-400
<b>Tmall.HK</b> 天猫国际	Mom & Baby Health Cosmetics Others 50% 20% 20% 10%	• NA	• NA
<b>JD Worldwide</b> 京东全球购 JD Worldwide	Mom & Baby Health Cosmetics Others 60% 15% 15% 10%	• NA	• NA

Notes: For Netease Kaola, percentage of different categories is calculated in order volume; while for others, the percentage is calculated in GMV

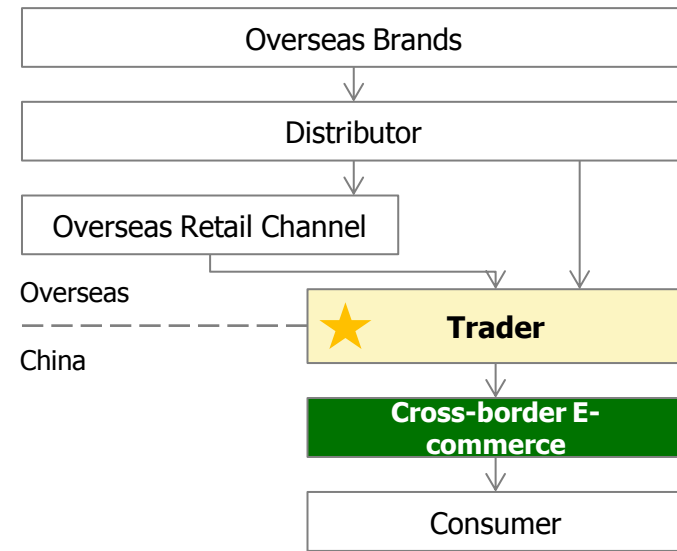


For now, domestic cross-border e-commerce can be divided into direct sales and POP two main models. Jumei, Mia, Netease Kaola and Amazon mainly adopt direct sales model, while Ymato, Tmall.HK and JD adopt POP model

	E-commerce Websites	Percentage of Different Models (Calculated in GMV)	Major Categories
Direct Sales E-commerce	 聚美   极速免税店 GLOBAL STORE	90%  10% 	<ul style="list-style-type: none"> <li>• Direct Sales: cosmetics, milk formula and diaper ;</li> <li>• POP: luxury, toys and food under mom &amp; baby</li> </ul>
	 蜜芽宝贝 MIYABABAI.COM 进口母婴限时特卖	90%  10% 	<ul style="list-style-type: none"> <li>• Direct Sales: diaper, milk formula and baby food supplement ;</li> <li>• POP: mom &amp; baby, apparel</li> </ul>
	 考拉海购 WWW.KAOLA.COM	100%  NA	<ul style="list-style-type: none"> <li>• Direct Sales: cosmetics, mom &amp; baby, food and health</li> </ul>
	 亚马逊海外购	100%  NA	<ul style="list-style-type: none"> <li>• Direct Sales: comprehensive varieties , mainly covering personal care and outdoor sport</li> </ul>
	 小红书 找到国外的好东西	90%  10% 	<ul style="list-style-type: none"> <li>• Direct Sales: mom &amp; baby, cosmetics, home and health</li> <li>• POP: imported goods through general trade, which do not belong to Haitao</li> </ul>
Platform E-commerce	 洋码头	20%  80% 	<ul style="list-style-type: none"> <li>• Direct Sales: mom &amp; baby, health and cosmetics ;</li> <li>• POP: apparel and luxury</li> </ul>
	 天猫国际	NA  100% 	<ul style="list-style-type: none"> <li>• POP: comprehensive varieties, mainly covering mom &amp; baby and cosmetics</li> </ul>
	 京东全球购 JD Worldwide	10-20%  80-90% 	<ul style="list-style-type: none"> <li>• Direct Sales: mom &amp; baby, cosmetics, food and health</li> <li>• POP: comprehensive varieties, primarily mom &amp; baby</li> </ul>

It is hard for Haitao players to cooperate directly with top brands overseas, while even if they successfully signed terms with some lower tier brands, the contract is usually not exclusive

### Purchase Model of Cross-border E-commerce



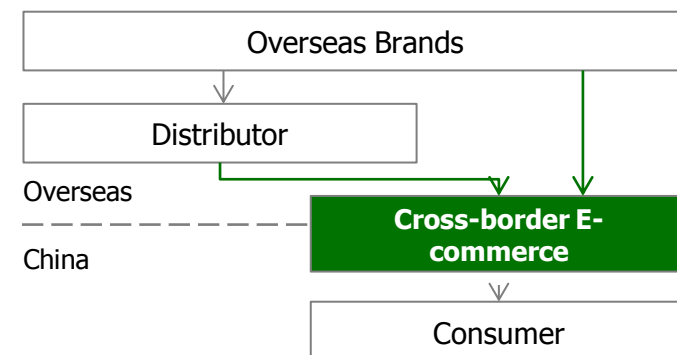
**First-tier and second-tier brands**

### BDA Analysis

- **Cross-border e-commerce companies have to purchase from traders as it is difficult for them to directly cooperate with first and second-tier brands**
  - Big brands are unlikely to cooperate with cross-border e-commerce because they usually have developed channels and tend to protect the interest and pricing system of existing developed channel
- **Major e-commerce players share similar suppliers and sources of goods**

*“Those underpinned brands usually don’t directly cooperate with cross-border companies as they don’t want their long-held image and pricing system to burst with low price. For instance, Laneige already has good channels in China, thus Jumei has no means of directly cooperating with it.”*

--Industry Experts



**Third-tier brands**

- **Third-tier brands are more willing to directly cooperate with Haitao players because they lack established domestic channels**
- **However, these brands tend to collaborate with several Haitao companies instead of signing exclusive terms, so as to expand sales; The supply price doesn’t vary much**

*“JumeiGlobal has signed contracts with several Korean brands like It’s Skin, Charmzone and Nature Republic, but these contracts are not exclusive, which means those brands also cooperate with many other similar platforms in order to boost sales and spread risks.”*

--Industry Experts

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Xiao Hong Shu was established in July 2013; It started from an overseas shopping notes sharing community; In late 2014 it launched an e-commerce channel tapping into the online retailing business

## Xiao Hong Shu



### Background Information

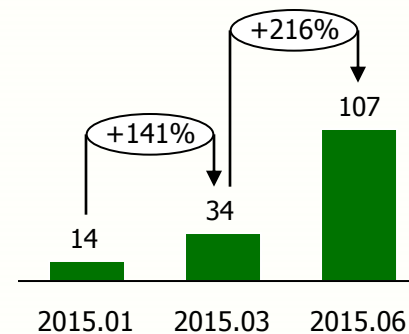
- **Company Establishment:** July 2013
- **Headquarter:** Shanghai
- **Team Size:** over 100
- **Key Management:**
  - MAO Wenchao, Founder and CEO, Stanford MBA
  - QU Fang, Co-funder, Senior in Marketing
  - Jun Hao, in charge of Technology
  - LOU Yilin, VP, in charge of Operation
- **Financing Information:**
  - Seed: Oct. 2013, from Zhen Fund, millions of RMB
  - Series A: Jun. 2014, from GSR Ventures and Zhen Fund, millions of USD
  - Series B: Jun. 2015, from GGV and GSR, over USD 10 MN

### Business Description

- Xiao Hong Shu (XHS) started as an online community sharing overseas shopping experience and comments on niche foreign products. It later developed an e-commerce service that sells niche foreign products to its customers.
- **Key Functions:**
  - **Shopping notes sharing:** Xiao Hong Shu has its own community where users share photos and comments on various products and discuss with each other. The UGC promotes user stickiness and shopping conversion rate, as well as brand value.
  - **E-Commerce (Fu Li She):** Fu Li She sells some niche products that are recommended by its note generators. The endorsement of users might increase the sell-through rate of the products.

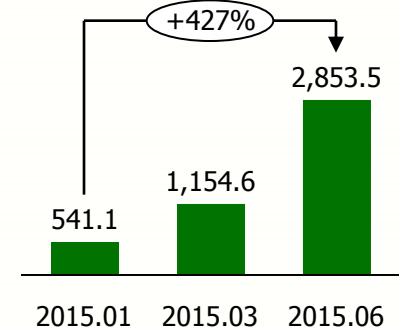
### GMV of XHS, 2015.01-06

Unit: RMB MN

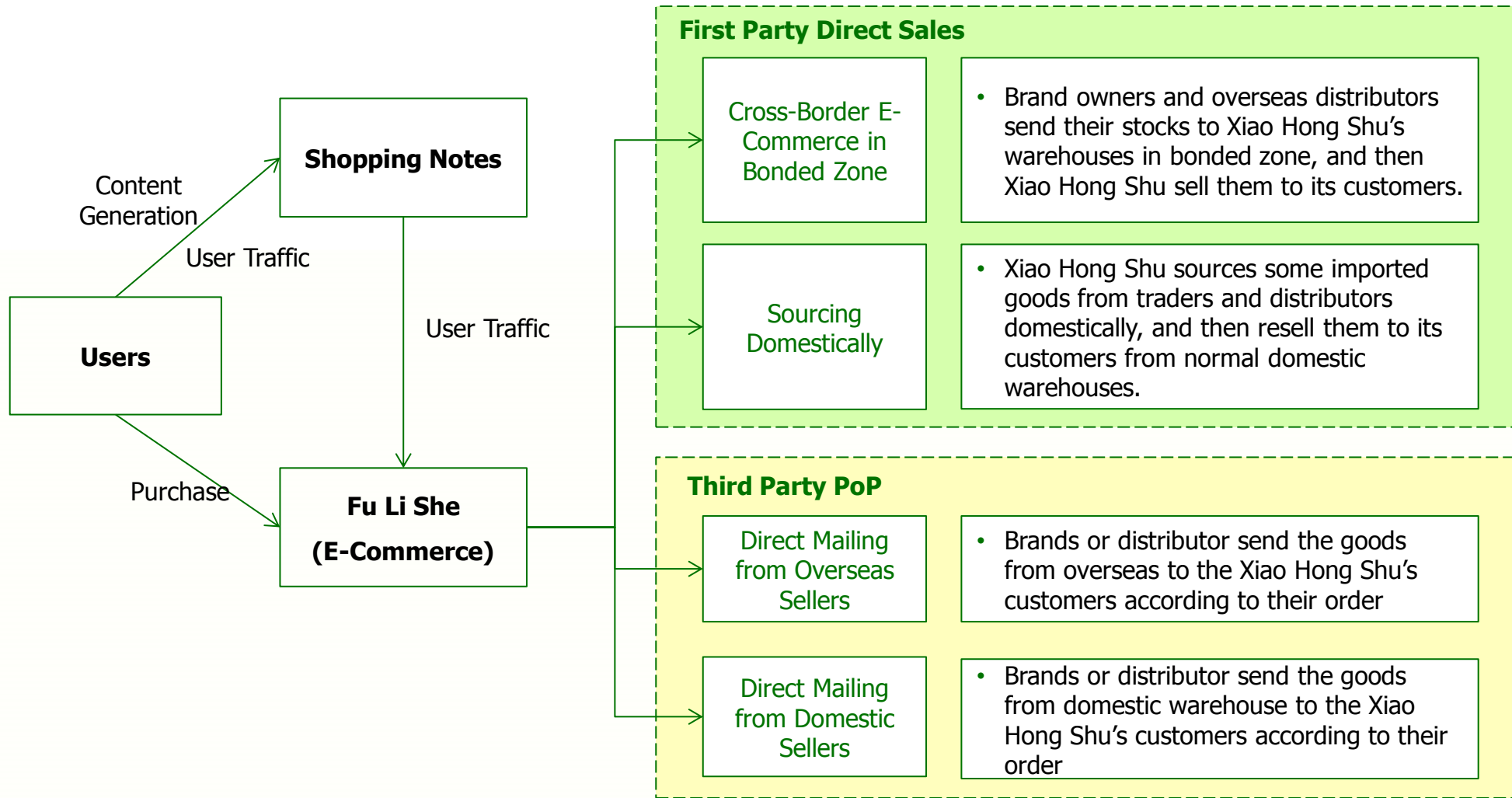


### MAU of XHS, 2015.01-06

Unit: '000 people



Users generate shopping notes on Xiao Hong Shu, and these notes act as traffic magnet and direct the traffic to its e-commerce segment 'Fu Li She'; Fu Li She's primary business model is first party direct sales

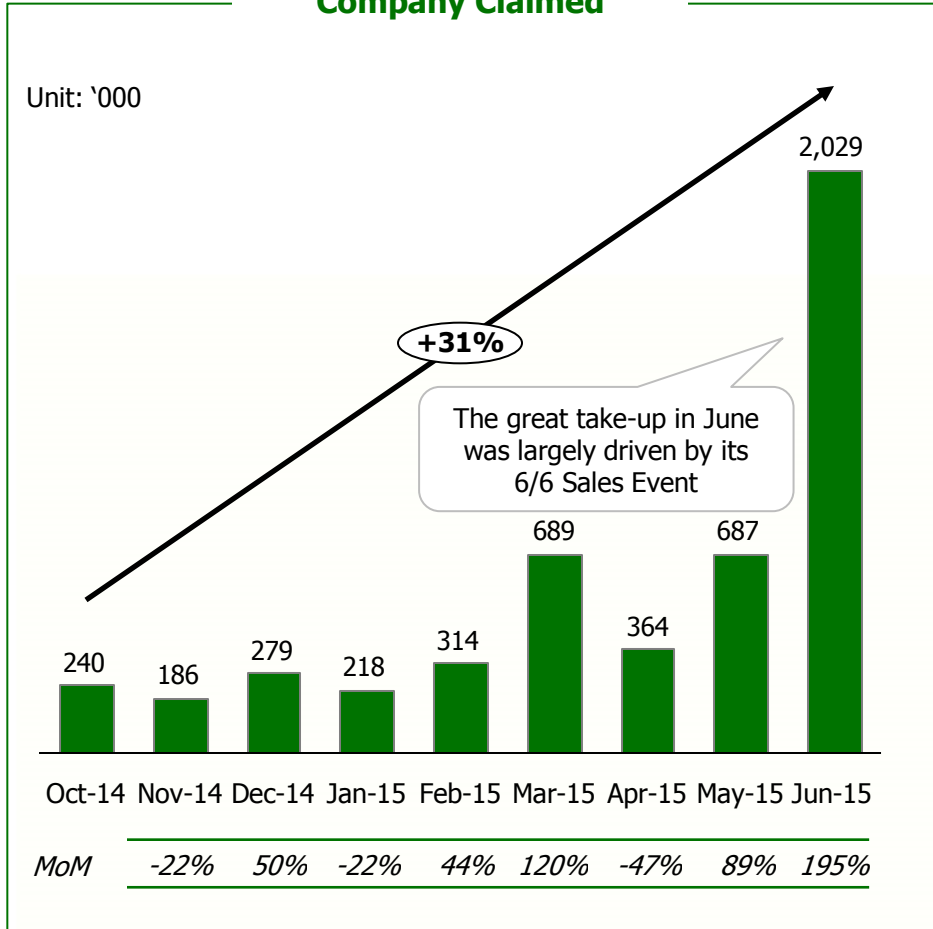


- **Xiao Hong Shu Traffics and Engagements**

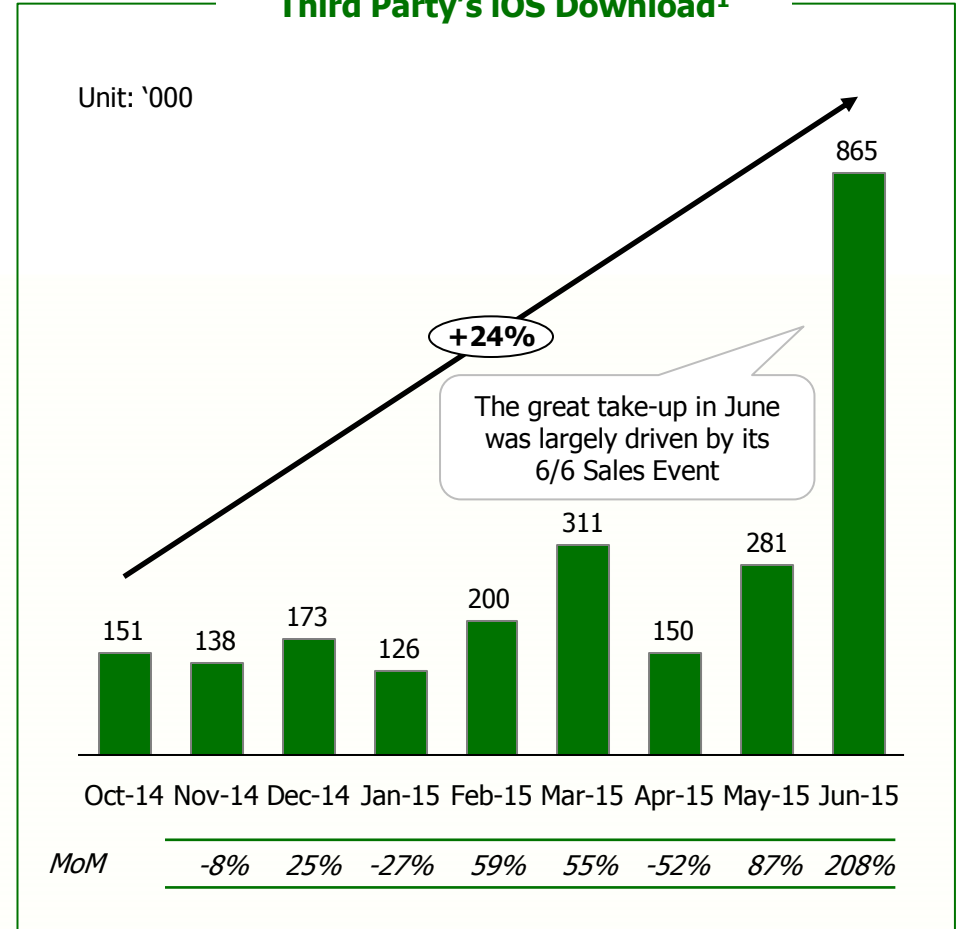
XHS' APP downloads kept increasing, with a CMGR of 31% from October 2014 to June 2015; third party's iOS data shows the similar trend but with a lower CMGR

### Xiao Hong Shu's APP Downloads (Sep 2014 – Jun 2015)

**Company Claimed**



**Third Party's iOS Download<sup>1</sup>**

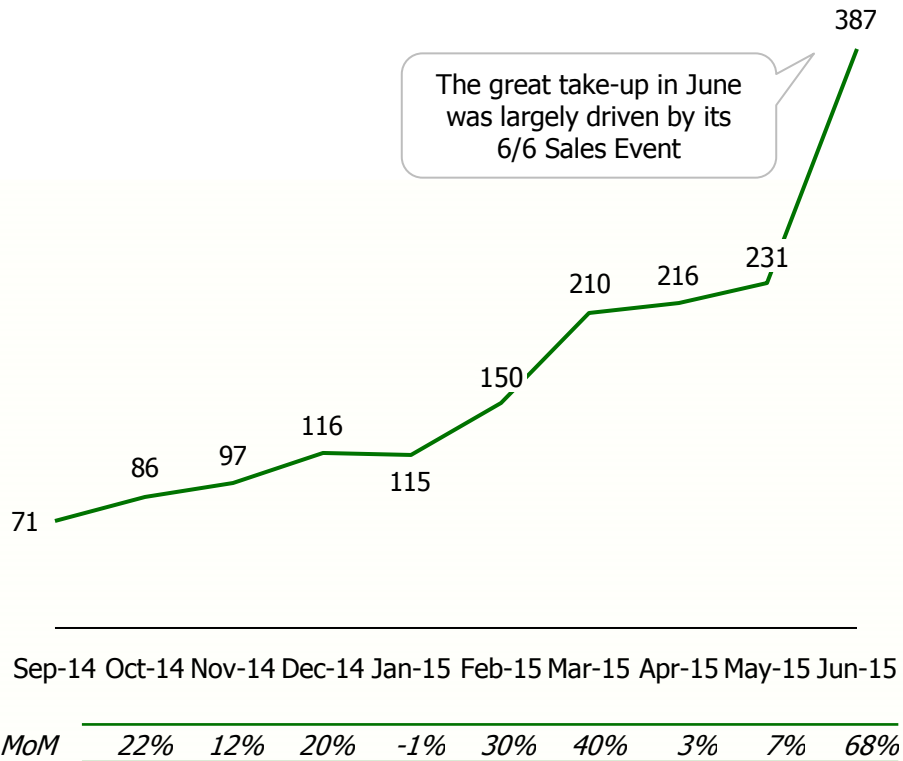


Note1. This is the APP downloads on iOS provided by App Annie. Xiao Hong Shu claims ~70% of its customers come from iOS

# XHS Community's DAU and MAU were rising rapidly, especially in June 2015 driven by the 6/6 Sales Event

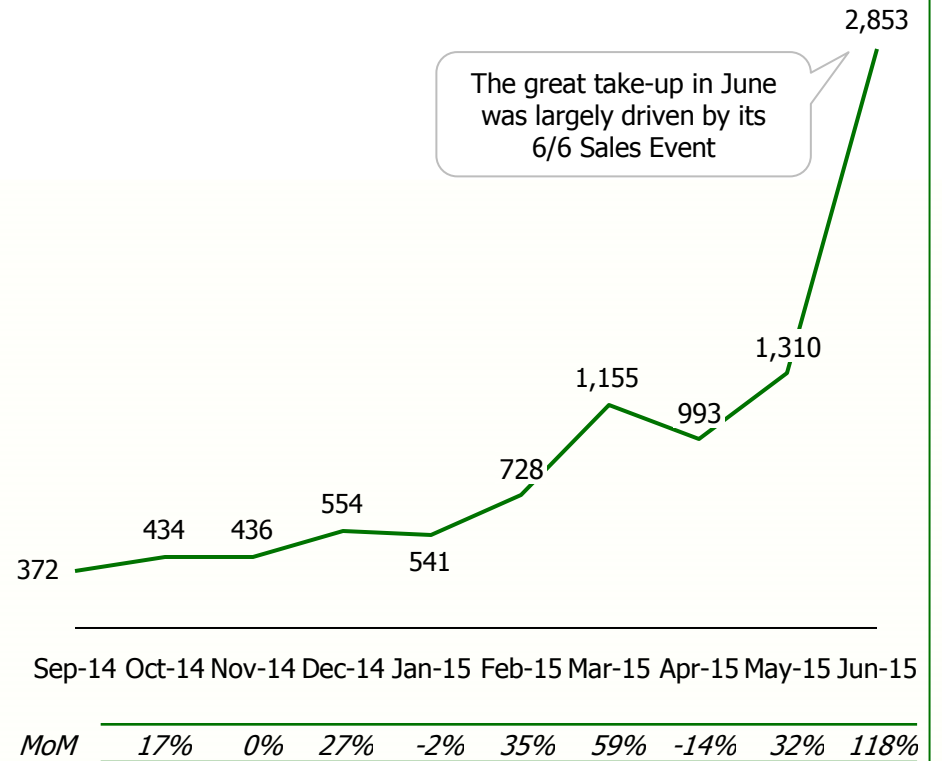
### Community's DAU (Sep 2014 – Jun 2015)

Unit: '000



### Community's MAU (Sep 2014 – Jun 2015)

Unit: '000

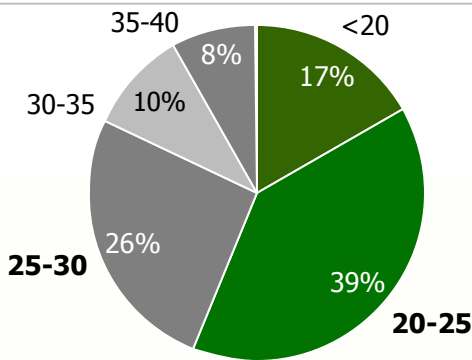




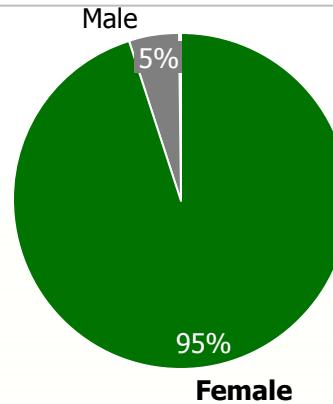
Xiao Hong Shu's customers are mainly young female people, whose ages are between 20 to 29, evenly distributed in Tier 1, Tier 2 and Tier 3 cities

**Xiao Hong Shu's Customer Profile**

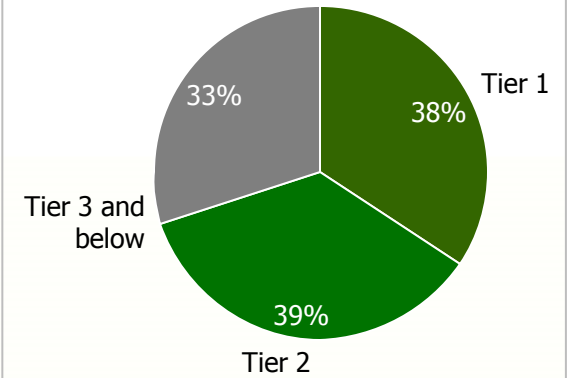
**Customer's Age Distribution**



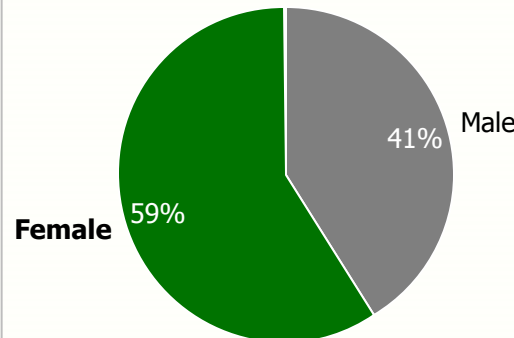
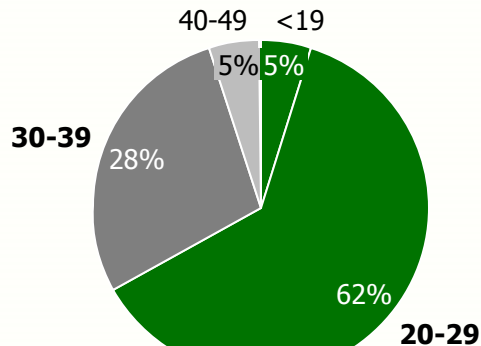
**Customer's Gender Distribution**



**Customer's Cities Distribution**



**Company Claimed**

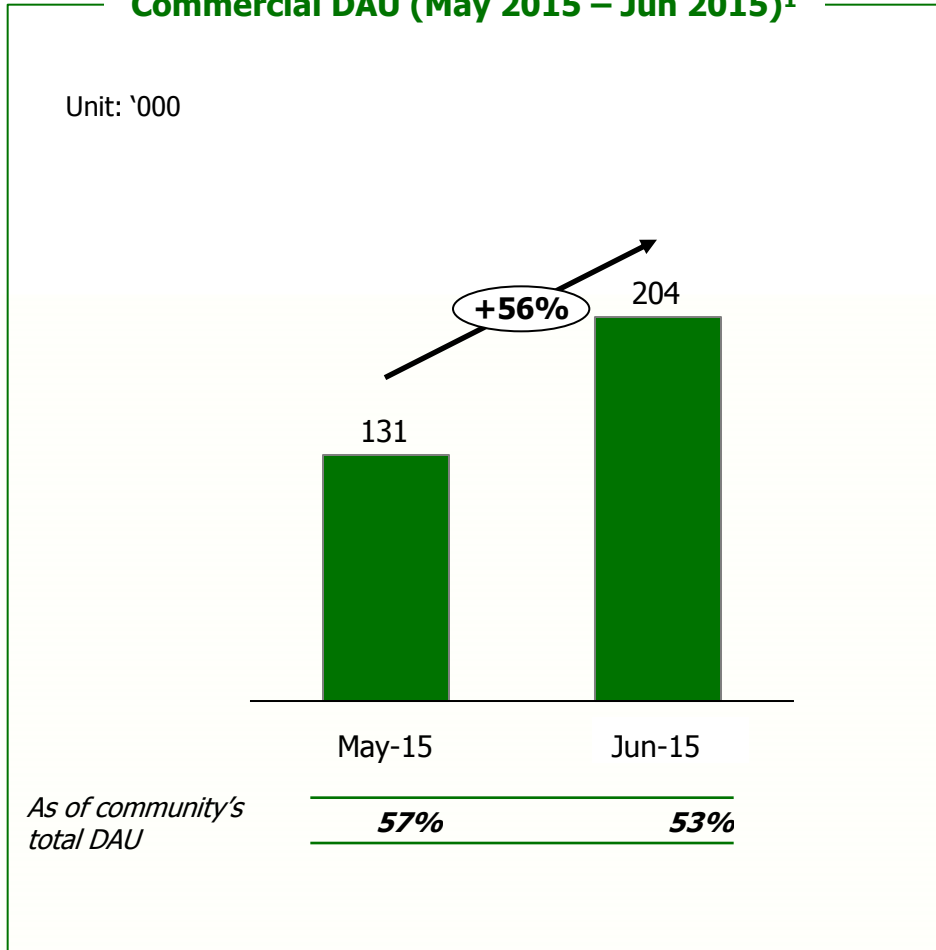


**Baidu Index**

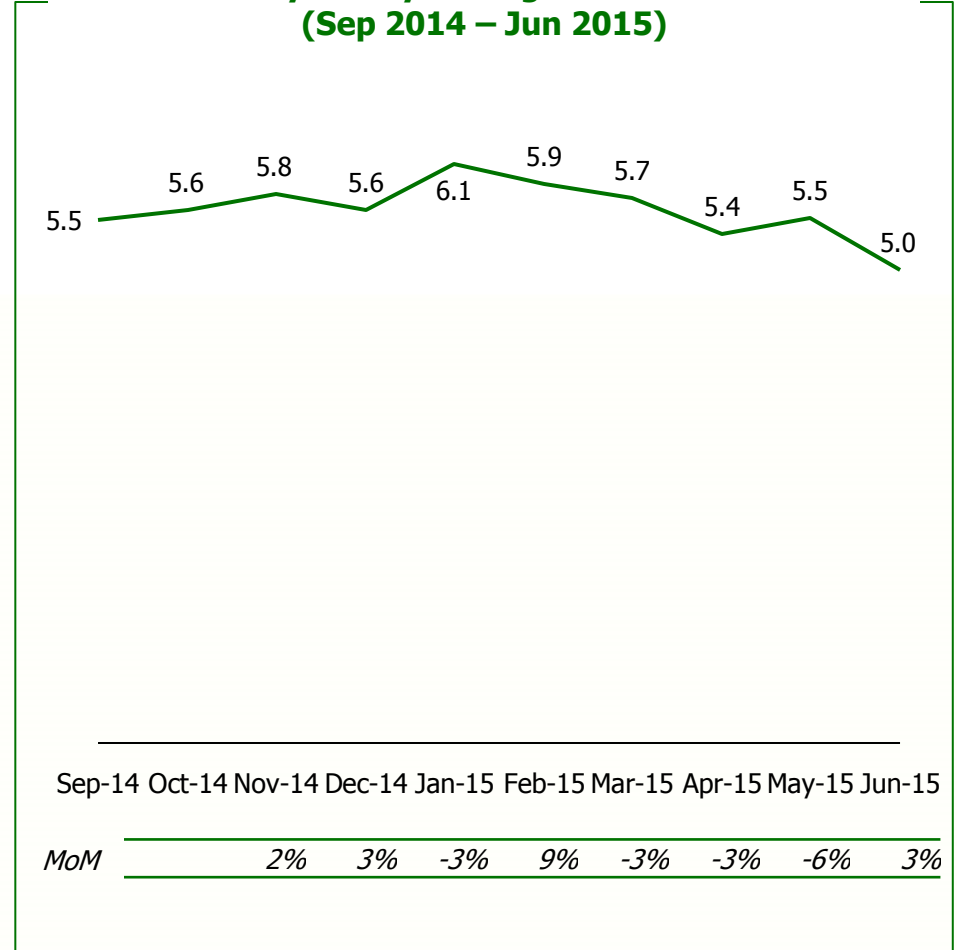
- Baidu index does not provide the cities distribution

About 55% of the traffics on XHS' app also went to the e-commerce channel – Fu Li She; An active user opened the app 5 to 6 times a day in average

**Commercial DAU (May 2015 – Jun 2015)<sup>1</sup>**



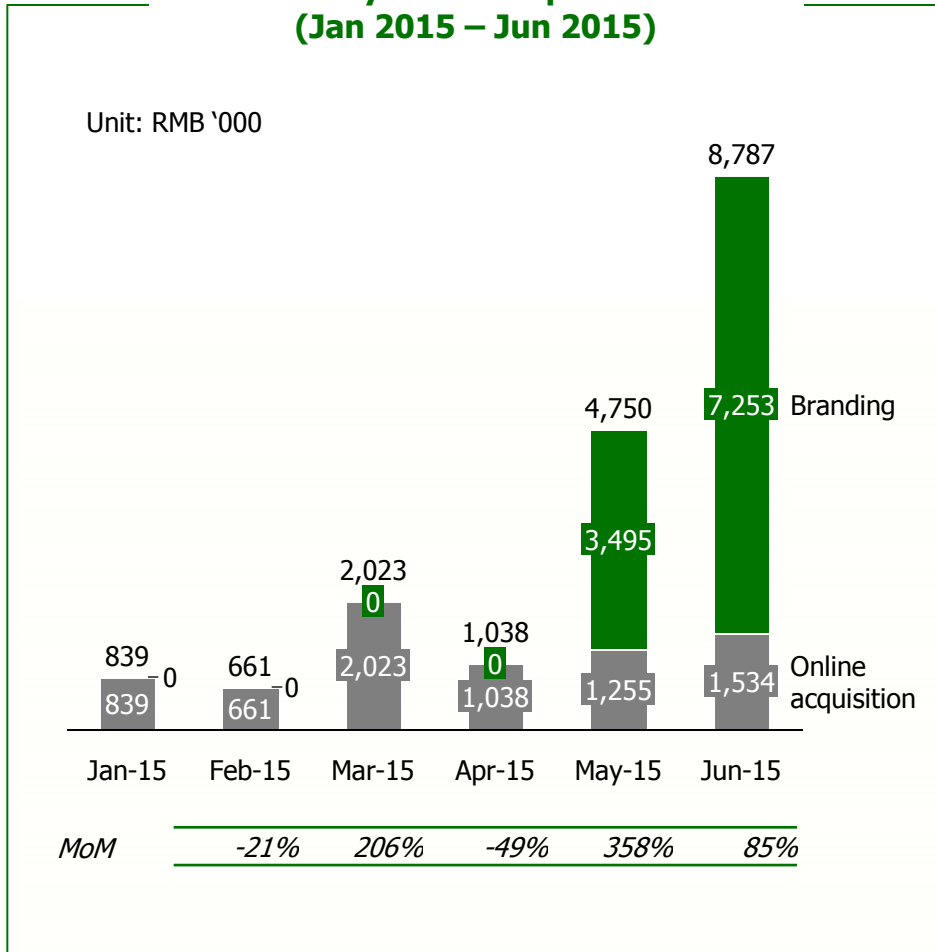
**Community's Daily Average Sessions Per DAU (Sep 2014 – Jun 2015)**



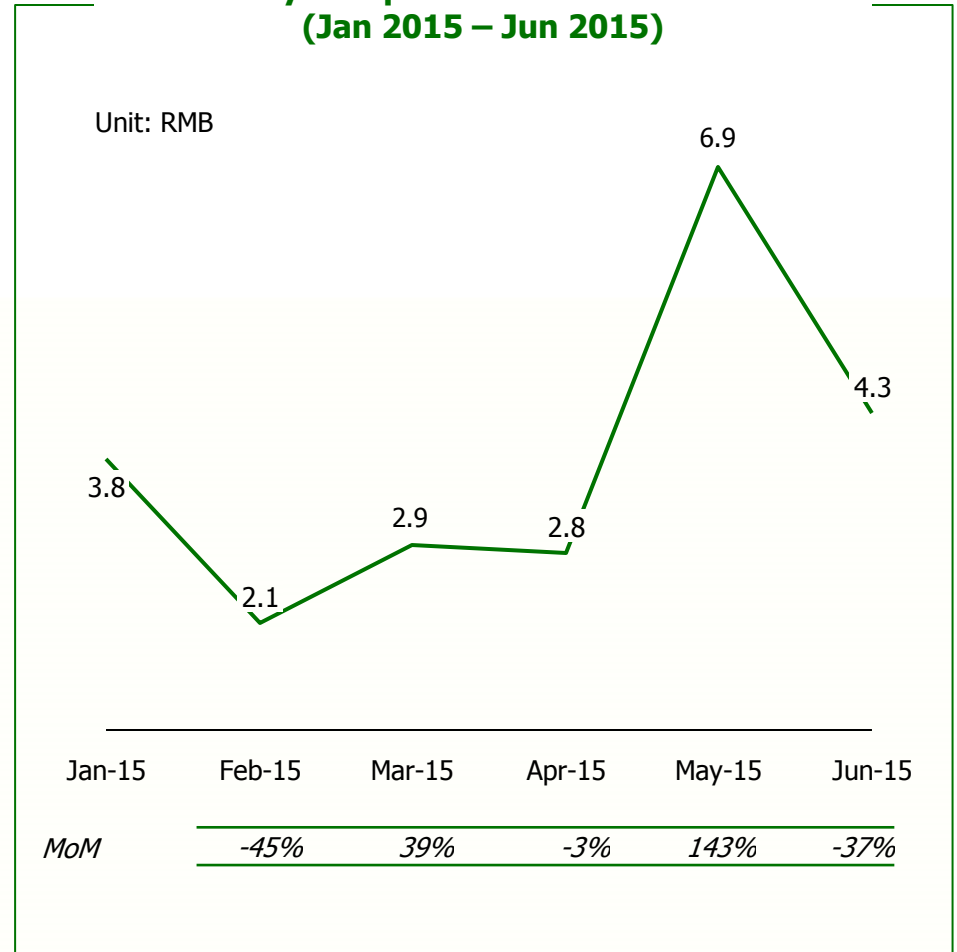
Note: 1. Xiao Hong Shu began to count its commercial DAU in May 2015

XHS community's user acquisition cost rose up rapidly since May 2015, mainly due to increasing investment in brand marketing; the acquisition cost per new visitor is around RMB 4 in June 2015

**Community's User Acquisition Cost (Jan 2015 – Jun 2015)**

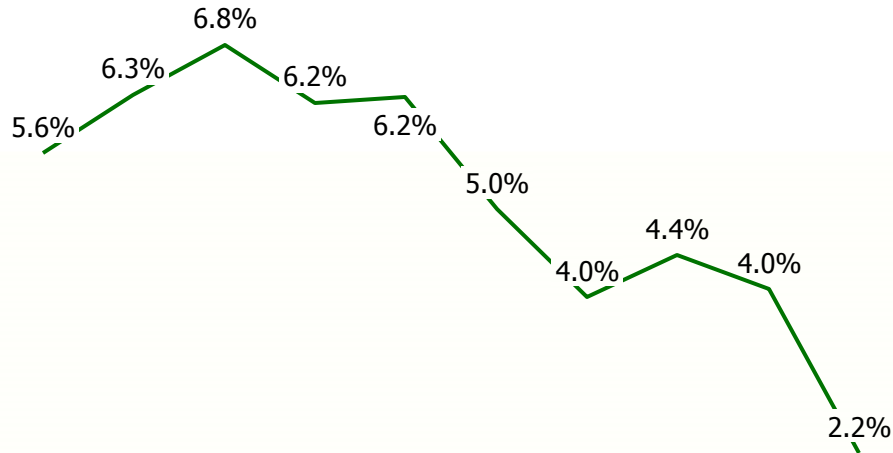


**Community's Acquisition Cost Per New Visitor (Jan 2015 – Jun 2015)**



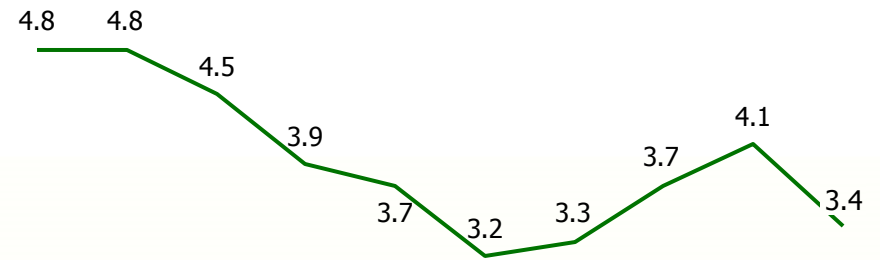
Community users' participation rate are falling, as both monthly posting users per MAU are decreasing obviously and monthly notes per posting users are dropping

**Community's Monthly Posting Users as % of MAU  
(Sep 2014 – Jun 2015)**



Sep-14 Oct-14 Nov-14 Dec-14 Jan-15 Feb-15 Mar-15 Apr-15 May-15 Jun-15

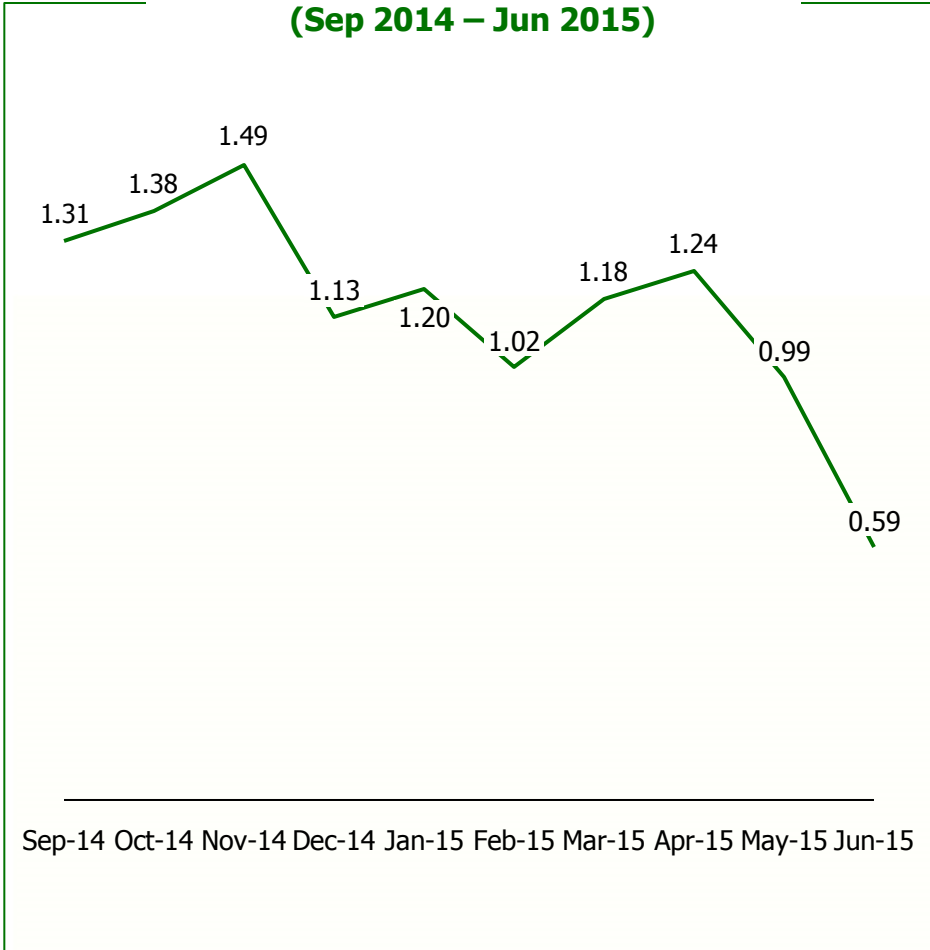
**Community's Monthly Notes as of Posting Users  
(Sep 2014 – Jun 2015)**



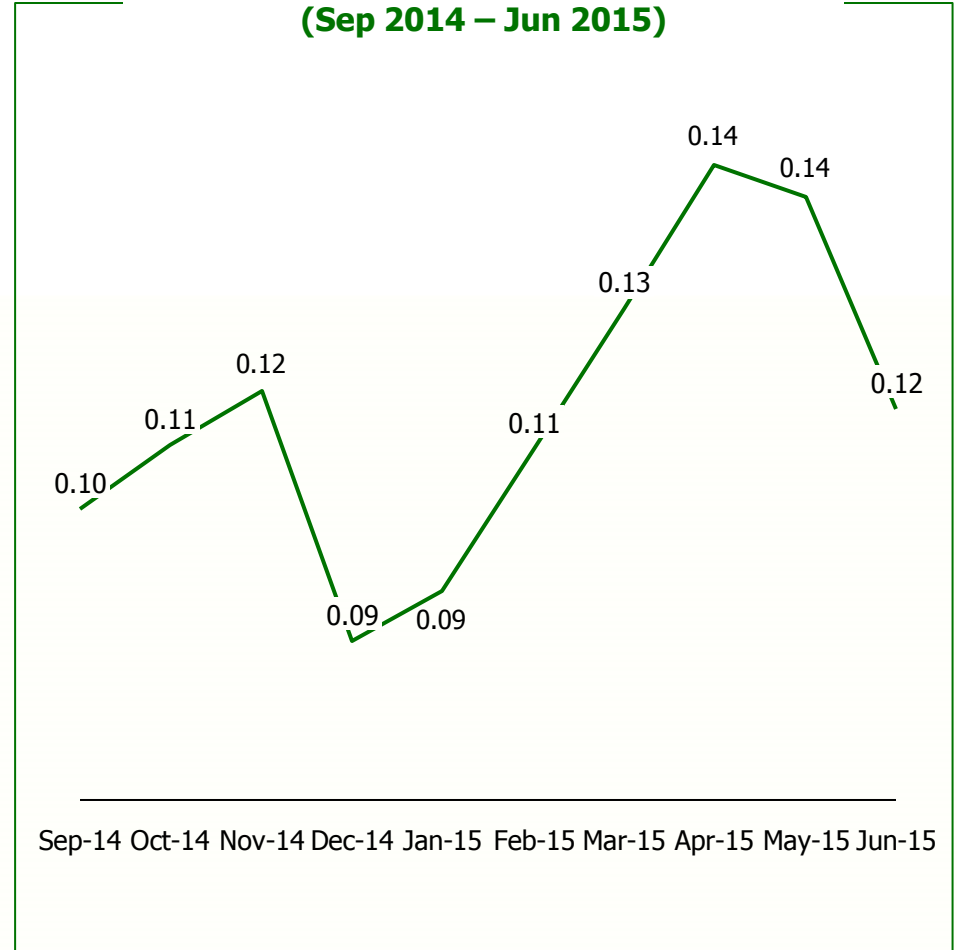
Sep-14 Oct-14 Nov-14 Dec-14 Jan-15 Feb-15 Mar-15 Apr-15 May-15 Jun-15

Likes and collects per MAU are increasing until May; these patterns, together with the former slide, indicate that the new users acquired in May and June diluted the activeness of the community

**Community's Monthly Likes as of MAU  
(Sep 2014 – Jun 2015)**



**Community's Monthly Collects as of MAU  
(Sep 2014 – Jun 2015)**

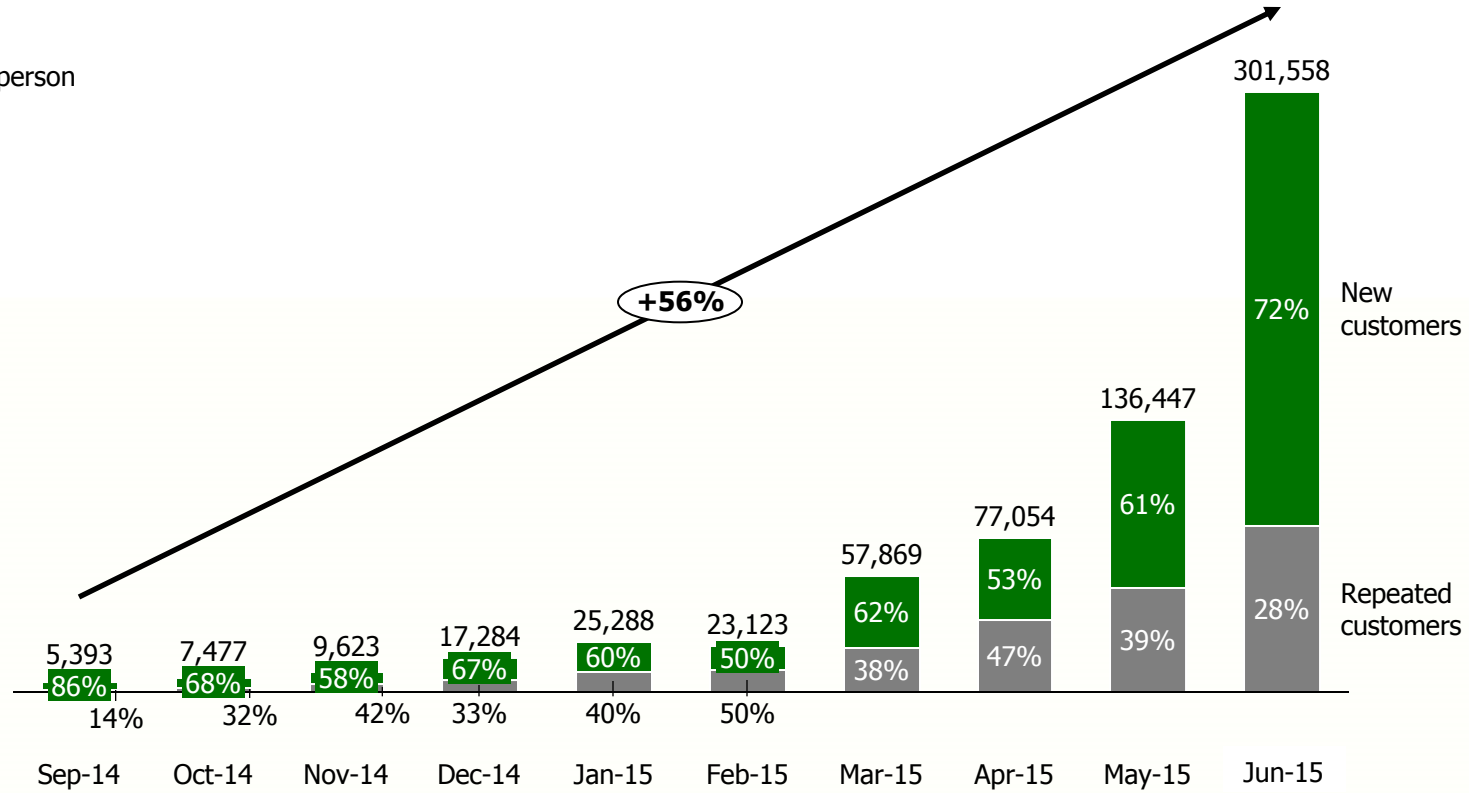


- **Fu Li She Traffics and Engagements**

Fu Li She's monthly active customers also ramped up rapidly, with a 56% CMGR from September 2014 to June 2015; the rapid growth of new customers is the main driver of overall growth

**Fu Li She's Monthly Active Customers (Sep 2014 – Jun 2015)**

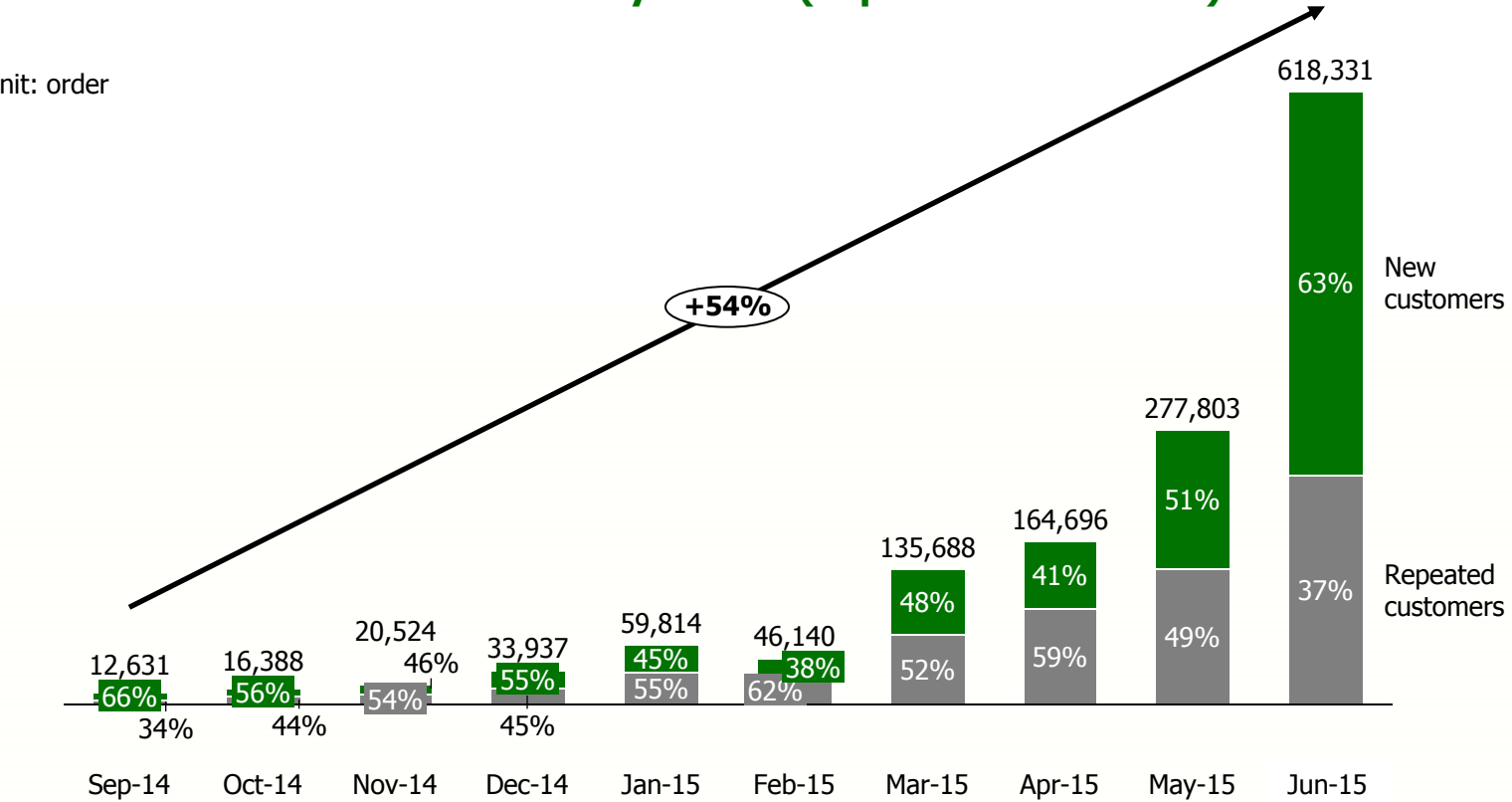
Unit: person



	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15
<i>All</i>		39%	29%	80%	46%	-9%	150%	33%	77%	121%
<i>MoM New</i>		9%	11%	107%	30%	-23%	211%	13%	106%	160%
<i>MoM Repeated</i>		218%	66%	42%	79%	13%	90%	66%	45%	59%

**Fu Li She's Monthly Orders (Sep 2014 – Jun 2015)**

Unit: order



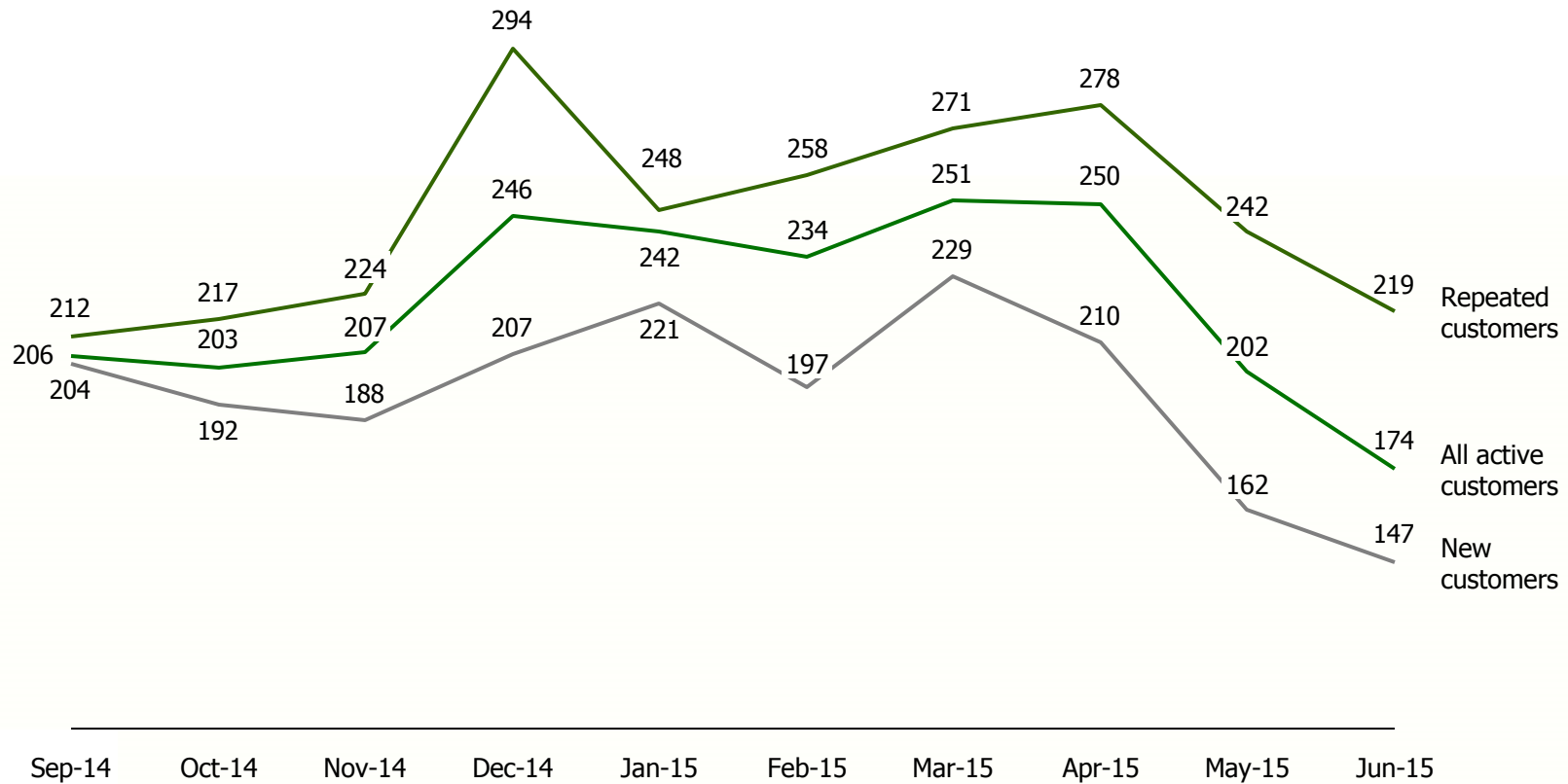
	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15
<i>All</i>		30%	25%	65%	72%	-21%	194%	21%	69%	123%
<i>New</i>		9%	5%	94%	47%	-35%	267%	6%	108%	174%
<i>Repeated</i>		70%	51%	40%	112%	-13%	149%	36%	41%	69%



The average order size varies around RMB 200 per order, and decreased in recent two months; repeated customers own an obvious higher order size than new ones

**Fu Li She's Average Order Size (Sep 2014 – Jun 2015)**

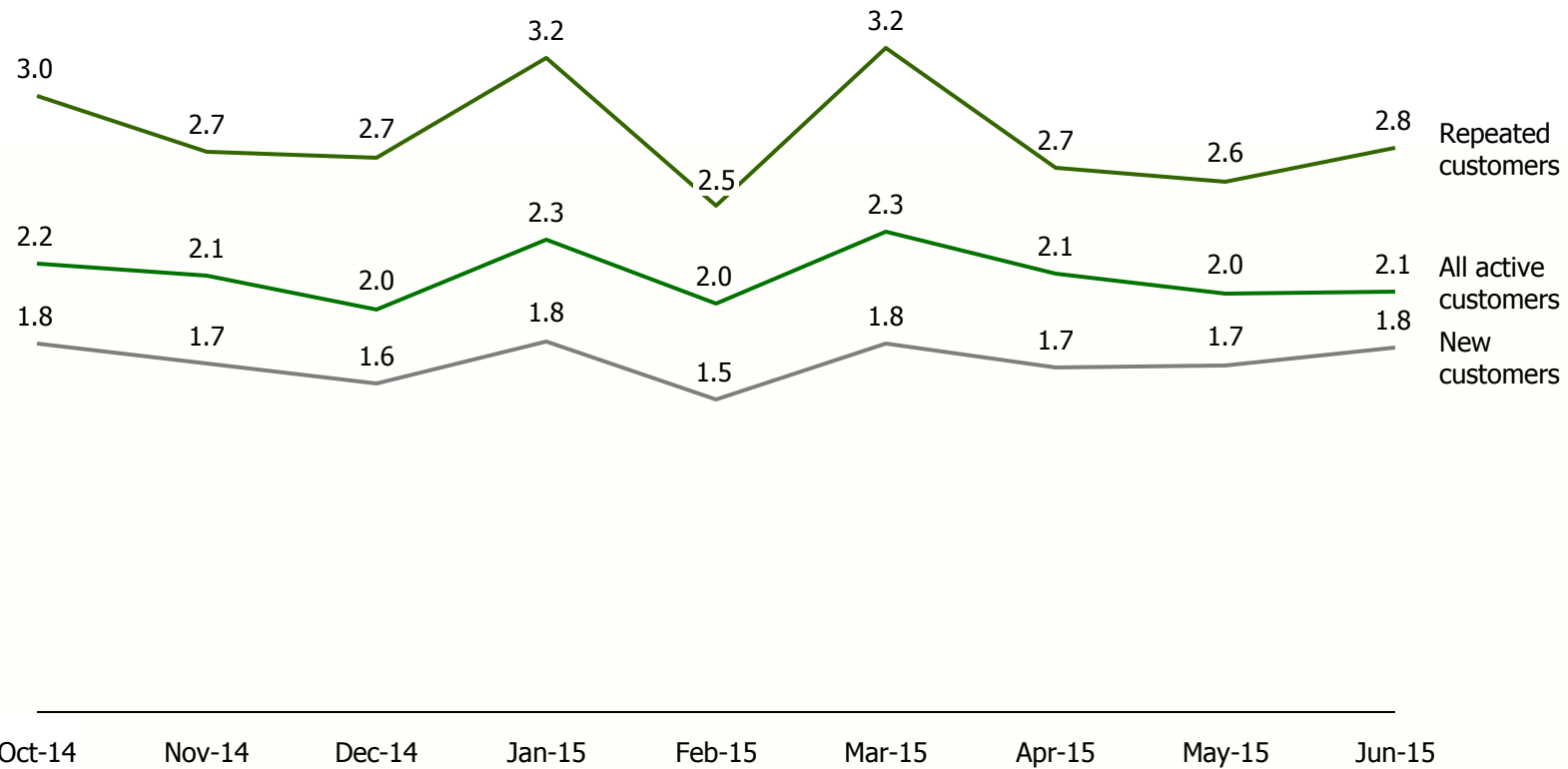
Unit: RMB per order



The monthly orders per active customer keeps around 2.2, and repeated customers show more orders per person than new ones

### Fu Li She's Monthly Orders Per Active Customer (Sep 2014 – Jun 2015)

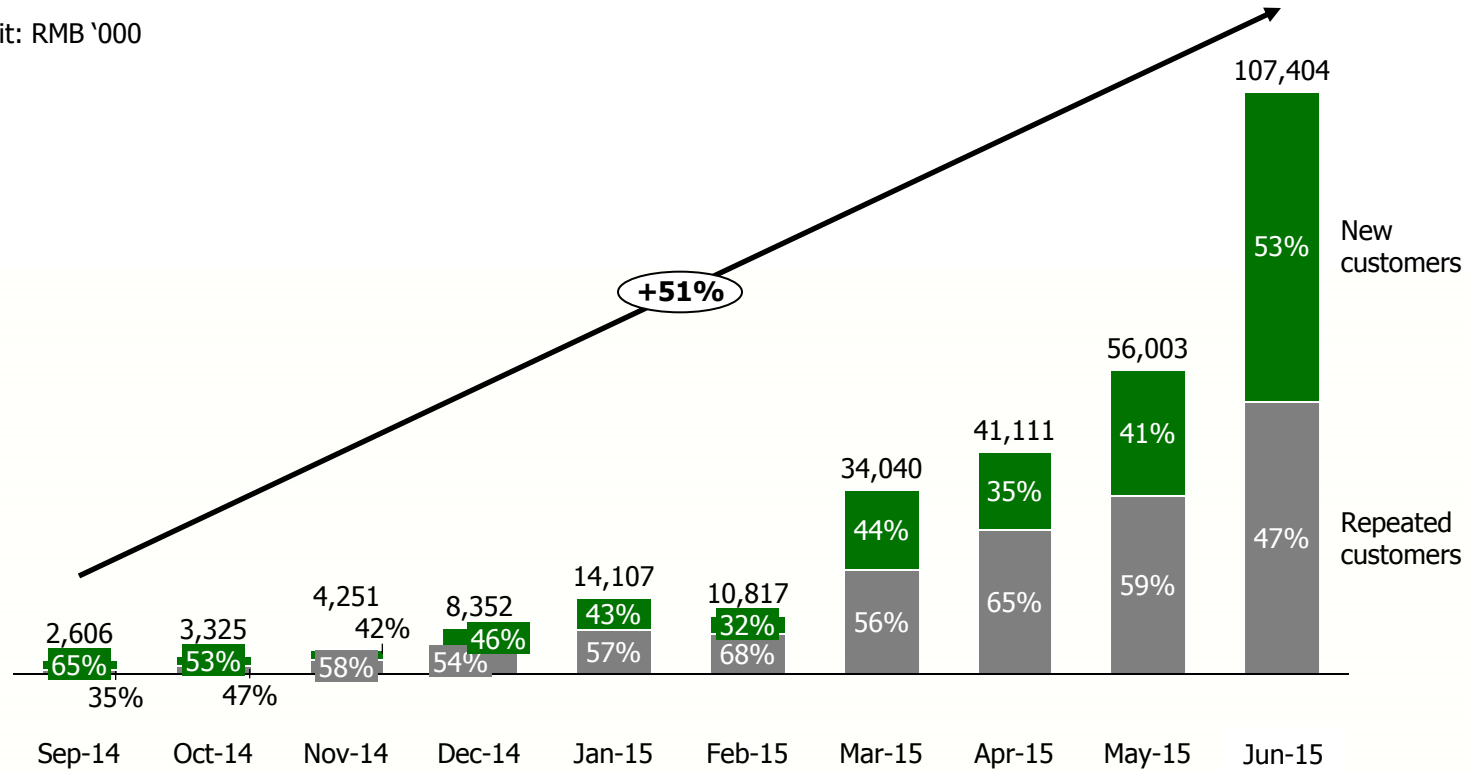
Unit: order per active customer



Fu Li She's gross GMV ramped up rapidly, with a CMGR of 51% from Sep. 2014 to Jun. 2015, and the contribution from new customers grew even faster than repeated customers in recent months

**Fu Li She's Gross GMV by Customers (Sep 2014 – Jun 2015)**

Unit: RMB '000

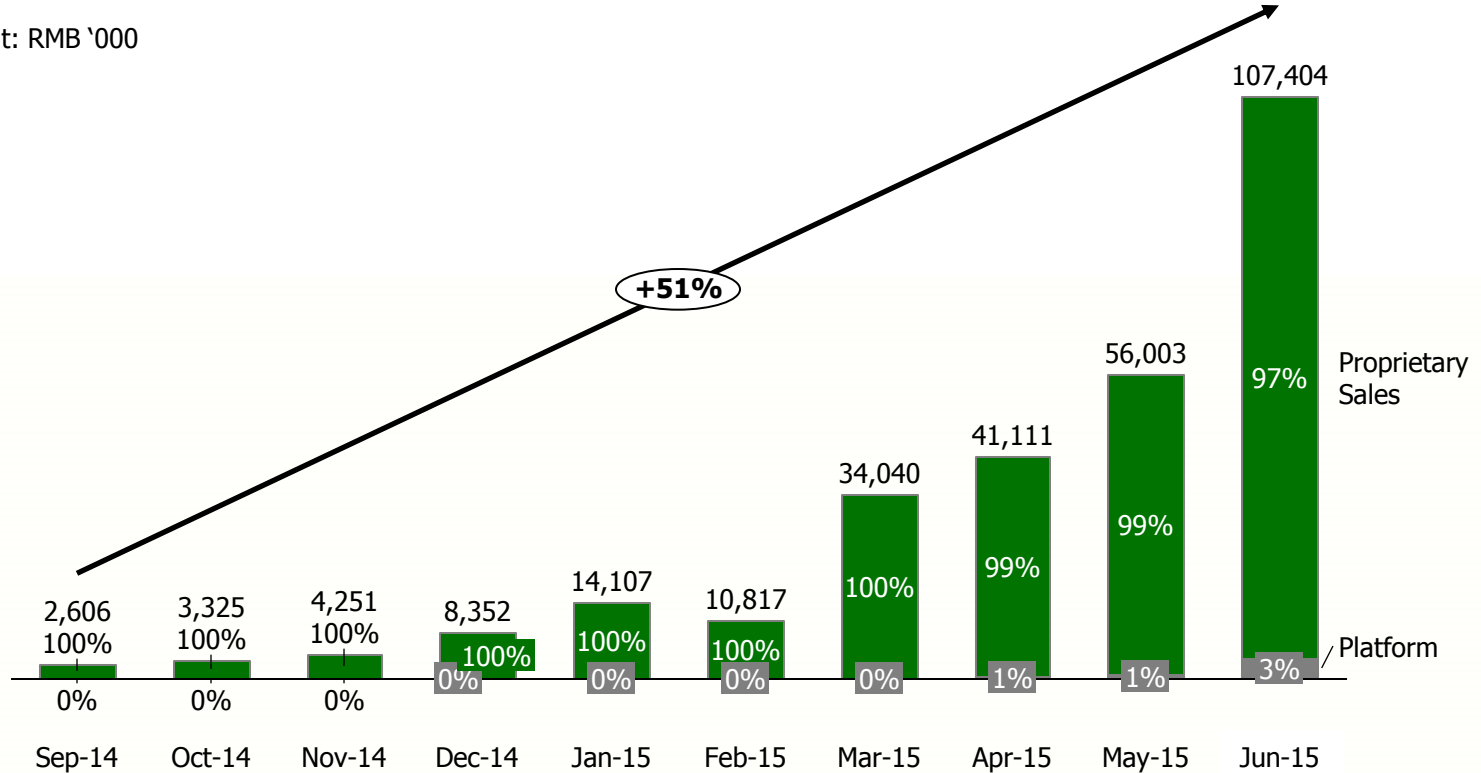


	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15
<i>All</i>		28%	28%	96%	69%	-23%	215%	21%	36%	92%
<i>New</i>		3%	2%	114%	57%	-42%	327%	-3%	60%	148%
<i>Repeated</i>		74%	56%	84%	79%	-9%	162%	39%	23%	53%

Fu Li She's major sales model is proprietary sales, and it began its PoP platform business just in April 2015, which is still very small currently

**Fu Li She's Gross GMV by Sales Models (Sep 2014 – Jun 2015)**

Unit: RMB '000



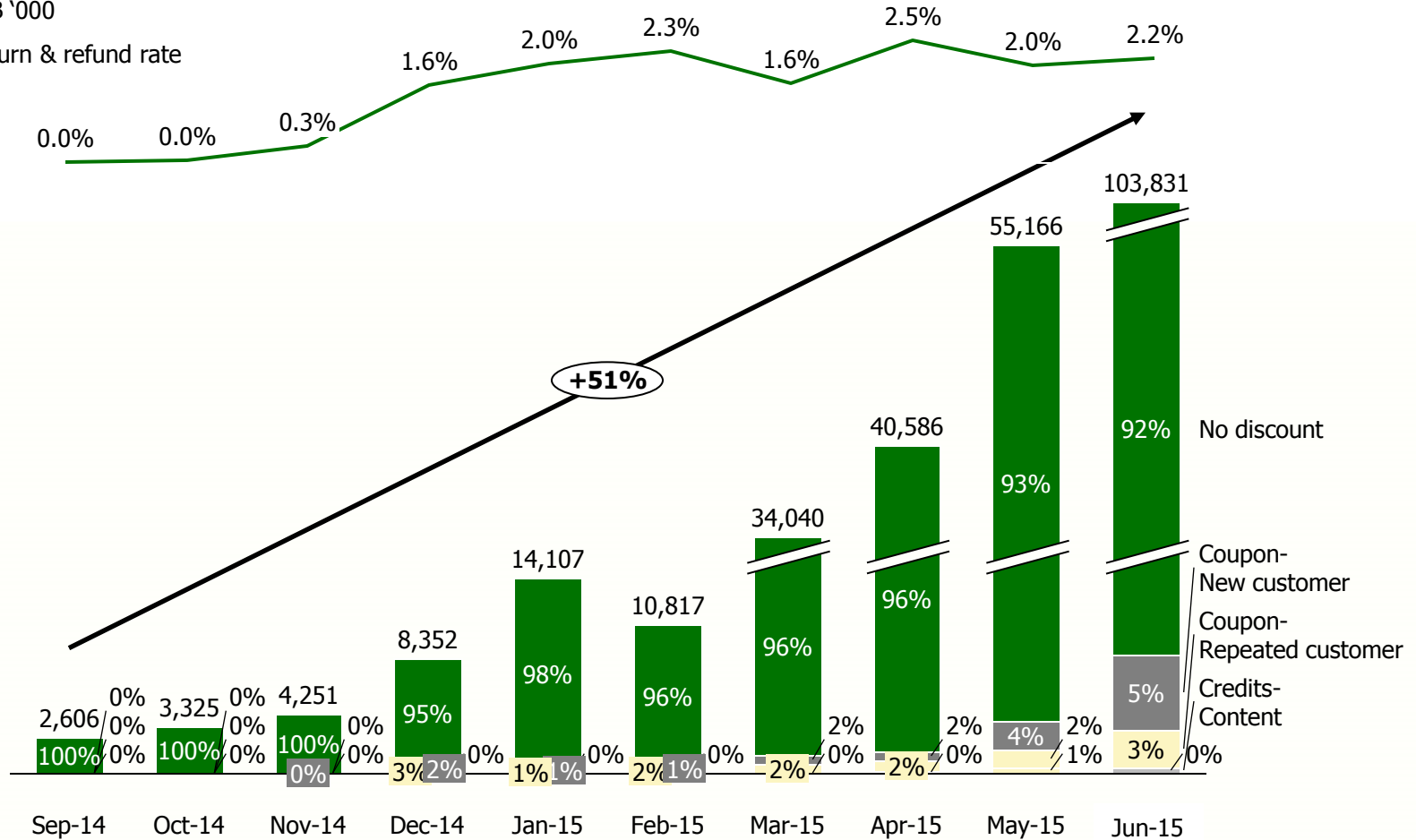
MoM	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15
All		28%	28%	96%	69%	-23%	215%	21%	36%	92%
Proprietary Sales		28%	28%	96%	69%	-23%	215%	19%	36%	88%
PoP Platform									60%	327%

More than 90% GMV came from customers who did not use any discount; the return & refund rate kept around 2%

**Fu Li She's Self-operating Gross GMV (Sep 2014 – Jun 2015)**

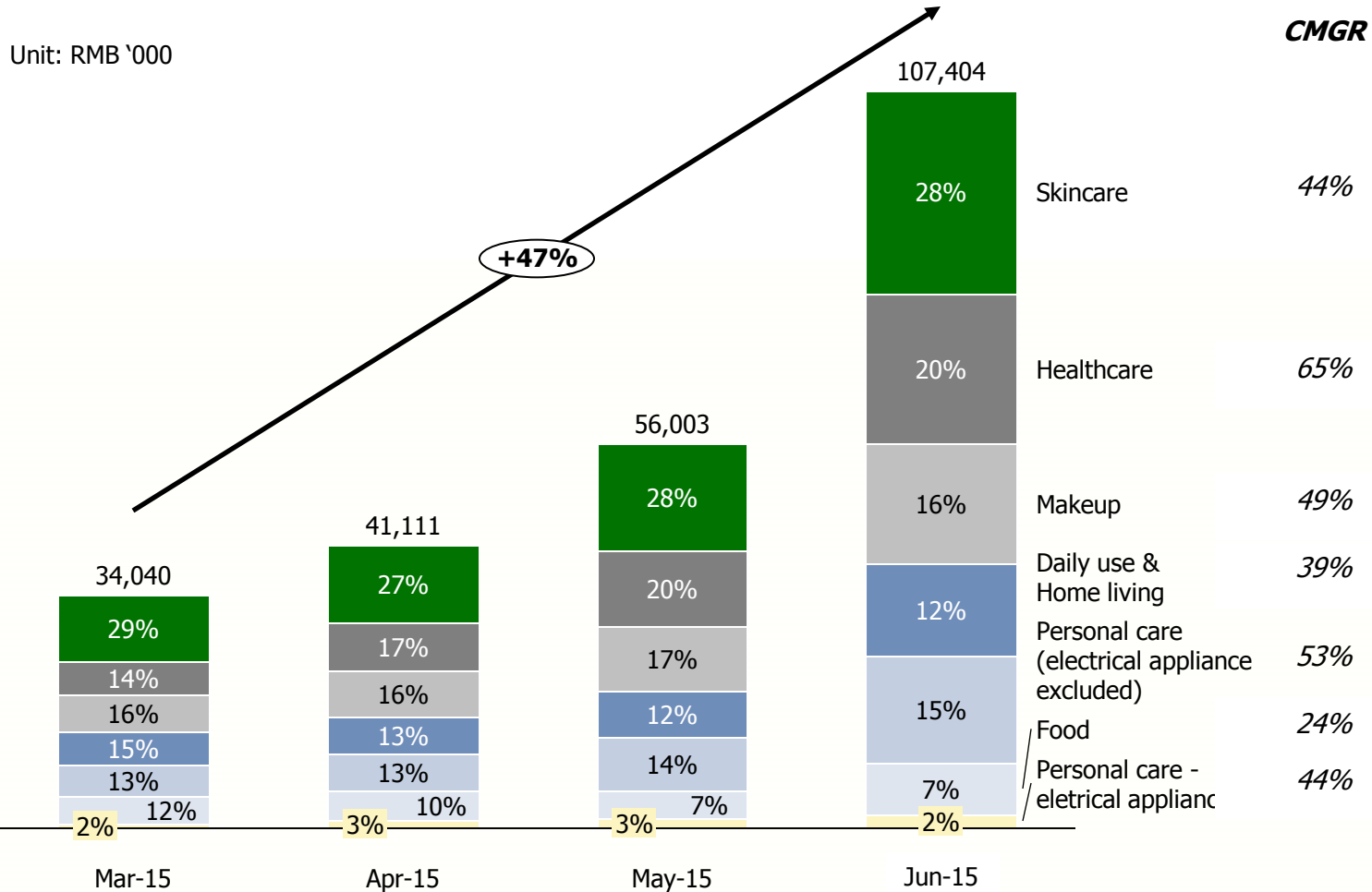
Unit: RMB '000

Return & refund rate



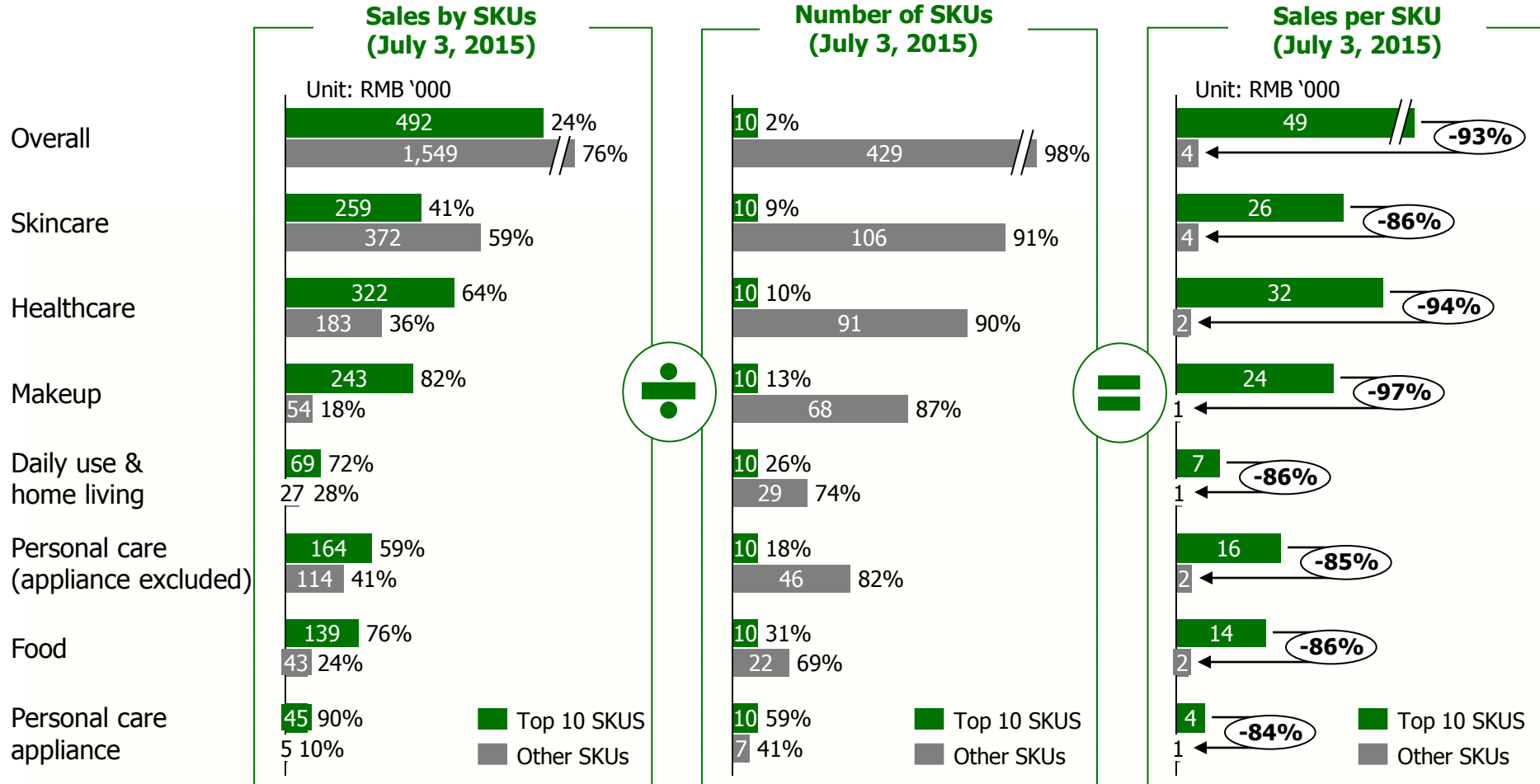
Skincare, healthcare and makeup contributed ~60% of GMV, and healthcare, personal care (electrical appliance excluded) and makeup grew most rapidly in recent 3 months

**Fu Li She's Gross GMV by Categories (Mar 2015 – Jun 2015)**



Based on all the order in July 3, 2015, the ten best selling SKUs (in terms of sales) contributed 24% sales, but take only 2% shares in SKU numbers. The overall top 10 SKUs brought RMB 49,000 per day on average while other SKUs just brought RMB 4,000 on average...

## Sales per SKU Comparison between Top 10 SKUs and Others



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