

How Alibaba's Tmall is Changing eCommerce in China

Insights for Western Brands Looking for Global Growth in a Post-COVID World

The pursuit of beauty in China is as long as its 5,000 years of written history, yet the modern beauty industry is only 30 to 40 years old. Today, China's beauty industry is valued at \$60 billion, and consumers are keenly interested in imported cosmetics, with 70% of Chinese shoppers believing that imported cosmetics are higher quality. As eCommerce has risen to the top of American beauty company's agendas during the COVID-19 pandemic, it is critical to understand the current landscape in China if American brands hope to find global growth.

To discuss these current trends, on May 26th Egon Zehnder hosted an invitation-only virtual session with top leaders in the U.S. beauty industry. Chris Tung, Chief Marketing Officer of Alibaba, and Sherri Wu, Chief Revenue Officer of VoyageOne, a third-party technology company that provides turnkey solutions to help American brands sell online in China, led the conversation, which focused on how to take advantage of Alibaba's Tmall and other China eCommerce channels. Minh-Ha Nguyen, Catherine Zhu, and Akiba Smith-Francis of Egon Zehnder, who together bring perspectives on the beauty industry, the Chinese market, and leadership issues, moderated the session.

China is the world's largest eCommerce market, worth a staggering \$2 trillion last year – almost four times larger than the U.S. eCommerce market. Further, eCommerce penetration in China is expected to reach 44% in 2020, compared with only 10.7% in the U.S. Alibaba's Tmall and Taobao are vehicles for this growth, dominating 55% of the Chinese eCommerce industry. (Tmall is Alibaba's business-to-consumer (B2C) eCommerce platform where companies can host their virtual store online; Taobao is Alibaba's consumer-to-consumer (C2C) eCommerce marketplace.) To put Alibaba's impact into perspective, in 2019 Alibaba's Singles Day generated over \$38 billion in sales in a single day. That is six times more than Amazon Prime Day's sales and four times the size of the U.S.'s Cyber Monday and Black Friday sales combined.

The China market offers enormous growth potential, but it is highly complex and very competitive. Therefore it's critical for foreign brands to have a well thought-out and sophisticated approach. China is a vast market with six different city-tier classifications, each with different types of consumers with different needs. Tung and Wu said that Tmall is an important channel to start with because it functions as a de facto brand dashboard. "If you're a small brand and you're not on Tmall, Chinese consumers might question your credibility," says Wu. "Having a strong third-party partner that you can trust is key to launching successfully on Tmall."

"But a presence on Tmall is not enough," continues Wu. "A multi-channel approach with curated content is critical to thriving longer-term in China." Having an integrated marketing plan across multiple channels such as Little Red Book (social shopping app for exploring products and sharing opinions and recommendations where you could find the right blogger for your brand), WeChat (Tencent's mobile messaging ecosystem that integrates eCommerce where you can announce promotions and new product launches) and TikTok (which features short but catchy promotional videos) are important to amplify and reinforce your brand message and drive traffic to Tmall. "Using livestreaming online shopping events hosted by Chinese influencers or beauty advisors can also be extremely effective," said Tung. For example, Kim Kardashian's Tmall livestreaming event attracted 13 million viewers and sold out her KKW Fragrance in just a few minutes. Wu states, "Since consumers want to be able to touch and experience beauty products, having pop-up stores offline where consumers can try on your cosmetics and then giving them a QR code that directs them to your Tmall store to purchase your products online enables brands to engage with their customers both online and offline."

Tung emphasized that foreign beauty brands can leverage Alibaba's data analytics, consumer insights, and micro-segmentation capabilities for better targeting. The young generation of Chinese consumers values personalization and newness, so enabling consumers to discover your brand is important. "For brands that want to maintain their prestige positioning," Tung pointed out, "Tmall's sophisticated data analytics can target a premium customer segment. This is a capability that luxury players like LVMH have employed with much success."

Launching a brand in China is no small feat, and having talented leaders who can spearhead the China cross-border eCommerce business will be a key differentiator. The qualities of leaders who can thrive in this situation include adaptability, or being able to immerse themselves in the local Chinese culture in order to connect and engage with local Chinese consumers and understand the differences between Chinese and American consumers. In many cases, these leaders will need to "unlearn" some of the things they learned in America. Such leaders also must be able to motivate the local Chinese team that will execute their strategies, and their strategies must be flexible because China is a dynamic market that changes quickly.

China is well on its way to recovering from the Coronavirus pandemic, with consumption rising. Tung observed that Tmall has witnessed a 'revenge shopping' phenomenon taking place in China as the country's residents emerge from quarantine. And since China's export business continues to be negatively impacted by the global impact of COVID-19, the Chinese government is now focusing on driving domestic demand to lead China's economic recovery. Foreign beauty brands that can take advantage of this momentum will be well set up for growth in both the short- and long-term.

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Covid-19 Micro-Website

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