China Renaissance 华兴资本

August 31, 2020

Industry Update

Internet

Overweight | Neutral | Underweight

Insight Series: Emerging Chinese brands' content marketing on social media platforms

- **We hosted two social media expert conference calls on Aug 25/Aug 27 to discuss new Chinese brands' content marketing and growth strategies.**
- **Guochao, or emerging homegrown Chinese brands, have successfully grasped the "0 to 1" opportunity via comprehensive and speedy content marketing strategies.**
- **To further convert more brands and users, content marketing platforms aim to enhance user behavior formation, content quality, and favorable policies.**

Guochao brands on the rise: Guochao brands, namely Chinese "homegrown" new and emerging brands especially in the beauty and apparel industries, have grown quickly over the past few years, growing from essentially nowhere to become key sector players. Guochao brands started with little brand mind-share and smaller sales & marketing (S&M) budgets than their established, international brand counterparts, per our experts from social media platforms. Our speakers summarized these brands' advantages as: 1) fast-moving product development and new product features based on user feedback; 2) nimble S&M budget allocations and strategies based on daily or monthly data analytics; and 3) leading in-house marketing content production & operation capability focused on social media marketing. Such endeavors, in our experts' view, enabled these companies to successfully grasp the "0 to 1" growth opportunity – especially among Internet savvy young consumers. Guochao's success also, to some extent, has educated the broader advertising market to shift or increase budgets toward social media content marketing when it comes to new brand or new product launches, according to both experts.

Content marketing spending on influencer marketing: The Guochao brands have been developing a mature and more efficient strategy when it comes to influencers marketing, in our speakers' view. The expert from a content sharing-focused social media platform shared that rather than spending on top influencers or KOLs in the beginning, Guochao brands tend to start with micro influencers or KOCs (key opinion consumers) on platforms like WeChat Public Accounts (owned by Tencent: 0700 HK, BUY, TP: HK $630.00, CP: HK$ 540.50), Douyin (private) and Xiaohongshu (private) to create a more authentic and user experience focused on content, rather than product- or brand-focused content. These companies, acccording to our speakers, then usually follow up with content from brands' official accounts and top celebrities, especially short-video content, to establish and enhance brand image.

Content marketing on feed advertising: Our expert from a short-video social media platform said he saw brands increasing their ad dollar budget on feed advertising due to its precise user targeting and stable ROI. Traditional content marketing through subscription-based influencer accounts and platforms is still active, but the effective scale is limited as it is subject to top influencers' content post schedule and can be volatile in ROI, according to the expert. Short-video ad content is ideal for makeup and fashion brands, in his view; thus, the whole ecosystem (brands, MCNs, influencers, platforms) is investing heavily

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in content creation as evidenced by the rapid improvement in content quality and rising adoption of international, high-end brands.

Content marketing – livestream commerce: Our main takeaway from the experts' comments on livestream commerce is that the industry is becoming more developed and rational in terms of investment ROI (see our livestream commerce report (link) published Feb 2020). Our speaker noted that brands are signing up livestream hosts based on thorough considerations such as: **1) Fee structure:** fixed cost + commission model seems common for top influencers, while a pure commission model is generally used for micro influencers or products with less sales visibility; **2) Fan base of the influencer/ KOL:** superstar hosts have proven most suitable for promoting or boosting sales of single products, while for established brands/products, a few micro influencers collectively have shown to be equally effective at much higher ROI. However, one expert pointed out that the format of livestream commerce show is the last step of the S&M conversion journey; thus, some preliminary brand or product mind-share building is necessary. Livestream commerce shows typically do not work well if a brand or product is completely new to the audience, in our experts' view. **3) In-house livestream shows:** Both experts shared that some leading brands started to have higher GMV contribution from their in-house Taobao (owned by Alibaba: BABA US, BUY, TP: $315.00, CP: $289.00) livestream shows, compared with top KOLs' shows. We believe this indicates the livestream commerce model's healthy and sustainable development, for both brands and content creators in the industry.

Increasing the number of e-commerce transactions on social media sites: Top social media platforms, including WeChat, Douyin, Kuaishou (private) and Xiaohongshu, are all investing in the in-app transaction e-commerce models, according to our speakers, all aiming to increase ad conversion rate in a closed-loop transaction environment. Both experts confirmed their companies' determination to increase and improve the e-commerce transaction experience on social media platforms. They also shared the current challenges social media platforms face when it comes to e-commerce transactions: **1) Forming users' habits** – according to one of our experts, the user group they have already successfully converted to livesteam/short-video commerce is lower-tier city users, who generally do not have much experience in traditional e-commerce platforms. Our speaker believes these users find social media platform ads/marketing fun, informative and compelling, and thus are inclined to purchase through the links. Top-tier cities' young consumers, although heavy users of social media platform content, are not quite converted on e-commerce yet, our expert explained. Rather, these experienced e-commerce users tend to compare prices across major e-commerce sites and are not easily converted if the products do not meet their existing preferences in product quality or brands. **2) Meet big brands' demands in content and user quality –** Our short-video expert shared that for mature and established brands, not only are their targeted e-commerce users often not the e-commerce users of social media platforms yet, but the influencer-created product selling videos do not always meet their high-quality, curated-content standards. Thus to attract consistent product supply and e-commerce participation of big brands, he believes social platforms' next task will be to improve content quality and consistency, in addition to helping form targeted users' habits. **3) Leverage platform policies to encourage transactions –** Both experts expect new e-commerce policies and favorable terms on commission, product qualities and user experiences to be launched and executed on social media platforms. With efforts in policy and operational resources, they hope social e-commerce platforms can gradually drive in-app purchases and more product supply from brands, especially for key categories like beauty, fashion and personnel care, etc.

Appendix A

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Hold	41	27.89%	41	100.00%
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0700 HK:

Our SOTP-based TP is HK$630, based on 25x/25x/30x 2021E P/E for online games, VAS and ads, respectively, and 8x P/S for fintech and 7x P/S for cloud and other businesses. We also account for HK$263bn worth of content ecosystem (including video, reading and others), HK$814bn for long-term investments (at either market value or valuation implied in the last round of financing), and HK$8bn of net debt. We apply a 10% holding discount.

Downside risks include: 1) Missed opportunities/slowness in monetizing highly valued assets such as WeChat and WeChat Payment; 2) further regulatory restrictions on gaming could hurt blended revenue growth; 3) rising costs for Tencent Video and other digital media businesses amid strong video competition and relatively slower monetization on other premium content platforms could affect blended margin; 4) competition from emerging social networks and foreign players, if they are allowed to operate in China, could impact ad segment revenue growth; and 5) volatility in margin performance may cause uncertainty in EPS.

BABA:

Our US$315 target price is based on SOTP valuation of: 1) US$696bn for core marketplace; 2) US$74bn for AliCloud; 3) US$120bn value for strategic assets; and 4) US$48bn net cash. The valuation equates to 30x FY22E P/E.

Risks: 1) Competition from established rivals as well as emerging platforms, in e-commerce, content and social media. Challengers may slow its GMV and/or revenue growth. 2) Third-party merchants' product quality risk, which could cause revenues to suffer. 3) Business services competition in the cloud business, as well as risk of regulatory penalty and reputational damage from any potential security breach. 4) Regulatory risk relating to the draft ec-ommerce regulation proposed in December 2016, which may increase tax, security, and compliance costs to Alibaba and its vendors. 5) COVID-19 impact on China's economy and consumer spending.

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