



Winning in E-Commerce Through A Consumer- Centric Approach

Deep Insights on Specific Consumer Segments in China's Online Apparel & Fashion Industry

A Joint Report by Boston Consulting Group and Tmall

Mar 2021

Disclaimer: The content of this report is based on big data analytics and brands case studies provided by Tmall. BCG's research on growth trends is based on Tmall's data.
BCG has not obtained any specific figures or indicators from any individual brand.

Foreword



Guang Yang

VP of Alibaba Group, GM of Tmall Business Group

“Last year, China’s fashion & apparel industry experienced a great shock. Many brands started to build an online presence, which greatly increased the competition in e-commerce. Under such circumstances, the current growth-driven operations are no longer fit for the competition, while consumer value-based operations have become more important. As the world’s leading consumer platform for brand operations, Tmall is committed to helping brands make the transformation from traffic-based to consumer-centric value-based operations, exploring opportunities for user-centric innovation, and engaging in more accurate branding to achieve sustainable growth. We believe with BCG’s in-depth insights and experience in omni-channel transformations in the apparel industry, combined with Tmall’s big data and product capabilities, we can help apparel brands become more innovative and offer greater value to brand users.”



Vincent Lui

Managing Director & Senior Global Partner, Boston Consulting Group

“Competition has become more intense in recent years. Brands tend to overuse their existing assets, while emerging cash-rich brands are quickly seizing lucrative blue ocean markets. The challenge for large companies is how to maintain long-term growth, which is a critical topic for brands. As the benefits of a traffic-driven strategy weaken, brands will experience further growth pains. They must transform their strategy, operations and organizational setup to make a breakthrough, which leads to three key questions: What kind of online growth model should brands adopt? What are the key levers brands could leverage? And what capabilities will they need to drive an online breakthrough? These questions are inextricably intertwined with one basic point – consumer-centric growth: Gaining insights into consumer behaviors to better satisfy their needs.”



Xinyu Peng

VP of Alibaba Group, Director of Alibaba's Data Technology and Product Department

"Our data team and marketplace team have long been collaborating on big data analysis to uncover business value and jointly develop business strategies. They have witnessed the success of brands who have leveraged the power of big data analytics. This report combines global data assets, scientific data analysis, and rich experience from both BCG and apparel industry teams to form solutions to drive digital growth, helping brands to make the shift from traffic-driven operations to more consumer-centric operations. I look forward to the next round of data-driven operational improvements and changes in the apparel and fashion industry."



Wei Xie

GM of Women's Fashion and Men's Footwear, Tmall Apparel & Fashion

"Fashion consumers think differently about trends, styles and products nowadays. How to understand them better, help businesses to grow effectively, and in turn support the digital transformations of brands and styles will be the key to the revival of men and women's clothing on Tmall and in China's apparel industry as a whole."



Joseph Sun

Managing Director & Global Partner, Boston Consulting Group

“In today’s highly digitalized consumer ecosystem, how to succeed in the mainstream e-commerce marketplace is at the top of the agenda for many fashion brands. Most brands still face challenges such as poorly defined target consumer segments, out-of-date product operations, a single marketing approach and ineffective teamwork. Based on consumer segments, brands need to clarify their target groups in order to optimize category management, develop appropriate marketing plans, and boost collaboration across functions to really focus on consumer needs and rise to the top.”



Yang Liu

Director of Tmall Consumer Strategy Center

“Unlike other standardized industries, how to develop and implement more user-focused and differentiated growth strategies has always been a complex issue for fashion brands. This joint report between Tmall Apparel & Fashion and BCG introduces “specific apparel consumer segments” for the first time. It will further guide brands’ strategies and implementation by redefining the boundaries between consumers, products and channels / sites. We hope that fashion brands can leverage the insights in this report to reach their target consumer segments more accurately, and understand their preferences for products, content, benefits and touch points, in order to optimize their product planning, marketing and membership systems from end to end. The post-pandemic era presents both challenges and opportunities. We believe that by identifying precise target consumer groups, apparel brands will be able to find growth opportunities and fine-tune their operations. Working with Tmall and BCG, they will be able to start a new chapter in diversified fashion consumer operations.”

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Winning in E-Commerce Through A Consumer-Centric Approach

Deep Insights on Specific Consumer Segments in China's Online Apparel & Fashion Industry

1. Executive Summary

China's consumer ecosystem is known to be highly digitalized. Impacted by the COVID-19 pandemic, winning online, especially on mainstream e-commerce platforms is now the key for brands to recover their businesses and achieve breakthroughs. In recent years, e-commerce in China has shifted from a "battle for traffic" to a "battle for sites (including channels, platforms, touchpoints, in-site markets)" to a "battle for the mind." During this transition, apparel and fashion brands face many challenges, such as poorly defined target consumer segments, out-of-date product operating model lack of differentiated marketing approach and ineffective teamwork.

This joint report by BCG and Tmall focuses on the key issues apparel and luxury brands face. Through a bionic approach, we have been able to quantify "the sense of fashion" for the first time, bringing together BCG's industry insights and experience, combined with the full power of Tmall's big data assets and analytics capabilities. We determined tags for cluster analysis and identified eight major consumer segments with distinct features: Fashion & luxury gurus, classic luxury buyers, emerging fashion enthusiasts, avid trend followers, mainstream fashionistas, quality-focused pragmatists, price buyers and bargain hunters. These eight segments together account for nearly 80% of Tmall users, and more than 90% of platform sales.

Through analysis, we identified certain patterns in sales growth potential and penetration rate of these eight segments, and then categorized them into three types of consumers: "Emerging forces", "backbone forces" and "blue oceans." The future growth of "emerging forces" will come from the increasing penetration and repurchase rates. Penetration rate for "Backbone forces" is already quite high, but the sales growth is slowing down – brands

need to leverage more precision targeting to drive repurchases and trade-ups in order to continue their growth. For “blue ocean” consumers, continued customer acquisition and improved operations will be sufficient to drive growth. Looking at the relationships between “consumers, products, and touchpoints”, we have identified five major trends - extensive choices, novelty seeking, maturing consumer mindsets, immersive interactions and diversified services.

Based on this analysis, we have identified three key success factors for apparel brands to capture opportunities and address challenges in the future: Consumer-centric online presence, differentiated consumer operations and cross-functional collaboration. They can serve as guidelines for brands to address strategic planning and daily operations, enable players to accelerate business development and win amid the competition.

- **Consumer-centric online presence:** Consumers in China are becoming smarter and more sophisticated across channel and platforms, one trick would not win them all. Thinking through one’s channel & platform strategy, focusing on core segments and winning on mainstream platforms will be the crux for brands as they move into omni-channel operations over the next three years. In the context of COVID-19, many leading brands have begun to rethink their online channel positioning and re-define their target consumer groups as well as strategic goals to optimize their online presence and boost their e-commerce performance.
- **Precise and diversified consumer operations:** Brands should improve their operations based on five levers: Assortment, new products, promotions, marketing and user experience, to connect closely with consumers. They should optimize their online assortment categories, develop and launch new high-quality products, use differentiated promotion strategy per target consumer segments, adopt holistic marketing approaches, improve user experience and drive value across the whole customer lifecycle.
- **Cross-functional teamwork:** Breaking information silos and driving cross-functional collaboration is a prerequisite for brands to stay competitive. Some leading players are already taking a series of actions to strengthen their online business, including forming cross-functional agile teams and leveraging insight into customer lifecycle journeys to determine best-fit strategy together with corresponding operational plans, and act with speed.

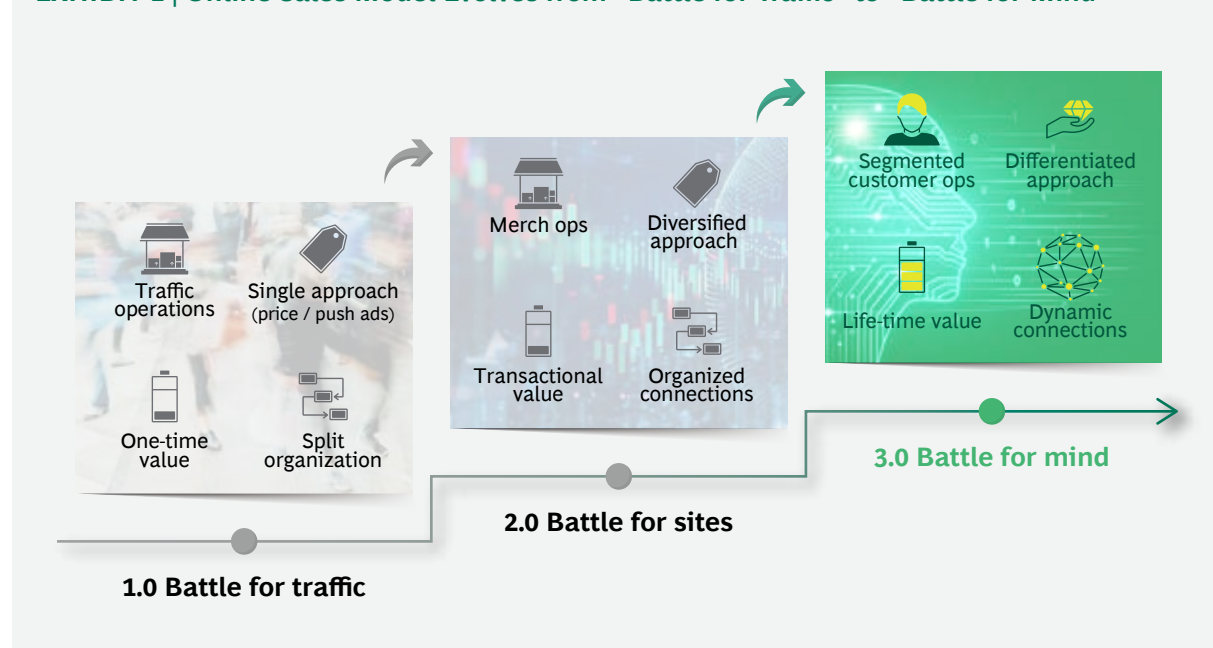
2. Critical for Brands to Win Online to Revitalize Growth

2.1 The Shifting Growth Paradigm as Industry Transformation Accelerates

China's consumer ecosystem is known to be highly digitalized, and e-commerce has become an important channel for apparel and fashion. The outbreak of the COVID-19 pandemic last year accelerated consumers' preference for e-commerce. To excel, brands need to improve the quality of their online offerings and optimize their e-commerce operations, especially on mainstream platforms and marketplaces.

At the same time, as “traffic-driven benefits” disappear and cost of customer acquisition grows, the growth model for online channels has also shifted. The “battle for traffic” under “e-commerce 1.0,” which was driven purely by price and ads, has given way to “e-commerce 2.0” which features more diverse “site-based” marketing, which in turn evolved into “e-commerce 3.0,” with focus on “battle for the mind” driven by differentiated operations for various customer segments. (See Exhibit 1). As the industry becomes more competitive, repeating previously successful promotions has become less effective. Brands need to adapt and become more precise when targeting consumers in order to win them over. Whereas brands have traditionally treated offline sales and e-commerce separately, they will now need to think about “end-to-end consumer journeys” and “omni-operations”, which requires collaboration across multiple functions and teams.

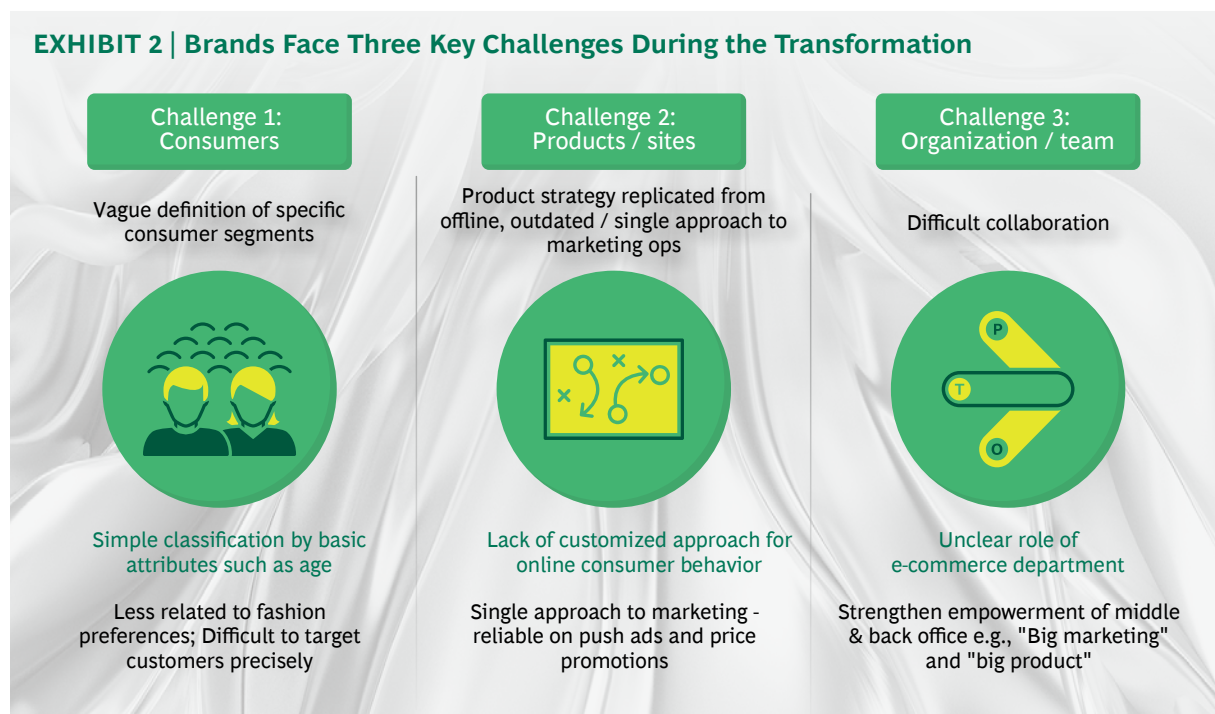
EXHIBIT 1 | Online Sales Model Evolves from “Battle for Traffic” to “Battle for Mind”



Our research shows that most apparel and fashion brands are still in stages 1.0 and 2.0, and only a few pioneering brands have entered stage 3.0. Transformation is critical for the industry as a whole.

2.2 Three Major Challenges During Transformation

Moving from marketing 1.0 to 3.0 requires brands to overhaul their strategy, operations and organizational setup. During this process, apparel and fashion brands will face three key challenges. (See Exhibit 2).



Challenge 1: Consumers - Limited Profiling and a lack of Clear Segmentation

The biggest difference between the apparel industry and wider consumer goods sector is the impact of fashion trends and the lack of standardization - the perception of fashion differs from one consumer to another, is highly subjective and is difficult to quantify, therefore it has been challenging to conduct any meaningful quantitative research. Most brands are only able to segment consumers based on basic attributes such as age, household income or city tier. They are not able to carry out in-depth analysis on purchasing behaviors and thus cannot build up a multi-dimensional picture of consumers, which is the foundation for clear segmentation that can guide consumer-related operations. Without accurate consumer insights for products and brand positioning, brands typically experience ineffective operations.



Dr. Gang Huang

Director of Consumer Insights, Tmall Consumer Strategy Center

Now that user growth is becoming ever more saturated and value operations are playing a bigger role, brands have to understand how to target users more accurately. Purchasing decisions in the versatile apparel industry are more emotionally-driven and complex, which creates difficulties for brands to leverage big data effectively to identify target consumers and understand changes in their needs and preferences. In this report, we have drawn on both BCG's insight into the apparel industry and Tmall's unique advantages in big data to develop a strategy that covers both rational and emotional purchasing factors. We believe that this approach will help apparel brands define target consumer segments, and identify opportunities to grow through products, content, benefits and touch points.

Challenge 2: Products and Sites – Many Brands Lack Well-rounded Insights into Consumers Online, Meanwhile Their Marketing and E-commerce Operations Models Have Also Become Outdated

Products (e.g., assortment structure, features, variety, product management) - most apparel brands only have a limited understanding of online platforms and lack necessary insights into the e-commerce ecosystem. There is also a tendency to copy the store retail product management model (store operations are likely to be less flexible due to limited display space, and often the same approach is used for all categories and consumer segments. For example, a pair of jeans is placed next to a white t-shirt on the shelf, whereas skirts may appeal more to certain consumers, but those items may be 10 meters away). Brands adopting such a store retail approach are not able to adapt quickly to the preferences of consumer segments online, therefore they are not able to take advantage of the convenience, speed and flexibility of online platforms.

Sites (including channels, platforms, touchpoints, in-site markets, etc.) - brands have become too reliant on ads and traditional campaigns. While online channels and technology are advancing quickly, brands have not kept up with new touchpoints and scenarios, which has held back their capabilities in product marketing and branding. They need to become familiar with the various marketing tools and touchpoints the online platforms have to offer, leverage multiple sites to form an optimal mix, and achieve precision targeting for specific consumer segments.

Challenge 3: Organization / teams (organizational setup, ways of working, processes and governance) - Teams Typically Work in Silos, Making Collaboration More Difficult

For most businesses, e-commerce capabilities are separated into several function (e.g., online operations, marketing, merchandizing, etc.), which makes it difficult to achieve synergy between “consumers, products and sites”. For example teams will need multiple approvals from different departments to take action or drive through necessary changes, there might be conflict of interests or different prioritization between functions. Siloed organization setup and ways of working typically pose challenges to teams when the brands need to be agile and act quickly in the fast-moving e-commerce market. Seamless collaboration is key if brands want to provide a better experience to consumers, which in turn can improve their brand image and boost their brand strength.

2.3 Go Back to the Root – A Consumer-centric Approach

BCG and Tmall have worked together to tackle challenges of online growth from the perspectives of consumers, focusing on key issues to formulate targeted transformation solutions for apparel brands. (See Exhibit 3.)





Fei Wang

GM of Home Products, Tmall Apparel & Fashion

“Retail operations are the core of global consumer operations in the post-Internet era. By identifying new consumer segments, brands can discover new categories and expand through innovative operations. The home furnishing industry has raised the bar for digital operations. It has a larger consumer base and a long tail of product categories, with greater room for growth. We have created new fields for digital growth in the industry through cooperation between BCG and Tmall.”



Jun Ren

GM of Sports & Outdoor Products, Tmall Apparel & Fashion

Sports & outdoor products are a highly dynamic segment of the apparel sector. They have similar characteristics to the tech sector, and are also at the forefront of trends. Given the tech-like and fashion features of the sector, brands will only be able to innovate and create more value for users through segmented operations. The cooperation between BCG and Tmall is a good starting point. It will help brands understand consumer needs and keep their fingers on the industry pulse. The combined power of company-level data and Tmall data will help businesses to upgrade their organizations, talents and operations.”



Zhigang Huo

GM of Accessories, Tmall Apparel & Fashion

“During the shift from the previous mass operating model to consumer-centric operations, we need to understand how to leverage data to better understand and define consumers. This is the only way to truly satisfy consumer needs. I hope that through this cooperation with BCG, more businesses can understand the value of consumer-centric digital transformations, leveraging Tmall’s data, tools and capabilities, and building a new engine for future business growth.”

This report will address three key topics regarding consumer segmentation:

- **Classifications and characteristics:** We will examine the classifications of target consumer segments in the apparel industry, and explore growth opportunities by analyzing the features and preference of groups.

- **Key levers:** We will examine trends and characteristics of target user segments from five perspectives: Assortment categories, new products, promotions, marketing and user experience, and analyze opportunities to develop differentiated marketing and services to enable coordinated operations.
- **Key capabilities required and implications:** Brands should adopt a consumer-centric operation strategy, optimize their produce portfolios and integrate promotion schedule with their marketing plan. This not only raises the bar for brands and organizations in terms of their planning and data processing capabilities, but also requires seamless cross-functional cooperation. Therefore, in addition to building key capabilities, brands need to break down the silos and enhance collaboration across functions and teams to achieve success online.

3. Eight Specific Consumer Segments Under the Consumer-centric Approach

3.1 Definition of Consumer Segments

This report takes into account the lack of standardization in the apparel & fashion industry to introduce a new definition of specific consumer segments for this sector.

It leverages a bionic approach, combining human understanding and machine analysis to define labels and capture patterns for the assessment (combining image recognition and natural language processing technologies with insights from senior industry experts).

After selecting labels and performing cluster analysis, we identified eight distinct target consumer segments. (See Exhibit 4). Based on fashion sense (an overall weighted score for brands purchased, preference for new products etc.), spending power (annual expenditure, purchase frequency, price segment, promotion type etc.) and basic attributes

EXHIBIT 4 | We Categorized Consumers into Eight Specific Segments Along Two Dimensions



(age, gender, region etc.), we identified eight distinctive strategic consumer segments after multiple rounds of analysis. Together, these eight segments account for nearly 80% of total Tmall users, and more than 90% of platform sales.

3.2 Profiles of Eight Specific Consumer Segments

Based on insights from the analysis, we have put together summary profiles of eight consumer segments, which can help brands better understand the e-commerce consumers in China and form effective ways to address them:

- **Fashion & luxury gurus: High spending power, high fashion sense**

“Fashion is the air, also the essence of life.” Fashion & luxury gurus have long been at the forefront of the latest trends. They follow the latest luxury and fashion news, are eager to set trends, and love to show off their unique personalities. They are passionate about new products, IP collaborations, limited editions, and can be regarded as “walking barometers for the fashion industry.” They are mainly young people from generation Y&Z (especially post-85 and post-90) living in first and second-tier cities.

- **Classic luxury buyers: High spending power, moderate fashion sense**

“Fashion is like wine, the classics mature over time.” Classic luxury buyers also have high spending power and follow fashion. They do not blindly pursue the latest trends, but prefer classic and versatile pieces, and demonstrate a sense of taste and maturity by wearing top brands. They prefer high-quality and exquisite fabrics and enjoy such purchases. Most are affluent middle-class people living in first and second-tier cities, but more diverse in terms of age - many were born in the 70s and 80s.

- **Emerging fashion enthusiasts: Average spending power, high fashion sense**

“Fashion is an attitude, buy what you want.” Emerging fashion enthusiasts have almost as much fashion sense and are almost as fashion-sensitive as luxury and fashion gurus, but they have lower spending power. They are the rising fashion consumers of the future. Most of them are from the post-85s and post-90s generation, live in first and second-tier cities, and have considerable spending potential. They usually pay attention to fashion trends, but prefer light luxury and mid-to-high-end brands. They only opt for expensive items from time to time, and seek sense of identity associated with such purchases. They often prefer more popular products with prominent brand elements, which demonstrate their confidence and grace.

- **Avid trend followers: Moderate spending power, moderate fashion sense**

“Can’t help but shop for bestsellers.” Avid trend followers only have a moderate sense of fashion and spending power, but they often buy new items. Most of them live in second and third-tier cities and are from the post-85s and post-90s generation. The majority of them are female. They tend to follow online influencers, often checking e-commerce platforms on daily basis, and shop across a wider range of categories. They don’t look for the most expensive or the newest products, but are willing to try new products if they are within their budget. They derive their satisfaction from being able to shop for a wide range of different products frequently.

- **Mainstream fashionistas: Moderate spending power, moderate fashion sense, moderate purchase frequency**

“Buying something nice makes me happy.” Mainstream fashionistas have a moderate sense of fashion and moderate spending power. The categories they purchase are similar to “avid trend followers,” but they only buy half as often. They make more rational purchase decisions, take time to select items and care about value for money. They try to achieve a balance between fashion and quality to show their sense of dignity and attention to detail. Like avid trend followers, they are mostly young people from the post-85 and post-90 generation living in second and third-tier cities.

- **Quality-focused pragmatists: Moderate consumption power, low fashion sense**

“Quality & comfort come first, everything else is less important.” Quality-focused pragmatists are mostly young people from the post-85 and post-90 generation living in third and fourth-tier cities. They have less fashion sense and moderate spending power. Although they don’t follow fashion trends, they still care about product quality. They prefer basic items, have clear goals when making purchases, care about getting a good fit, and seek high-quality fabrics, workmanship, and functionality. They like to get value for money and shop more efficiently.

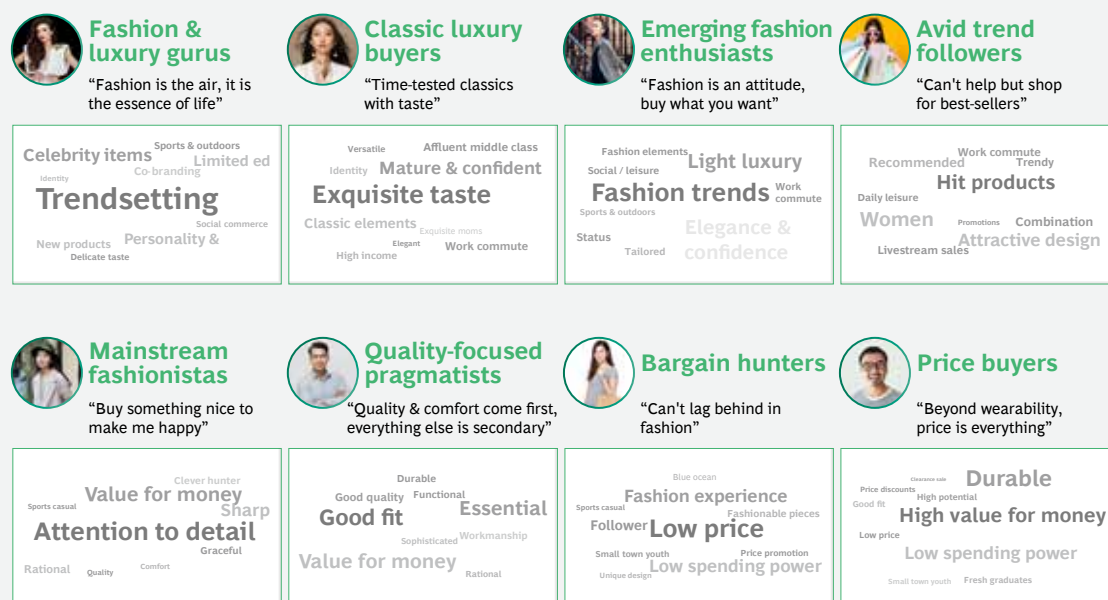
- **Bargain hunters: Low spending power, moderate fashion sense**

“You shouldn’t lag behind in fashion.” Bargain hunters have a moderate sense of fashion, but lower spending power. They are mostly young people living in small towns. Their purchases do reflect recent urban trends, but they tend to buy cheaper products featuring recent fashion elements. As they have limited spending power, they rarely follow the latest trends, but would rather wait until the sales after the initial launch. They follow fashion trends and changes in price to keep up with trends, and are eager to catch up and be recognized.

- **Price buyers: Low spending power, low fashion sense**

“It only needs to be functional, price is everything.” Unlike avid trend followers, many of whom are women, price buyers are mostly men from the post-85 and post-90s generation living in tier four cities or lower. For them, clothes are essential items, which don’t need to be fashionable or have many features. They prefer comfortable, durable and value-for-money products, and don’t care about new products. They are highly sensitive to promotions and only buy clothes they need. (See Exhibit 5).

EXHIBIT 5 | Eight Specific Customer Segments with Different Features

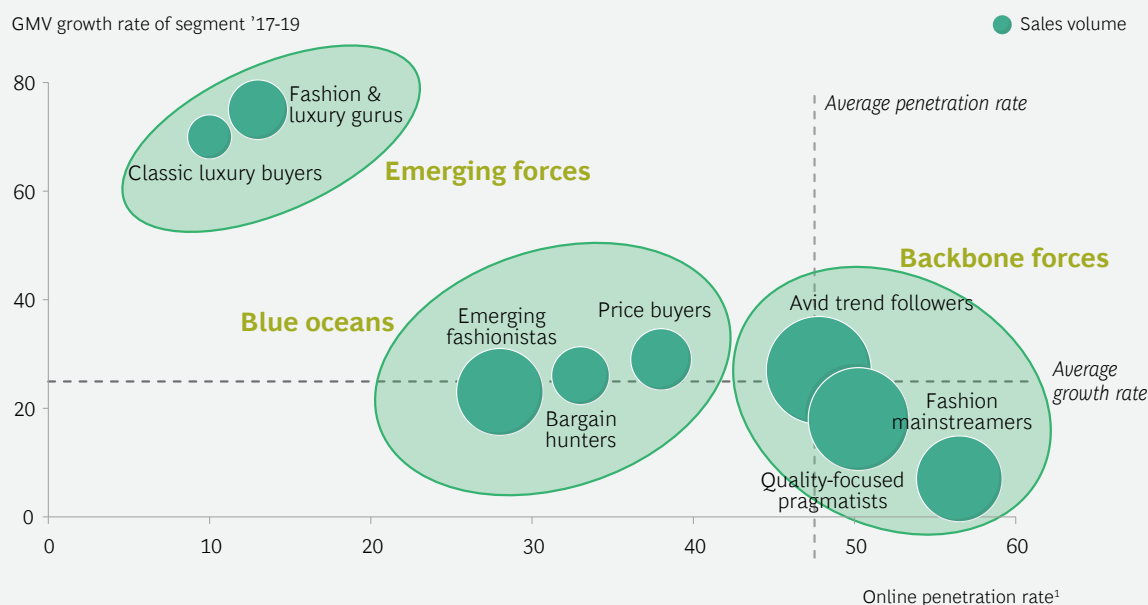


Sources: Alibaba sector segment tags, literature search, expert interviews, BCG analysis.

3.3 Size, Potential and Drivers for Each Specific Consumer Segments

Analyzing the GMV contribution, growth rate and online user penetration of the eight consumer segments in further detail, we found that the “emerging forces” on Tmall had the highest spending power, the highest GMV, the fastest growth, and the highest consumption potential. The groups with moderate spending power - avid trend followers, mainstream fashionistas and quality-focused pragmatists, are the core consumers in the traditional online apparel industry, or the “backbone forces.” The emerging fashion enthusiasts and consumers with lower spending power have a higher GMV than the “backbone forces” but lower than the “emerging forces”, while online penetration rate of the “blue oceans” was in between the other two. (See Exhibit 6).

EXHIBIT 6 | Segments with High Spending Power Have Fastest Growth Rate, While Segments with Moderate Spending Power Are the Largest



Sources: National Bureau of Statistics, CNNIC, internal Alibaba data, BCG analysis.

Penetration rate: Number of people in each segment on Tmall Apparel & Fashion out of the total number of people in the segment online in China.

- Emerging forces: Huge potential, dual drive.** The “emerging forces” have huge growth potential and high spending power. Even though they only account for 2-3% of consumers, they make up more than 10% of sales, and had annualized sales growth of more than 70% from 2017 to 2019. As platforms optimize and add new categories, brands and products, Alibaba’s platform is positioned to benefit from the rise of the “emerging forces” in the future. Brands should take early advantage of the opportunity and launch new products in line with preferences of these consumers to gain a favorable position.
- Backbone forces: Penetration is becoming saturated, new engines of growth are needed.** This is the core group of apparel and fashion buyers on the Tmall platform, and the main consumer group for the traditional online clothing industry. They are a large segment that accounted for about 60% of sales in 2019. However, as online penetration gradually becomes saturated, sales growth has slowed down, and new customer acquisition is no longer the main lever. Platforms and brands should explore consumers’ deeper needs and encourage them to trade up.
- Blue oceans: Active customer acquisition is key to fully realize growth potential here.** A large proportion of consumers are still “blue oceans”, and their penetration

rate on Tmall is lower than the industry average, indicating good future growth potential. As Tmall's presence has expanded to low-tier cities over the last two years and the range of products available has also expanded, sales growth among the "blue oceans" segment has been growing steadily, and can expect continuous growth. Therefore, platforms and brands should focus on customer acquisition to build a foundation for long-term growth.

4. Insights Into Five Major Consumer Trends

Based on our analysis of eight specific consumer segments, we have identified varying preferences and behaviors for assortment, new product and promotions (from a product-centric perspective), as well as marketing and experience (from a site-centric perspective). Based on such findings, we have summarized five trends in consumer preferences to help brands win the “battle for mind”. (See Exhibit 7).



4.1 [Assortment] Wide Range of Choices: It Has Become the Norm for Consumers to Pick an Outfit Mixing Different Brands Across Categories

For brands, assortment strategy is a top priority, and may directly result in changes of operational focus. For example, brands can choose to expand portfolio and coverage across multiple categories or strengthen within one category for different consumer segments.

We found that consumers bought across a broad spectrum of categories online (7.7 subcategories on average per year) and most of them bought products from 9 or more subcategories. Consumers are after the extensive choices and the trend will continue to grow. (See Exhibit 8).

In fact, consumers with moderate spending power buy across the widest range of categories. The number of subcategories purchased per year by emerging fashion enthusiasts

EXHIBIT 8 | Assortment: Consumers with Moderate Spending Power Purchase Across the Most Categories

Avg. # of subcategories¹ purchased ('19) and changes ('17-'19)



Source: Ali internal data; BCG analysis.

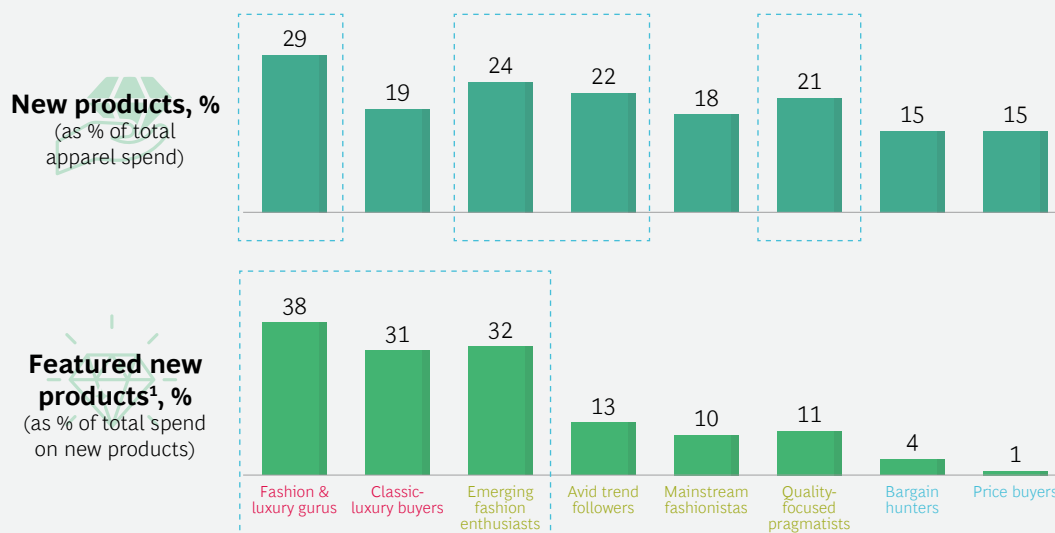
¹Tmall defines subcategories as categories under L2 industries, e.g., women's apparel is L1 industry, women's tops is L2 industry, and sweaters, shirts, etc. are subcategories under women's tops.

and avid trend followers reached 12-14 in 2019. Fashion & luxury gurus and classic luxury buyers grew rapidly, becoming a driving force for future growth. The number of categories purchased by fashion & luxury gurus rose by 3.5 times, while the number of categories purchased by classic-luxury buyers rose by 3.3 times. The growth is attributed to increased consumption level and stronger willingness to purchase, as well as Tmall's efforts to introduce luxury brands, optimize operations, and improve the shopping experience in the past two years.

What's more, consumers tend to choose their own outfit from different brands rather than doing a one-stop shop under one brand. The average number of subcategories bought under one brand per order is only 1.1, which means most brands have the potential to grow through cross-selling, encouraging the consumers to pick across categories from the same brand/within sub-brands. Brands should also define target consumer segments and understand their preferences, optimizing their assortment and marketing plan in a more targeted way to increase cross-selling and consumer value.

4.2 [New Products] Novelty Seeking: More Focus on "Valuable Innovation"

New products are important as they drove more than 20% of GMV. Featured new products (special new products with unique selling points including IP licensed products etc.) took

EXHIBIT 9 | New Products: Consumers with Higher Fashion Sense Are More Likely to Buy New Products While Those with High Spending Power Prefer Featured Ones


Note: Data as of April 2020; Tmall applies category-specific timescales to define new products, e.g., 60 days for men's apparel & footwear, 90 days for sports apparel & shoes, and 180 days for accessories.

Source: Ali internal data; BCG analysis.

¹Featured new products include tailor-made, co-branded, celebrity style, trendy, China-chic, int'l fashion, and limited edition.

up the largest proportion, accounting for 17% of overall GMV. (See Exhibit 9). Therefore, brands need to think about several topics related to new products, for example, which new products are more appealing? Do we renew one of the existing designs or innovate to generate a completely new design? How can brands balance the share of new products on shelves? Is the allocation of new products appealing to target consumer segments?

Our analysis reveals that consumers with high fashion sense prefer new products. Fashion & luxury gurus spent 29% of their total consumption on new products, which is the highest proportion, followed by emerging fashion enthusiasts (24%) and avid trend followers (22%). These segments have their own understanding of fashion, and are more picky about new products.

In addition, consumers' spending power determines their preference for new products. The higher the spending power, the higher their preference for special new products. The three segments mentioned above each spent more than 30% on featured new products, much higher than other segments. This figure even reached 38% among fashion & luxury gurus.

We also found that new products attract both new and old customers. Data shows that existing customers have a higher new product purchasing rate compared to new customers,

especially fashion & luxury gurus and emerging fashion enthusiasts. Therefore, brands should make good use of both public and private domain traffic to increase repurchase rates through effective methods, such as personalized homepages and shelves, Weitao, and dedicated customer service, thereby activating existing customer base and boosting sales of new products.

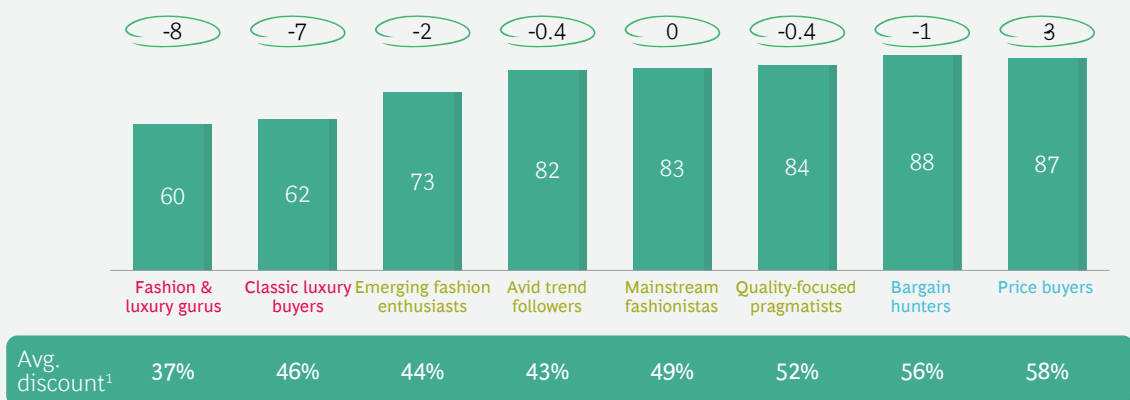
4.3 [Promotion] Maturing Mindset: Need to Leverage More Customized Promotion per Customer Characteristics Instead of Simple Discounts

Promotion is always a sales booster brands can pull to hit sales target in a short time. However, repeated discounts may lead to reliance and even sales stagnation when promotions end. Therefore, it is essential to build precise insights on target segments' preferences regarding promotions. And more and more consumers in China have become smarter, they are willing to invest the time and effort to get the best-fit products they want instead of the cheapest the market has to offer.

As we expected, promotions appeal to bargain hunters and price buyers most, who contributed 88% and 87% respectively to sales of goods with discounts of 30% or more in the last two years. However, data shows a consistent decline in promotional sales across consumer segments in recent years, which is especially prominent among fashion & luxury gurus. This suggests that consumers with high spending power are more mature, and are no longer easily attracted by simple promotions. (See Exhibit 10).

EXHIBIT 10 | Promos: Maturing Consumer Mindset Result in Falling Share of Sales Through Promotion & Declining Preference for Discount

Purchases at 30%+ discount as % in total spending ('19) and change ('17-'19)



Source: Ali internal data; BCG analysis.

¹ Discount: (1-transaction price/tag price)*100%.

Value % % change

Moreover, average purchasing discounts vary by consumer segment as well as their spending power, and are usually around 40-60%. For example, an average discount of 40% can make fashion & luxury gurus feel like they are getting a great deal, but the discount needs to rise to 60% for price buyers to buy in.

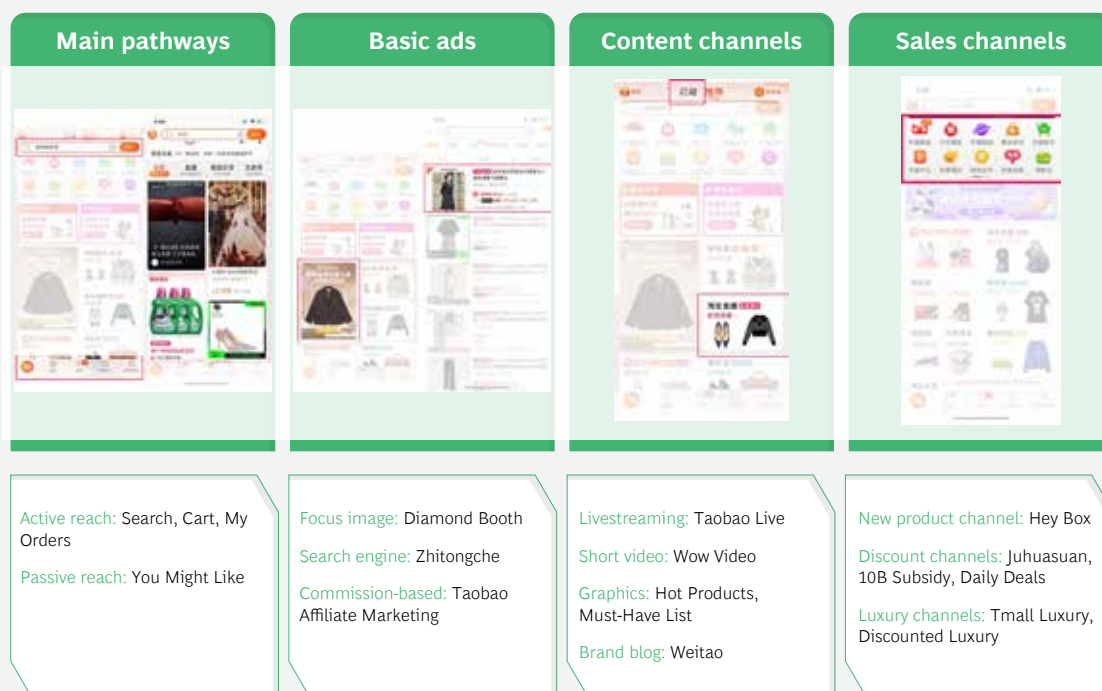
Therefore, a one-size-fits-all promotion approach to reach consumers is no longer feasible. Brands should develop a more sophisticated and targeted strategy that combines product innovation, brand communication, and promotion to approach and capture different consumer segments.

4.4 [Marketing] Immersive Interactions: Live Streaming and Short Videos Are the Rising Stars of Content Marketing

As innovative marketing methods and technologies emerge, brands can engage consumers through diversified ways. Tmall offers different touchpoints to connect consumers with products, which enables brands to effectively target, reach and interact with consumers. Four types of touchpoints are often used to reach consumers: (See Exhibit 11).

EXHIBIT 11 | Marketing: Tmall Platform Offers Diverse Touchpoints to Approach Consumers

Channel examples

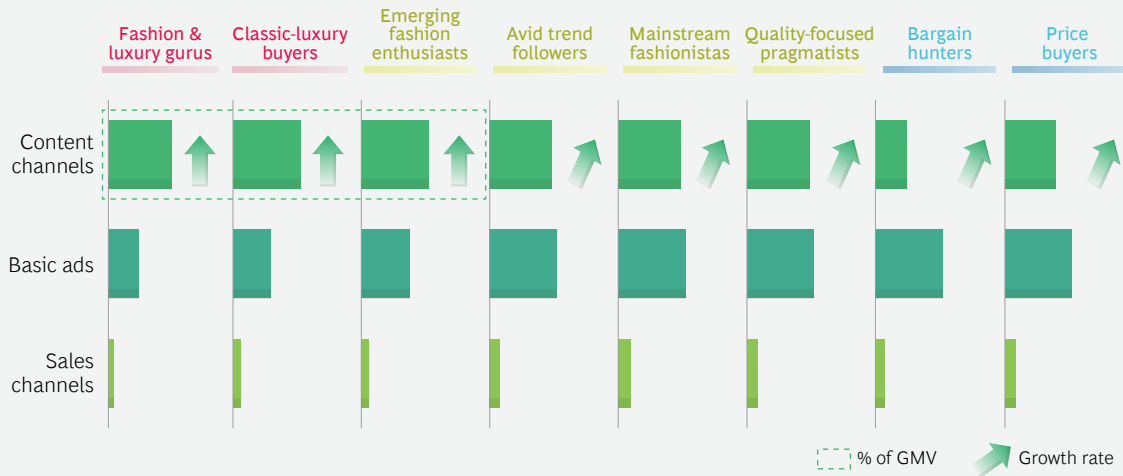


- **Main pathways:** Search, Cart, My Orders, You Might Like, Super Recommendations
- **Basic ads:** Mainly Alimama's basic marketing tools, including Star Booth, Zhitongche, Taobao Affiliate Marketing
- **Content channels:** Taobao Live, Wow Video, Hot Products, Must-Have List, Weitao, Guangguang
- **Sales channels:** Hey Box, Juhuasuan, 10B Subsidy, Qiang Taobao, Daily Deals, Tmall Luxury

Content channels have experienced rapid growth over the last two years, which has driven a 200% YoY increase in GMV across all consumer segments. Push ads and sales channels are no longer the only choices, and content channels have become increasingly important for cross-consumer segment marketing. (See Exhibit 12).

EXHIBIT 12 | Marketing: Content Is Increasingly Important for Consumer Operations, Esp. for Consumers with High Fashion Sense & High Spending Power

The share (Jun '20) and growth rate (Jun '20 vs. Jun '19) of GMV from targeted segments over different channels



Note: Analysis excludes basic pathways, which contributes the most to GMV; the GMV growth from basic ads and sales channels are slower than that from content channels

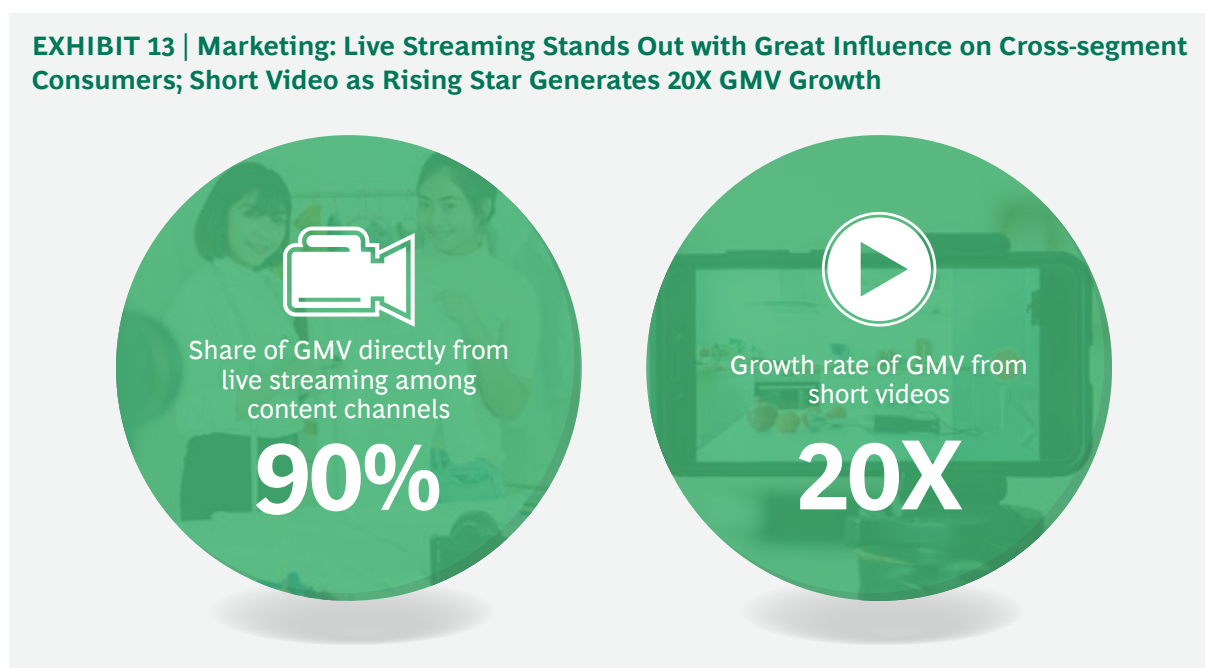
Source: Ali internal data, BCG analysis.

We found that fashion & luxury gurus, classic luxury buyers, and emerging fashion enthusiasts prefer content channels. They usually have a deeper understanding of fashion, and are less likely to blindly follow push ads or promotions. They prefer to gain a deep understanding of brands and products by interacting and exploring before each purchase. GMV for fashion & luxury gurus driven by content channels is up by 400%, almost twice the

average. By contrast, bargain hunters and price buyers prefer basic content ads, and they believe that direct messages can help make decisions more efficiently.

Live streaming has generated a 258% YoY rise in GMV, accounting for 90% of total GMV from all content channels. Consumer segments with high fashion sense and high spending power tend to value content and interactions. GMV from fashion & luxury gurus driven by live streaming has increased by 800%, nearly triple the average. Short videos like WoW Video have grown by over 20X and may become the next new trend on Taobao. (See Exhibit 13).

EXHIBIT 13 | Marketing: Live Streaming Stands Out with Great Influence on Cross-segment Consumers; Short Video as Rising Star Generates 20X GMV Growth



Among sales channels, Juhuasuan still contributes the most, while other emerging channels such as Hey Box and 10B Subsidy are also on the rise. For example, fashion & luxury gurus and emerging fashion enthusiasts prefer Hey Box due to their preference for new products. However, avid trend followers, mainstream fashionistas, quality-oriented pragmatists, and bargain hunters prefer 10B Subsidy and premium brands' best-sellers, which are highly cost-effective. Moreover, price buyers mostly shop for basic clothing needs, so channels such as Daily Deals which offer extremely cost-effective products can quickly win their favor.

Therefore, brands should create marketing content according to the preferences of target consumers. Taking fashion & luxury gurus as an example, price is not a key purchasing criteria, low price does not really motivate them, choosing the right KOLs and developing appealing branding strategies would be more effective when approaching them.

4.5 [Experience] Diversified Services: Differentiated Consumer Operations and Strategic Innovation

Consumers have a growing demand for diversified services. Besides standardized pre- and after-sales services (e.g., advice on sizes, logistics and promotions, and free returns), more than 90% of consumers would like more value-added services (VaS) and experiences, such as fashion tips, instant refunds, try before you buy, cleaning and maintenance etc. The top needs are pre- and after-sales benefits and fashion tips, which are in line with consumers' maturing mindsets towards consumption and need for personalization.

Apparel shoppers usually like to try before they buy, leading to high return rates. Therefore, brands can offer benefits such as trials and instant returns to high-value consumers (this would require strong logistics setup, which can be done quite smoothly through Alibaba ecosystems; for example, most brands offer 7-day free return, if a customer is not satisfied with the products received, he or she can just submit return request in mobile app and select a suitable time for logistics partner to come to door and pick up them up. Once the logistics partner get the returned goods, refund is immediately available back on customer's bank account through Alipay's backend system). Moreover, brands can offer more professional and personalized advice on dressing-up and outfit styles according to consumers' preferences, to improve the shopping experience.

Meanwhile, different consumer segments have varying demands for diversified and personalized services. The higher the spending power and fashion sense, the more sophisticated the demands. For example, fashion & luxury gurus require ~2.4 types of VaS, 10% higher than the average. They focus more on after-sale product care. Twice as many consumers in this category prefer free cleaning and maintenance services than the average.

One-size-fits-all service no longer meets the needs of demanding consumers. As a result, brands have to build diversified, personalized service capabilities to cater to different consumer segments. (See Exhibit 14).

EXHIBIT 14 | Experience: Consumers Require Personalized & Diversified Services, E.g., Exclusive Pre- & After-sales Benefits and Personalized Fashion Tips

More than 90% of consumers expect more value-added experiences and services¹



Top Three demands are concentrated on pre- & after-sales benefits and fashion tips



Fashion & luxury gurus need 2.4 types of VaS on average, 10% above the average

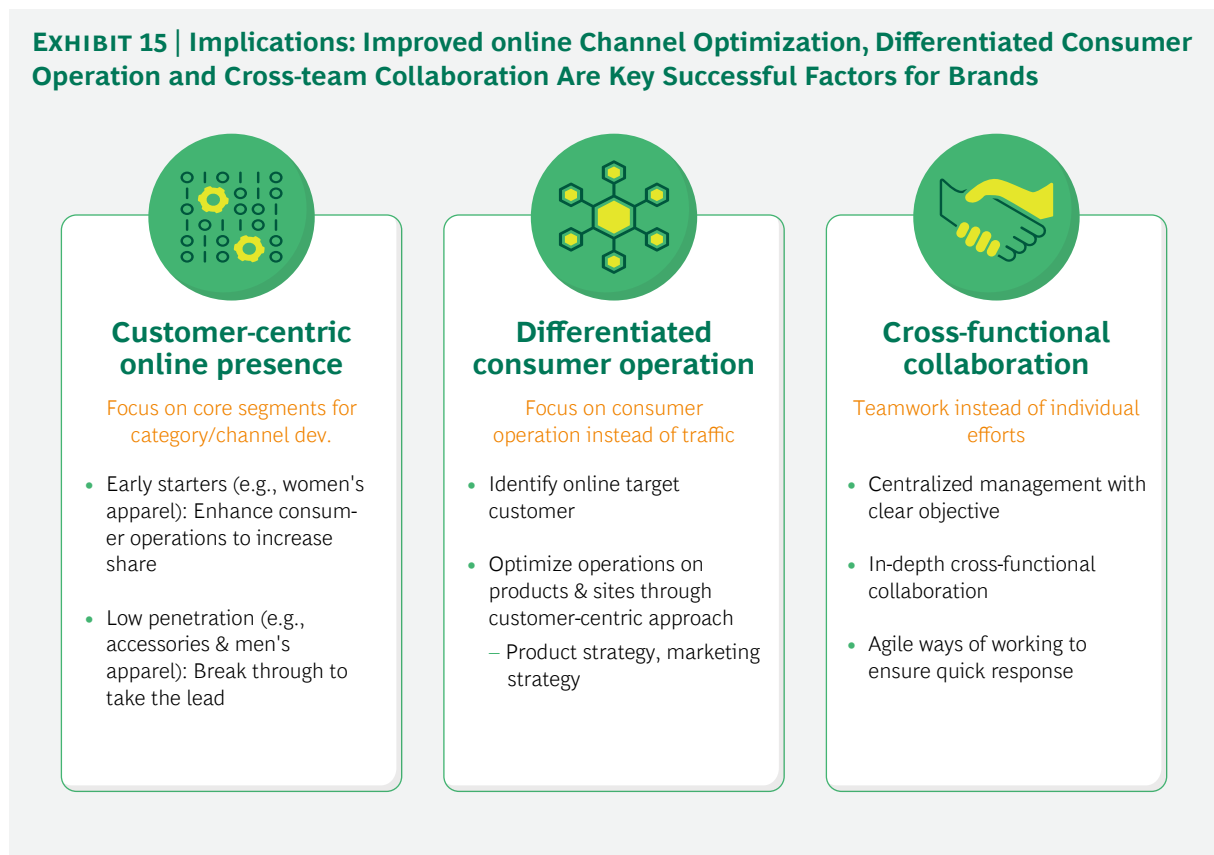
Source: Tmall Apparel Consumer Mind Survey Report, March 2019.

¹ Indicates try before you buy, fashion tips, and instant refunds. New demands like trade-in, cleaning & maintenance, etc.

5. Three Key Success Factors for E-commerce

Based on our analysis, we have identified three key success factors for apparel brands to capture opportunities and address future challenges: **Consumer-centric online presence, differentiated consumer operations and cross-functional collaboration**. These can serve as guidelines for brands to address strategic planning and daily operations, and enable players to accelerate business development and win amid the competition. (See Exhibit 15).

EXHIBIT 15 | Implications: Improved online Channel Optimization, Differentiated Consumer Operation and Cross-team Collaboration Are Key Successful Factors for Brands



5.1 Consumer-centric Online Presence to Win Core Segments

Winning in core segments on mainstream platforms will be critical for apparel and fashion brands to manage channels successfully over the next three years. To stay ahead of the competition, brands must select the right growth levers for each segment - for example, rapid market penetration for “emerging forces” and “blue oceans”, and differentiated operations for “backbone forces”. In the context of COVID-19, many leading brands have begun to rethink their online channel positioning and re-define their target consumer groups and strategic goals to optimize and boost their online footprint.

5.2 Sophisticated Consumer Management Through Operational Transformation

Brands should adopt a sophisticated consumer-centric approach to improve their operations. At the heart of this strategy is a deep understanding of existing customers and the ability to find the right prospects. Products and sites are the other two key aspects to such a transformation. Based on consumer insights, BCG has further identified five core levers along the following dimensions: assortment, new products, promotions, marketing and customer experience.

5.2.1 [Assortment] Optimize Assortment to Launch Featured Products and Drive Cross-selling

Consumers tend to buy across categories, which is a good opportunity for companies to cross-sell products (from a single brand or across different sub-brands under the same company group) through online assortment optimization and insights about shopping baskets.

- **Launch featured assortment to win fashion seekers' heart and boost brand position**

Consumers typically only seek their target assortment (products they usually buy and are familiar with) under a specific brand. To boost growth potential, brands could design and launch featured products, introducing adjacent buying opportunities to consumers. When introducing their featured assortment, brands should identify and prioritize sub-categories with the highest potential, taking into account multiple aspects such as the brand's strategic development, category growth potential and correlations across categories within the assortment.

Case study 1: An apparel brand boosted its category performance by analyzing category correlations, focusing on the most promising categories, identifying market penetration and trade-up opportunities, and optimizing its product portfolio

The brand identified its target customers as fashion followers, and partnered with Tmall Trend Center to come up with two new product ideas: "All-over print T-shirts" to drive market penetration, and "tribal pattern tops" to

encourage existing customers to trade up. With the support of the Tmall Innovation center, the brand also defined "Rock 'n' Roll" as the content preference of its target segments.

Case study 1: (cont'd)

The company co-branded with a Chinese rock 'n' roll label to design and optimize products based on the punk spirit that the brand embodies, as well as market trends and customer preference insights. They used a smart evaluation tool developed by Taobao to select the six most popular T-shirts, and decided to increase the production of the No. 1 SKU. The company also made efforts to reach target segments via

Hey Box, live streaming and other platforms.

As a result, the brand increased its penetration of fashion followers during the promotion. Each of the six T-shirts achieved an average gross merchandise volume (GMV) five times higher than that of counterparts during the same period. Its most popular product even became the bestseller in the market.

- **Create cross-selling scenarios to expand category coverage**

E-commerce offers brands infinite shelf space, but also gives consumers greater flexibility and lowers the switching cost, making it relatively easy for consumers to jump from one brand to another when they need to shop across categories. In light of this, brands should improve strategies for site based marketing to drive cross-selling, either within their own Tmall stores or on the broader Tmall platform across sub-brands.

Case study 2: A sportswear brand increased its co-branded categories by mapping customer profiles, conducting customer overlap analysis, and cooperating with IP holders

The brand aimed to stay ahead of fashion trends and build an image of youthful vigor via in-depth collaboration with players in various sectors, e.g., entertainment, music, and the arts. Following the success of the Doraemon collection (a famous Japanese comic figure), the brand intended to bring a new collection inspired by Crayon Shin-chan (another famous Japanese comic figure). Insights generated from consumer profiles suggested a high degree of similarity between the target audiences of these shows. Therefore, the brand managed to identify the potential buyers of the Crayon Shin-

chan collection based on overlap analysis.

Considering the relatively high footwear to apparel ratio (1:1 during a previous promotion campaign), they decided to expand co-branded categories from footwear alone to footwear and apparel. To drive the results of cross-selling, market penetration and the popularity of the planned collection, the brand paid Tmall to push advertisements to target groups, i.e., recommend the Crayon Shin-chan collection to the Doraemon customer segment, and recommend the Doraemon collection to Crayon Shin-chan customer segment.

Case study 2: (cont'd)

Meanwhile, the brand organized campaigns to promote co-branded products via Weibo and other non-Tmall channels, including hashtag topics, KOL referrals and interactions to win mind share and increase product exposure.

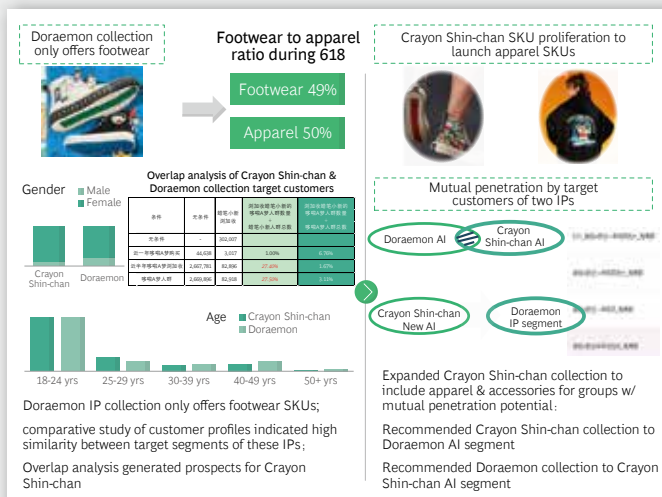
As a result of these efforts, footwear and apparel achieved a sales share of 32% and 60% respectively during the Double 11 shopping festival (“Double 11”), with a cross-selling success rate of ~10%, a 5.8 times increase compared to the June 18 shopping festival (“618”). Meanwhile, sports jackets, down coats, sweaters, bags, sports caps all saw sales growth. Crayon Shin-chan ranked seventh out of more than 50 collections, and 90% of its SKUs sold out.

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IP Expansion to Penetrate Relevant Categories

A Sportswear Brand Increased Coverage of IP Collections and Footwear to Apparel Ratio from 1:1 to 2:1

Identified purchasing potential to drive mutual penetration across IP collections



Aggressive product seeding programs outside of Tmall



5.2.2 [New Products] Launch High-quality New Products with Unique Selling Points Based on Deep Consumer Insights

Quality, rather than speed, is the key driver for success in new product development. Brands should define an appropriate balance of new products vs. classic SKUs and basic high inventory SKUs based on the characteristics of target consumer segments. At the same time, brands should closely monitor market trends in core categories to enable successful product innovation.

Based on the experience of the Tmall team, BCG reviewed super popular new products

under the apparel and fashion categories and synthesized three common features of successful products: Using advanced technology, incorporating fashionable elements, and leveraging IP licensing. We will briefly discuss them below.

Use advanced technology to drive product innovation, mainly in two aspects: Functionality and fabrics. A footwear brand leveraged biomechanical insights to unveil sneakers specifically designed for tricky terrain (e.g., trail running), combining superior grip, abrasion resistance, perfect wrapping, light weight and comfort. Triacetate is another example, which can be used to make garments that don't tend to stick to the body and keep people cool in summer.

Design products that match latest fashion trends / incorporate popular fashion elements. Patterns and colors are the most common elements of fashion design in the industry. For example, a floral jewelry collection inspired by daisy flowers was a huge success (daisy element has been super trendy in recent years). A bag producer incorporated the hottest color (avocado green) this year into their new bag collection based on the latest consumer trends. It successfully caught the eyes of the consumers and became their top of the mind product in the bag segment.

Launch co-branded products in collaboration with IP holders that have similar brand positioning and target consumers, including animation, Chinese street culture, designers and artists popular with specific cultural circles.

Case study 3: A sportswear brand increased awareness and drove GMV growth through successful co-branded products; criteria for evaluating partnerships include brand influence, tonality, and overlap of target segment

The brand wanted to generate a buzz, and increase both brand awareness and GMV by collaborating with other IP holders and creating topics to attract a large audience. Based on a shortlist of potential partners, the brand decided to develop co-branded products based on animation. The rationale behind the selection was animation's huge influence, cultural match, and similar target customers. The animation IP had a total potential market of over 1 million buyers on Tmall, 60% of which had expressed interest in sportswear products. According to a public opinion analysis of Weibo,

RED and other social media platforms, the animation gave consumers feelings of nostalgia for the 1990s, therefore, it was a perfect fit for the co-branded products, which mainly targeted female vintage product lovers.

The collaboration turned out to be a big success. The co-branded collection received nearly 100 million mentions online, with total sales volume over 10,000 units and an ROI 72% higher than the overall AI (Awareness and Interest, based on AIPL funnel) segment.

Meanwhile, brands can also leverage online big data to explore new product opportunities.

Tmall offers a set of big data analytics tools to help brands rapidly capture market trends and explore opportunities to launch new products effectively.

Case study 4: A men's streetwear brand introduced full-funnel C2B innovation and built an agile NPD process with TMIC's support, to cater to consumer preferences

An established streetwear brand had defined a business growth strategy to constantly introduce new products that meet customer needs. To achieve this goal, the brand partnered with Tmall Innovation Center (TMIC) to reinvent its product development (NPD) process, including opportunity identification, co-ideation, smart evaluation of prototypes, and manufacturing.

To start with, the brand set NPD goals for hoodies around three dimensions: Category growth trends, seasonality, and brand differentiators. A group of young arts graduates representing the core consumer segment were then invited to co-design new products to strengthen the brand's connections with

customers. The outcome was remarkable – clothing coordination, style definition and 60+ drawings were all completed within 1 week. Four designs were finally selected as prototypes for mass production. The new products quickly sold out both within and outside of Tmall, thanks to a series of marketing campaigns combining Tmall Energy Camp, celebrity endorsement and multi-channel interactions.

As a result, the brand achieved a GMV five times higher than products launched by competitors during the same period. The number of post-95 generation prospects showing interest in the brand increased by 18 times.

Case Study 5: A Footwear Brand Explored Fashion Trends Within Footwear Category and Created “Angel Shoes” as A New Concept, Upgrading Traditional white Sneakers Into Bestselling Featured New Products

According to big data analysis by Tmall Trend Center (TMTC), nurse shoes reported a high growth rate, which far exceeded the overall performance of the low-cut shoe category. A further customer structure analysis showed that buyers of nurse shoes were not limited to HCPs, therefore there was significant potential to increase the customer base.

TMTC therefore concluded that nurse shoes could serve as an inspiration for redesigning white sneakers, a versatile fashion staple which needs to be replaced periodically, almost every season. In fact, nurse shoes and

white sneakers share two defining features, which are simplicity and the white color.

Based on this insight, TMTC helped brand to create Angel Shoes (it's common to associate nurses with angles in China), an updated version of white sneakers inspired by traditional nurse shoes. Other companies quickly followed suit by launching marketing campaigns in multiple waves based on Taobao's marketing matrix to drive exponential sales growth in a short time. Angel Shoes achieved a GMV of ~RMB 40 million during the promotion.

5.2.3 [Promotion] Differentiated Mechanisms to Deliver Data-oriented Solutions Based on Pre-defined Goals

Nowadays, discounting alone is not enough. Promotions tailored to consumer segments under specific scenarios are the real deal to drive both revenue and profitability. Brands need to recommend the right products to the right customers, and determine the suitable promotional cadence, intensity and approaches pursuant to pre-defined promotional goals. Meanwhile, they should also leverage data to enable real-time monitoring, analytics and optimization, so as to further improve the projection accuracy of promotion impact, and better control the sell-through rate and profit margins.

5.2.4 [Marketing] Develop Innovative Content Marketing Tactics and Optimize the Channel Mix

Brands without high-quality content, marketing innovation and integrated marketing will not be able to win consumers and survive amid the fierce competition. Through in-depth analysis of the marketing strategies adopted by many leading brands, we identified four key trends behind their success:

- **From price benefits to brand IP benefits**

Offering price benefits alone is not enough. Enhancing brand equity is a more effective way to attract high-value customers. The choice of approach depends on the brand's positioning. Functionality and brand stories should serve as key levers for brands focusing on emotional drive (appeal to consumers with brand identity). For example, a women's clothing brand promoted the value of cool high-tech jeans based on denim innovations. A jewelry brand unveiled a new collection inspired by the legend of Hua Mulan, which won the hearts of independent young female customers by building the brand identity of courageous women remaining true to themselves in the face of adversity.

- **From brand building to consumer engagement**

Leading brands tend to create relevant content from the perspective of consumers to attract target segments. There are three keys to success:

- Video marketing: Shift from using static images and text to videos to cater to the preferences of today's consumers.
- Customer voices: Try to understand consumers' true feelings from their own point of view, not from a brand-oriented perspective; and

- Localization: Optimize global content for local consumers
- **Push the boundaries beyond live-streaming promotions and build a comprehensive presence to increase customer interactions**

Live streaming is often viewed by consumers as an opportunity to obtain large discounts. As live-streaming marketing becomes more common, live streaming and short videos will be important tools for consumers to understand brand features, and monitor product launches and market trends. There are many pre-requisites for the success of live-streaming campaigns – including high capabilities and speed in product development, experience and effectiveness in creating diverse content for promotions, as well as dynamic and highly responsive merchandise operations, inventory management, pricing, promotion management etc.

As for holistic arrangement, a top men's apparel brand used Weibo, Weitao, and brand shows to build sales momentum before starting live-streaming, and took further actions after the streams to maximize the results of promotions - the brand reached out to prospects and newly acquired customers on through appropriate channels using best-fit content and tailored messaging.

As for benefit communication, leading apparel brands are improving customer interaction by creating more sophisticated marketing venues and encouraging cross-category matchup. For example, a streetwear brand held live-streaming promotions from pop-up stores to build a cool image and capture mind share.

- **Build a unified marketing portfolio to unlock the potential of target consumers and achieve cross-segment sales goals**

Traditional apparel brands often do not have well-structured marketing strategies, causing ineffective use of marketing resources, more specifically, they have:

- Poor insight into consumer segmentation. Lack of understanding makes it difficult to improve assortment planning and select the right marketing channels.
- Lack of E2E marketing planning. Traditional brands have not yet developed E2E marketing plans that break down ATL and BTL silos. Brands should form holistic view of marketing planning. Out-site marketing and in-site marketing needs to be in sync to maximize the impact.
- Few on-site marketing levers. Traditional brands mainly rely on basic advertising

Case study 6: A leading sportswear brand increased penetration and GMV through pre-sales planning and personalized offerings centered around products, marketing channels and customer benefits; the key was to effectively reach and interact with core customers

Products. The company identified the most promising shoes from over 100 SKUs by holding a market survey (N>10,000) several months in advance of the Double 11 festival. The company further optimized the assortment mix, inventory level and discount plans based on the results, and selected the right products to match customer preferences. As a result, products that passed TMIC's evaluations contributed over half of the GMV during the Double 11 festival, with a sell-through rate of more than 80%.

Marketing channels. The company targeted key segments precisely and increased customer acquisition across categories by creating a dedicated live streaming matrix consisting of multiple levels, including streams hosted

by top-tier KOLs, experts, and even stores. Moreover, the company partnered with cosmetic giants in cross-promotions to generate more leads. Live-streaming promotions contributed to over half of sales revenue during the first stage of Double 11, with female customers accounting for over 60% of total revenue.

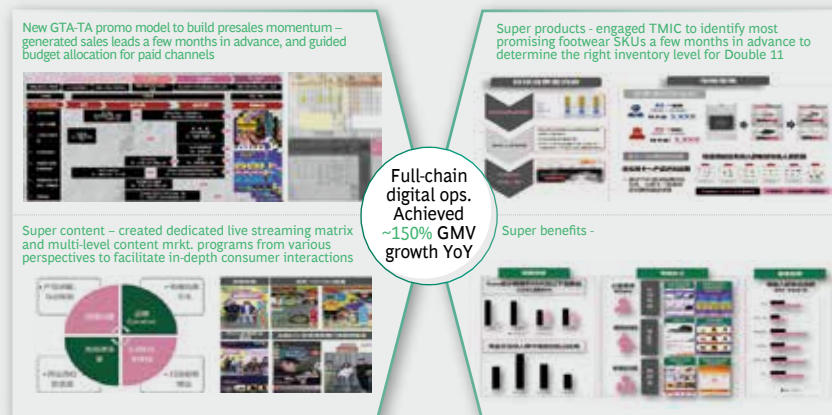
Customer benefits. The company offered tailored offerings for different target segments to meet their specific needs and increase conversions.

Impact. The company achieved a GMV of over RMB 400 million of during the Double 11 festival, a 150%+ growth year on year, ranking first in the outdoor sports industry.

DIGITAL CRM Across Customer Journey

A Leading Sportswear Brand Increased Penetration & GMV Through Pre-sales Planning and Personalized Offerings

A top brand leveraged E2E digital ops. to effectively reach and interact with customers



**Impact
(examples
of indicators)**

Significant GMV growth
Total GMV exceeded **RMB 400 mn** during Nov. 11 shopping festival 2020 ("Double 11"), a YoY growth of **150%**, ranked **No. 1** in outdoor sports industry

Attracted young customers & female customers
Gen-Z represented **50%+** of sales revenue; female customers accounted for **60%+** of all customers

Digital inventory ops. productivity
Products that passed evaluations by TMIC contributed over half of the GMV during Double 11, with a sell-through rate of **80%+**

and promotional levers offered by platforms, however not all consumers are attracted only by price benefits.

5.2.5 [Experience] Achieve Omni-channel Synergy to Enable Consumer Life-cycle Management

Instead of a one-size-fits-all approach, brands need to offer customized solutions for each consumer segment, build up private domains (brand-owned channels) to drive traffic and increase customer lifetime value.

- **Build private domain traffic to drive omni-channel synergy**

Brands should improve data capabilities to gain deep and accurate insights into consumers, and acquire more leads from Tmall to better serve customers, including building an online private domain on the Tmall platform, and connecting with corresponding offline brand-owned channels.

Case study 7: A men's clothing brand used Flagship Store 2.0 tools to create personalized CX at private domain touchpoints to improve service and conversions

The company classified its core customers based on a survey and developed different product recommendation strategies for each group. Price-sensitive consumers were offered cheap items with large discounts, while marketing message focused on price promotions and value for money. Expensive items with small discounts were recommended to fashion seekers, while marketing content emphasized fashion trends.

Furthermore, the company personalized the private domain shopping journey

across touchpoints, including landing pages, content channels, shelf space and dedicated customer service teams, connecting public and private domains.

The efforts to improve customer experience had a profound impact on conversions. The brand saw a 1.5x increase in click-through rates (CTR) for landing pages, a 3x increase in the CTRs of customized items, and a 3.5x increase in penetration for target segments, compared with other large promotional events this year.

- **Customer relationship management across the customer journey**

Effective membership management to increase customer value has recently become a great challenge for many apparel brands as the cost of customer acquisition surges. Brands could try to integrate online and offline CRM systems, and adopt customized approaches for specific customer journeys to improve customer lifetime value.

Case study 8: A women's clothing brand built a sophisticated membership system to drive online-offline interactions and differentiated operations

Despite having millions of offline registered members and a mature management system for offline membership, the brand had yet to integrate its online and offline member data. To maximize the value of online members, the brand created a sophisticated membership system called CRM 2.0.

Firstly, members were divided into four groups: (a) those who had completed both online and offline membership registration; (b) those who had completed only offline membership registration but had interacted with the brand online; (c) those who had completed only offline membership registration but had made online purchases; (d) those who had completed only offline membership and had not had any online interaction with the brand. Secondly, the brand adopted different marketing tactics for different groups to effectively reach

customers. For example, it used its private domain and Tmall Flagship Store 2.0 to engage the first group across multiple touchpoints. Personalized offerings were created in both public and private domains for the last group.

Meanwhile, CRM 2.0 empowered the company to integrate data from multiple sources to offer personalized promotion plans and increase repeat purchase and cross-selling rates, including customer behavior data, customer tags developed by CRM system, and customer tags obtained from Tmall's database.

After the launch of the CRM 2.0 system, the brand saw 10x growth in online memberships, and a 30% increase in the share of sales from online memberships. Campaigns to activate offline members achieved twice as much ROI as traditional customer acquisition efforts.

Case study 9: A Renowned Chinese Sportswear Brand Consolidated and Uploaded Non-Tmall Data to Tmall During Double 11 to Integrate Its Marketing Efforts with Tmall Resources and Offer Personalized Solutions to Increase Conversions

The brand uploaded data on more than 70 million users during the Double 11 festival, who were divided into three categories: (a) Users of other e-commerce platforms; (b) members registered with the company's CRM system; and (c) the target audience of advertising campaigns by non-Tmall entities. It then adopted different marketing tactics for each category. Group 1 were offered products sold exclusively on Tmall and Double 11 promotion benefits, together with a pleasant shopping atmosphere that encouraged them to make the most of the festival. Group 2 were mainly targeted through the public domain, and were encouraged to register as online members or make their first purchases with the support of private domain

stores, dedicated customer service teams, CRM short messages, etc. A sequential advertising method was applied to Group 3 in two steps. Firstly, the company mapped out static customer profiles and dynamic customer behavior related to categories and the brand. Secondly, personalized product recommendations were delivered to the customers via Zhitongche, Diamond Booth and Super Recommendation, all advertising tools on Tmall.

As a result, these users contributed 30% of total sales growth and 25% of the growth in memberships during Double 11. Group 1 had a conversion rate 23% higher than the overall rate, and represented 12% of the total GMV during Double 11.

5.3 Cross-functional Collaboration to Break Down Silos and Increase Synergy

Breaking down information silos and driving cross-functional collaboration is a prerequisite for brands to stay competitive. Some leading players are taking a series of actions to expand their online business, including improving cross-functional collaboration and leveraging insight into customer lifecycle journeys to determine best-fit action plans.

- **Form “E2E customer journey” perspective to manage target consumer groups effectively**

Brands should build dedicated teams to form holistic overview including online and offline consumer operations, in-site and out-site marketing as well as omni-channel planning across platforms. The e-commerce team should take the lead on promotion planning and coordination as well as e-com consumer analysis to empower the operations and further strengthen the holistic overview.

- **Centralized product management to ensure holistic omni-channel planning**

The merchandizing team (assortment management and product planning) should lead overall product planning to ensure consistency, in particular clarifying cross-channel supply management principles for top sellers. The e-commerce team should oversee assortment and inventory replenishment across the e-commerce platforms and ensure close sync with the merchandizing team. In the best scenario, brands could adopt agile product allocation, which would enable them to adjust inventory in real time under a centralized inventory management system, and guide inventory replenishment based on a sales target and actual sales performance across online and offline channels.

- **Cross-functional collaboration as a foundation for the rapid growth of online business**

A well-coordinated support system and a cross-functional team with smooth collaboration are crucial for the rapid expansion of a brand's e-commerce business. Brands need to follow three principles to build organizational and teaming capabilities:

- **Centralized management with clear objectives.** Brands should appoint strong senior leadership to oversee online operations across relevant functions (e.g., merchandising, e-commerce platform operations, in-site marketing), improve overall management of e-commerce business, and enhance cross-team interactions to improve collaborations and increase operational efficiency. Strong lead-

ership here could ensure teams stay focused and synced on the same goal, pushing forward jointly in the right direction.

- **In-depth collaboration across teams.** Determine the core team setup and stakeholder support needed with clear roles, responsibilities and expectation to ensure effective collaboration on planning and execution. To excel in e-commerce, brands need to establish a dedicated team to determine growth target and focus, able to work agile and act quickly with clear goals (e.g., lead the planning of promotions and big events online in advance). Appoint a digital specialist to facilitate cross-functional coordination, drive progress, raise flags in time, help team clear blockers and make things happen. At the same time, clarify roles and responsibilities as well as engagement model for relevant units to ensure smooth collaboration (e.g., sync in-site and out-site marketing pace), assisting the core team in meeting growth targets.
- **Agile ways of working to ensure quick responses.** In the world of fast-moving e-commerce, brands should improve their organizational agility, responsiveness, and decision-making effectiveness, thus paving the way for continuous iteration and achieving balance between stability and change, making it possible for brands to take actions with clear focus and speed.

The shift from traffic and products to consumer-centric e-commerce operations has triggered fundamental disruptions and continuous changes in the e-commerce space. To adapt to the ever-evolving market, brands should embrace new trends and disruptions, reset and adjust themselves, clarify their strategic directions and goals, determine and deepen insights on target consumer segments, boost cross-functional interactions and collaborations within the organization and build capabilities to connect the right products to high potential consumers under appropriate scenarios through optimal channels with best-fit content and messaging.

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About Tmall

Tmall is the world's largest third-party online and mobile commerce platform for brands and retailers.

Founded in 2008, Tmall (<https://www.tmall.com/>) has established itself as the destination for quality goods and superior shopping experience catering to increasingly sophisticated consumers, and has attracted and retained many foreign and domestic brands and retailers. According to Analysis, Tmall is the world's largest third-party online and mobile commerce platform for brands and retailers in terms of GMV in the 2019 financial year. As a subsidiary of Alibaba Group, Tmall has experienced rapid growth in recent years.

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