



Uncovering the emerging players in China's e-commerce - Issue 2

Luxury e-commerce platform - Secoo

 FUNG BUSINESS INTELLIGENCE

 FUNG BUSINESS INTELLIGENCE

Asia Distribution and Retail

August 2018

While Alibaba and JD.com continue to dominate the e-commerce scene in China with 58.2% and 16.3% market share according to eMarketer, a number of relatively smaller specialist players have caught increasingly attention in China's e-commerce market recently. In today's rapidly evolving and highly competitive online marketplace, these fast-growing companies provide another option for businesses to market and sell their products. Fung Business Intelligence has identified some of these emerging players, each focusing on a specific area such as group-buying, O2O lifestyle services, social commerce, vertical online platforms and short videos. In this series of articles, we provide an overview of the key business and developments of these emerging player; we also identify their strengths, weaknesses, opportunities and threats.

In this issue, we discuss the business model and latest developments of Secoo – a leading O2O luxury fashion retailer in China and Asia selling luxury clothing, footwear, jewelry, watches, bags and accessories. Over the years, Secoo has successfully built an integrated O2O platform which consists of the online platform (website and mobile app) and offline experience centers, providing an ideal channel for luxury brands to reach out to Chinese consumers. The company was listed on the NASDAQ Stock Exchange in September 2017.

Company background

Secoo Holding Limited (“Secoo”) is a leading online integrated upscale products and services platform in China, selling clothing, footwear, jewelry, watches, bags and accessories, and even luxury cars and art pieces. Secoo was initially founded in Hong Kong in 2008 by Richard Rixue Li and Zhaohui Huang. In 2011, Secoo officially stepped into online luxury e-commerce business. Currently, more than 300,000 stock-keeping units (SKUs) from more than 3,000 brands are sold on its integrated luxury fashion retailing platform, including the Secoo.com website, a mobile application and a number of offline experience centers. The company was listed on the NASDAQ Stock Exchange (NASDAQ:SECO) in September 2017. As of 25 July 2018, Secoo’s market capital reached US\$611.8 million¹. Its major investors include Ventech China, Vango Capital Partners, Credev China, Ping An Ventures, IDG Capital, China Media Capital and BAI Fund. Currently, Secoo has around 25% market share of China’s upscale e-commerce market, as measured by gross merchandise value (GMV)².

Secoo has built a large and loyal customer base with high purchasing power. The company has accumulated more than 18.7 million registered members as of 31 December, 2017³. The majority of Secoo’s customers are well-educated professionals belonging to the middle and high income population in China.

Secoo has established a membership system to cultivate customer loyalty and encourage additional purchases by offering a variety of exclusive membership benefits and awards. Its membership program features five membership levels – regular, silver, gold, diamond and black. Customers will be automatically upgraded to higher level based on their total spending with Secoo annually. Members receive a variety of exclusive benefits according to their membership level, such as product coupons and discounts, Secoo Check installment payments services, free gift packing and domestic delivery, cleaning and maintenance services, fast return and refund services and customized ordering of brand products.

The business

Secoo has adopted an online-to-offline (O2O) model. Its integrated platform consists of the online platform (website and mobile app) and offline experiential centers. The online platform allows consumers to conveniently select products, place orders and complete the payment process, while the offline experience centers serve as a complementary channel that provides high-quality consumer and membership services and experience. As of December 2017, Secoo has ten offline experience centers (including three pop-up stores) located in Beijing, Shanghai, Chengdu, Tianjin, Xiamen, Qingdao, Hangzhou, Changsha and Malaysia⁴.

Secoo's website (Secoo.com)

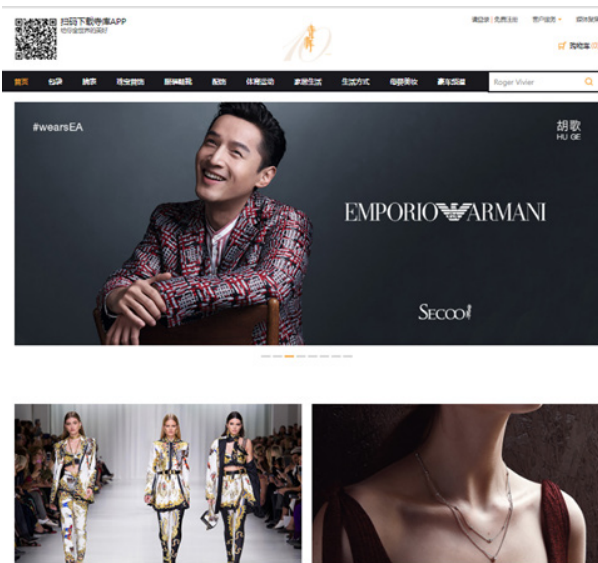


Photo source: secoo.com

Secoo's offline store



Secoo's offline experiential center in Beijing
Photo source: tech.huanqiu.com

Secoo's mobile app

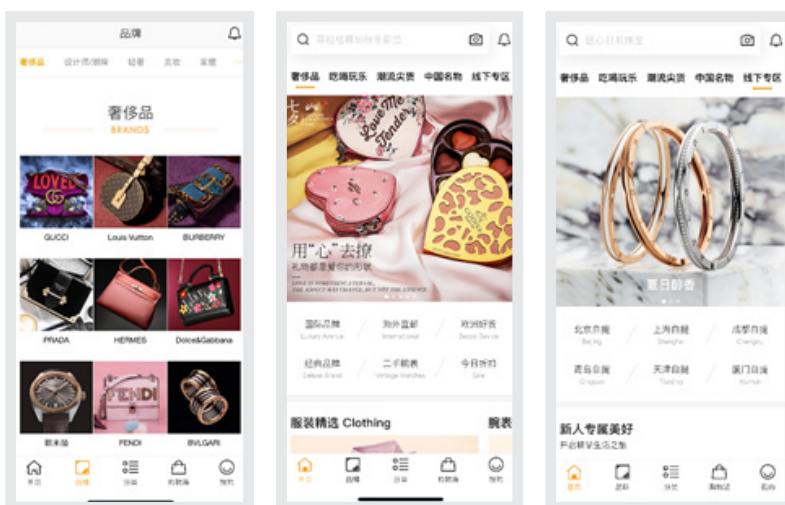


Photo source: secoo.com

Secoo provides one-stop shop services for its members, including one-on-one customer service, personalized consultation and maintenance services to improve customer shopping experience. For instance, Secoo has several qualified jewelry and luxury goods appraisers responsible for determining the value and verifying the authenticity of luxury items. It has also cooperated with brand boutiques such as Versace boutiques for customers to pick up products ordered on Secoo's online platform in their stores. Moreover, Secoo has adopted big data analytics to provide targeted marketing and after-sales services for its members.

For fulfillment, Secoo has established a logistics and delivery network with nationwide coverage. The company works closely with reputable global and domestic third-party delivery companies to ensure reliable and timely delivery. It offers free shipping on all products fulfilled domestically. Customers also have the option to pick up products at one of Secoo's offline experience centers or partnered brand stores. For overseas direct sales, Secoo incentivizes customers to pick up the products at its overseas offline experience center by offering special discounts. Secoo's logistics centers are strategically located in Beijing, Yichun, Hong Kong and Milan.

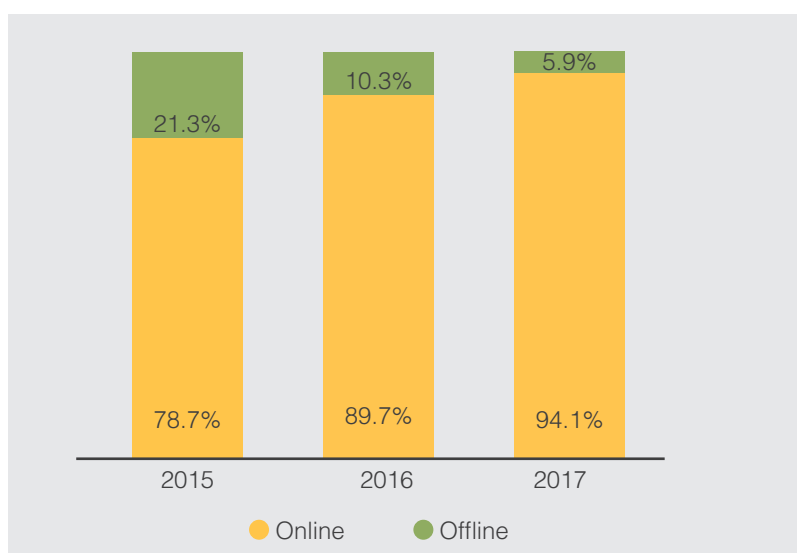
Secoo has established direct product sourcing relationship with a broad range of brands around the world, including Europe, the United States, Japan, South Korea and Hong Kong.

Financials and other key facts

Secco has witnessed a multiplied increase in GMV over the past six years, up from 488 million yuan in 2012 to 5,262 million yuan in 2017⁵. 94.1% of its total GMV was generated from its online platform (Exhibit 1). Its transaction volume has grown rapidly, reflecting a booming luxury e-commerce industry (Exhibit 2).

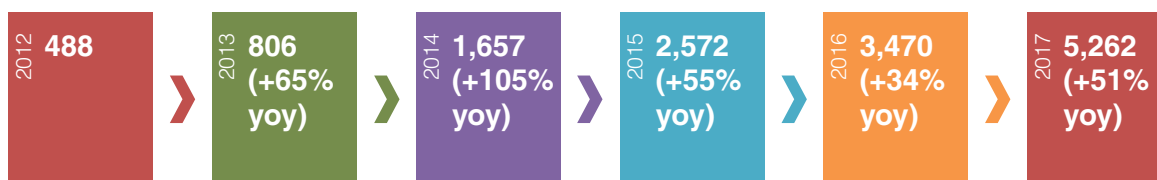
The latest financial results of Secoo reflected its continual strong growth momentum. In 1Q18, GMV increased by 43.2% qoq to 1,119.5 million yuan. Total net revenues increased by 42.8% qoq to 802.5 million yuan, primarily driven by the increase of total number of orders shipped during the period⁶.

Exhibit 1. Proportion of GMV generated by online and offline platform, 2015-2017



Source: Secoo's Annual Report 2017; compiled by Fung Business Intelligence

Exhibit 2. GMV growth rate (2012-2017), in million yuan



Source: Secoo's Annual Report 2017; compiled by Fung Business Intelligence

Recent developments

Forms active partnerships with Internet companies and luxury brands

Recently, Secoo has proactively formed strategic partnerships with Internet companies such as JD.com. For example, in August 2018, Secoo entered into a business cooperation agreement with JD.com. Under the partnership, the two companies will leverage their respective resources and expertise to explore opportunities for collaboration and synergy in a range of areas, including user growth and traffic flow, partnerships with luxury brands, omnichannel retail initiatives, Internet finance, logistics and procurement. Earlier in July, 2018, Secoo announced a strategic partnership with JD.com and L Catterton Asia, an LVMH-backed private equity firm. Through the deal JD.com and L Catterton will invest US\$175 million in Secoo.

On the other hand, Secoo has also collaborated with some luxury groups to expand its brand network. In the first quarter of 2018, Secoo expanded direct collaborations with 83 brands, including Canali, Philipp Plein and Versace Porcelain. In July 2018, Secoo announced a strategic partnership with Shandong Ruyi Group, a Chinese textile conglomerate with an extensive portfolio of fashion, luxury clothing and accessories brands. Through the partnership, both companies will leverage respective resources and expertise in branding, technology, network and channel management to jointly establish a global omni-channel fashion supply chain characterized by deep cooperation in brand operations, big data, smart manufacturing and smart retail.

Pushes forward new retail strategies

To adapt to the new retail trends in China, in January 2018, Secoo formed a strategic alliance with Parkson Group, one of China's largest department stores, aiming to integrate respective resources of the two companies to build an integrated new retail business model. The partnership will help both parties strengthen their omni-channel network and help Secoo further roll out its offline experience centers to meet huge potential demand for high-end lifestyle services in the offline market. In April 2018, Secoo entered into a strategic cooperation with a China's leading outlets mall operator, Capital Outlets, to integrate both parties' respective resources, build an omni-channel sales service network to expand Secoo's new retail network.

Promotes local designers and brands

Nurturing and promoting local designers and brands is one of the ambitions of Secoo. In March 2018, during the 2018 Shanghai International Fashion Week, Secoo formed strategic partnerships with the Top 100 Global Designers Alliance (the "Top 100") and renowned fashion show host, Ontimeshow. Through these partnerships, more than 300 indie designers associated with the Top 100 and Ontimeshow have opened or will open online stores on Secoo's designer channel. Earlier in April 2018, Secoo announced to cooperate with local artist Edison Chen and his fashion brand, Emotionally Unavailable "EU", to launch limited-edition merchandise designed by Edison Chen. These merchandise were made exclusively available on Secoo.com for its 10th anniversary on 7 July, 2018.

Expands into new product categories and sectors

In recent years, Secoo has expanded its product offerings to include selected categories of upscale lifestyle products and services, such as reservation services for luxury hotels or travel packages. In March 2018, Secoo formed a strategic partnership with Caissa Travel (“Caissa”). Leveraging both parties’ resources and expertise, Secoo and Caissa will jointly design luxurious tourism products to be listed on Secoo.com. This also signals Secoo’s cross-sector expansion into the lifestyle travel industry. Furthermore, Secoo made its foray into the agricultural sector earlier this year. In March 2018, Secoo entered a strategic cooperation with organic brand “Chu Orange”. Through the cooperation, Secoo purchases its brand-tailored Chu’s tangerines from the product origin. This cooperation marks Secoo’s first expansion into the agricultural sector aligning with four quality criteria that Secoo advocates – product origin, limited production, organic, and premium quality.



Sportwear - Particle Fever



Home - Zen Interior Retreat



Wardrobe - LER

Photo source: secOO.com

Comments from Fung Business Intelligence

Over the years, Secoo has successfully built an integrated O2O platform, which is ideal for luxury brands to reach out to Chinese consumers. Fung Business Intelligence believes that Secoo's O2O business model is the key to its continued long-term success and solidifies its market-leading position in the Chinese online luxury products and services industry. The O2O platform allows Secoo to offer a seamless shopping experience to customers on both online and offline channels.

Furthermore, China's huge market that breeds large-scale luxury consumption presents huge opportunities for Secoo. Going forward, while Secoo continues to broaden its brand coverage, and expand product coverage to include the whole category of global fashion and lifestyle, it will be in a prime position to capture the emerging opportunities driven by the consumption upgrading in China, and to accurately capture and meet the diverse shopping demands of the high-end consumers.

Rather than just being a luxury e-commerce platform, Secoo's vision is to become a comprehensive premium lifestyle platform which offers a large variety of lifestyle products. As such, in recent years, Secoo has actively formed partnerships with players in different sectors, aiming to expand its product and service offerings. It has also stepped up efforts to strengthen partnerships with more premium brands to pursue a variety of fashion and luxury retail innovations ranging from big data solutions to smart manufacturing to unique first-class shopping experience for its customers. In our view, these initiatives will help Secoo consolidate its position as the leading luxury e-commerce platform in China, if not in Asia.

Despite the great development prospect of Secoo, there remain some challenges for the company to overcome. The retail market of upscale products in China is fragmented and highly competitive. Secoo faces competition from traditional offline upscale products retailers and their online platforms, domestic and global brand online platforms, as well as major domestic and global e-commerce platforms such as Xiu.com, Mei.com, Tmall's Luxury Pavillion, JD.com's luxury e-commerce platform Toplife, Shangpin, Farfetch and Yoox Net-A-Porter, to name but a few. Besides, apart from sourcing its products from global brands, Secoo also purchases from third-party suppliers. Although the company has made every efforts to verify the authenticity and authorization of the products sold on its platform, there may still be chances for oversights.

Exhibit 3. SWOT analysis of Secoo

Strengths	Weaknesses
<ul style="list-style-type: none"> • Domestic market leader of an integrated upscale products and services platform. • Reputable platform trusted by brands and customers; a number of top-tier global brands directly supply their brand products, such as Tod's, Salvatore Ferragamo and Versace. • Large variety of product categories to cater the diverse needs of customers. • Large and loyal customer base with high purchasing power, providing tremendous cross-selling opportunities. • Comprehensive global supply chain to optimize consumer shopping experience. 	<ul style="list-style-type: none"> • Lower brand recognition and reputation as compared to global rivals such as Yoox Net-A-Porter and Farfetch. • Secoo's business model has a limited operating history. It may encounter risks and difficulties in a new and rapidly evolving industry.
Opportunities	Threats
<ul style="list-style-type: none"> • Rapid growth of China's upscale products and services market over recent years presents huge development opportunities for Secoo. • Fast growing Chinese middle class and high-income population, the rise of the millennial luxury shoppers, and the trends of consumption upgrading allow Secoo to capture enormous opportunities ahead. • Continuous and expanding collaborations with top global brands will render Secoo a stronger position in the luxury e-commerce market. 	<ul style="list-style-type: none"> • Fragmented and highly competitive market for upscale products; faces competition from traditional offline upscale products retailers and their online platforms, domestic and global brand online platforms, as well a major domestic e-commerce platforms and global online upscale products retailers. • Apart from sourcing its products from global brands, Secoo sources its products from third-party suppliers. Although the company has made every effort to verify the authenticity and authorization of the products sold on its platform, there may still be chances for oversights.

Source: Fung Business Intelligence

References

¹ Bloomberg. Accessed on 25 July 2018.

² “Better Chinese IPO: Best Inc. vs. Secoo Inc.”, 19 October 2017. Nasdaq.

<https://www.nasdaq.com/article/better-chinese-ipo-best-inc-vs-secoo-inc-cm862150>

³ “Secoo Annual Report 2017”, 26 April 2018. Secoo’s website.

<http://ir.secoo.com/phoenix.zhtml?c=254624&p=irol-reportsAnnual>

⁴ “Secoo Annual Report 2017”, 26 April 2018. Secoo’s website.

<http://ir.secoo.com/phoenix.zhtml?c=254624&p=irol-reportsAnnual>

⁵ “Secoo Annual Report 2017”, 26 April 2018. Secoo’s website.

<http://ir.secoo.com/phoenix.zhtml?c=254624&p=irol-reportsAnnual>

⁶ “Secoo Quarterly Earnings 1Q 2018”, Secoo’s website.

<http://ir.secoo.com/phoenix.zhtml?c=254624&p=quarterlyEarnings>

⁷ “Secoo Annual Report 2017”, 26 April 2018. Secoo’s website.

<http://ir.secoo.com/phoenix.zhtml?c=254624&p=irol-reportsAnnual>

Contacts

Asia Distribution and Retail

Teresa Lam

Vice President

E: teresalam@fung1937.com

Lucia Leung

Research Manager

Email: LuciaLeung@Fung1937.com

Fung Business Intelligence

10/F LiFung Tower

888 Cheung Sha Wan Road

Kowloon, Hong Kong

T: (852) 2300 2470

F: (852) 2635 1598

E: fbicgroup@fung1937.com



© Copyright 2018 The Fung Business Intelligence. All rights reserved. The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Though the Fung Business Intelligence endeavours to ensure the information provided in this publication is accurate and updated, no legal liability can be attached as to the contents hereof. Reproduction or redistribution of this material without prior written consent of the Fung Business Intelligence is prohibited.