

D2Cs in China are stepping to global brands with their home-court advantage

Article

Though virtually unknown outside of China, a new crop of local direct-to-consumer brands are making a name for themselves at home—and even outperforming some of the major

foreign players.

During the country's recent 618 shopping holiday, which takes place each year around June 18, Chinese brand Babycare surpassed Procter & Gamble's Pampers in sales volume, according to Alibaba. The ecommerce giant also reported that 459 new brands to Tmall (those that had been on the platform for less than three years) posted the highest sales in their segments in the first half of June 2021. Local beverage brand Genki Forest outsold Coca-Cola and Pepsi on Tmall at last year's event.

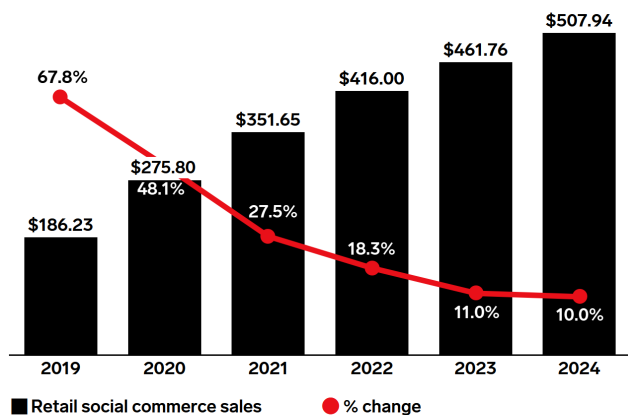
In China, direct-to-consumer (D2C) brands lean heavily on digital but are less likely to launch standalone apps. Instead, they rely on the digital ecosystems of the country's internet giants, reaching consumers where they already are.

Among the top platforms in this space, WeChat offers brands a more intimate connection with shoppers. Brands can start a private group chat with a subset of their audience, and users of the super app can easily share branded miniprograms with their contacts. By contrast, Alibaba's Tmall provides broader reach and highly customizable brand pages that come with an array of features. Other major players include short-video apps Kuaishou and Douyin (TikTok's sister app), as well as the Pinterest-like Xiaohongshu.

Most of these apps are social in nature, so it's little surprise that D2C players there are highly dependent on social commerce selling, which we forecast will generate RMB 2.427 trillion (\$351.65 billion) in China this year.

Retail Social Commerce Sales in China, 2019-2024

billions and % change



Note: includes products or services ordered via social networks (such as Douyin, Kuaishou, WeChat, and others) regardless of the method of payment or fulfillment; excludes travel and event tickets, tips, subscriptions, payments (such as bill pay, taxes, or money transfers), food services and drinking place sales, gambling, and other vice goods sales; excludes Hong Kong
Source: eMarketer, May 2021

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This new generation of Chinese D2Cs holds the home-court advantage in a uniquely complex market. They tend to be better versed in local digital ecosystems, venturing beyond the top-tier social networks to join more niche platforms. For example, Banrixian, a D2C mattress company, is not only active on Xiaohongshu, but it also has a presence on Haohaozhu, a home-improvement app, and Zhihu, a knowledge-sharing platform. In addition to selling on other lesser-known ecommerce sites, Banrixian is also available on group-buying platforms.

The brick-and-mortar footprints of these brands are relatively small to nil, but some that do offer in-person retail are leveraging their direct customer relationships to optimize the experience. For instance, it's not unusual to see customers line up outside of stores for hours at a time. To address this issue, bubble tea chains Nayuki and Heytea launched WeChat Mini Programs that report the wait times and inventory of each store.

Another reason behind local D2Cs' success is their ability to quickly iterate based on emerging trends. The recent rise in pet ownership has inspired animal-themed designs. Meanwhile, the "guochao" movement has revived in young consumers an interest in traditional Chinese culture, from its ingredients to apparel, to decorative motifs. Blind boxes are popular, too; customer won't know what product they have bought until they unwrap it, which adds an element of surprise and even encourages repeat purchases.

Some D2C companies are also besting global brands by offering competitive pricing or tailoring their products to local tastes and needs. Premium athleisure brand Sylphlike Loli, for

example, keeps its prices below the RMB 300 (\$43) threshold, in contrast to Nike and adidas. Cosmetics brand Perfect Diary, which caters more to the skin tones and concerns of consumers in China, has been stealing market share from L'Oréal's Maybelline in recent years.

These digitally native brands understand that consumers in China are not a monolith. Therefore, segmentation, rapid product introduction, and variety are key. Chinese D2Cs are unencumbered by marketing rational of the past and pursue brand collaborations that may seem too bold, or even too quirky. It also helps that the companies are often located near manufacturing hubs, and their close ties with manufacturers are proving to be a major advantage.

Young consumers in China are increasingly confident in and proud of homegrown brands. Unlike older generations, this cohort does not view Chinese brands as necessarily inferior in quality to their foreign counterparts.

Crucially, all this is happening as China ranks as the **second-largest retail market** in the world. And in seven years, it will be the largest economy worldwide, according to the Centre for Economics and Business Research (CEBR).