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Livestreaming scams and struggles in China

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The allure of livestreaming ecommerce in China appears too good to be true, so we uncover the scams and struggles facing this emerging space. Photo courtesy of NewstalkZB

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The allure of **livestreaming ecommerce** in China is undeniable, and the **COVID-19 pandemic** only amplified the trend. The format has exploded in popularity across all customer segments and demographics.

Essentially, every major social platform now has live-streaming features with seamless ecommerce integration. Most brand marketers are salivating because star livestreamers are claiming to sell thousands of units in minutes.

However, when something appears too good to be true, it probably is. So, we did some digging to uncover the livestreaming scams and struggles facing this emerging space.

Before we start, do you really believe that there is a pure win-win scenario taking place with livestreaming in China? Think about it. The platforms love livestreaming: it makes their ecosystems incredibly sticky, retaining users for hours at a time.

The viewers get to watch an entertaining show and buy stuff or watch bots buy stuff for outrageously low prices. And the livestreamers or their **MCNs**, well, they are getting freaking rich.

We believe it is the brands that are sheep among wolves. Many brands are likely losing out in the long run, if not getting ripped off right upfront.

Livestreaming scams for brands

Most brand marketers realize that after heavily discounting products, adding up fees and commissions, and factoring returns and logistics, most livestreaming campaigns are a financial wash.

What marketers are paying for is mass awareness with target customers and low priced new customer acquisition. And the way to come out ahead is to have a very high retention rate of newly acquired customers or so the theory goes.

The trouble starts with the "massive audiences." The presence of bot accounts routinely inflates livestream viewer numbers. This means that the baseline awareness that brands are expecting to generate among target consumers is fake. And, unfortunately, it only gets worse from there.

It merely comes down to a lucrative game of arbitrage when a livestreamer is livestreaming for eight-plus hours a day and selling five-minute slots to brands. Livestreamers do not need to make their full contracted flat fee rate plus commissions to make a killing.

The scam many livestreamers are running is getting paid to simultaneously buy and sell collaborating brands' products.

Whatever products a livestreamer cannot return, they sell on a third-party market place at a further discount. Obviously, this is not done by "the livestreamer," but is a coordinated event with many people's aid.

The lousy math of marketers is what is fueling these livestreaming scams. Live-streamers do not even need to front the cash to buy the products in live-streams, they use brands' upfront flat fee installments for that. Then considering the commission structure, ability to return purchases, and resell the rest, it is the perfect hustle.

And honestly, many marketers in the trenches do not care because they get to hit the targets set by their bosses and, of course, the bosses are not diving deeper to understand the actual impact. It is a scam, supported by laziness, guided by blind expectations.



The boom in e-commerce live-streaming's popularity is in large part due to the massive discounts that live-streamers offer viewers. Most brands that collaborate with live-streamers are selling items on slim margins. Most brands believe that discounting is the only real risk. However, the reality is that many brands are getting a lot less than bargained.

THE SMALL LIVE-STREAMER

GUARANTEE:

The live-streamer service fee matches the minimum sales revenue guarantee with a 20% commission rate for all sales. It seems the only risk is the 20% commission rate, which is acceptable because of the guaranteed sales. Anyhow, the live-streamer tells the brand they expect to exceed the minimum sales revenue guarantee.

REALITY:

Bot controlled accounts will make up the vast majority of live-stream viewers. To reach the minimum sales revenue guarantee, the live-streamer will use the service fee to purchase the products. The live-streamer will then return 40% of the purchased items, which is also the maximum return guarantee in the contract. The rest of the items will be sold on group buying platforms in the future for an additional discount. In the end, the brand's exposure was to a large number of bots. Sixty percent of the products bought by real people are unlikely to buy from the brand again as group buying participants are the most price-sensitive of all customers.

THE BIG LIVE-STREAMER

GUARANTEE:

The live-streamer service fee is one third the minimum sales revenue guarantee with a 20% commission rate for all sales. In this case, it appears there is no downside risk to the brand, with about a 45% upside guarantee. Anyhow, the live-streamer tells the brand they expect to exceed the minimum sales revenue guarantee.

REALITY:

Bot controlled accounts will make up the majority of live-stream viewers. To reach the minimum sales revenue guarantee, the live-streamer will use the service fee to purchase one-third of the products. The contracted maximum return guarantee is around 50%, giving the live-streamer headroom for returning all the purchased products on top of the average expected returns. With only 50% of sales not returned, a large number of fake views, logistic/labor costs, questionable customer/brand fit, and substantial discounts that damage the brand's image, it's common that the brand only breaks even. The real loss is the opportunity cost loss.

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The downsides of Chinese livestreaming. Source: Parklu

It is a struggle for livestreamers, too

Being a successful livestreamer is tantamount to being a successful actor or signer.

One percent of livestreamers are making a killing, 4 percent are making a living, and 95 percent are starving. Honestly, who wants to work 14 hours a day, 7 days a week, for years on end with no guarantee of success? And then, if you do succeed, it is not like you are an award-winning actor or signer. You are an online direct-response advertisement salesperson, which is quite a bit less sexy.

Livestreaming might look fun, even easy to the untrained eye. Armed with a phone, a tripod and a cheerful manner, anyone can hit "go live" and become a livestreamer racking up millions of followers and sales, right? Wrong.

One of the downsides of livestreaming in China is that it is incredibly competitive. There is no such thing as an organic livestreaming star. Livestreamers are manufactured and the product of all manner of manipulation.

Zhang Dayi's affair scandal with the president of [Alibaba's Taobao](#) and [Tmall](#) is a testament to the dark side of how some [KOLs](#)' success is made.

The predatory practices of MCNs are typically the only chance live-streamers have to be truly successful. Manage livestreaming at scale with a team and complex negotiations with brands, it is not a reasonable expectation to become successful without support. And that is not to mention the cash flow, tech and people needed to pull off the livestreaming scams.

Make no mistake, livestreaming is an industry with layers of intricacy that no girl or boy in their dorm room can pull off alone.

Livestreaming is often perceived as a goldmine for streamers, but the reality can be very different. By the time an MCN takes its cut of a deal, accounted for its overheads, and divided revenue up among all interested parties, there may not be much left over for the livestreamer, especially when you realize the model of livestreaming scams means that the revenue is very different from the fees and commissions charged to brands.

The demands of livestreaming combined with a lack of compensation result in attrition and very high turnover within the industry the vast majority of livestreamers that sign that with an MCN do not last more than a year.

Avoiding livestreaming scams

Marketers must be clear-eyed about how the livestreaming industry works.

If there is a chance you are getting screwed, you have probably already gotten screwed.

The leverage brands have to protect themselves is mostly in the contract negotiation stage. Understand the costs, potential risks, and real opportunity. Be informed, create strategies that minimize risks, and have clear a path to genuine ROI.

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