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## Will Mogu be China's next Little Red Book?

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As China's livestreaming battleground swells, we look at the market potential of Mogu, a social media and ecommerce fashion platform turned livestreamer. Image credit: Mogu

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This month, Mogu, one of the top China-based social media and ecommerce fashion platforms, launched a livestream project, "Beauty Empowerment Plan," just as the sector enters a dynamic new phase.

Mogu was founded in 2011 by a former [Alibaba](#) engineer, Chen Qi, and, by 2018, when it was listed on the NYSE, it was named the "number one" hi-tech fashion startup in China.

Now, online "shoppertainment" is the new normal in China, but Mogu built its credibility by excelling in live video broadcasting and short-form fashion videos for younger fans ages 15-30.

Now, as the country exits lockdown, [luxury brands](#), as well as smaller retailers, are leveraging the shoppertainment movement to boost sales and engage more customers online and off.

This trend has been evidenced in Alibaba's [Taobao Live](#) platform which saw a sevenfold increase during the outbreak. Interactive Groupon-like e-tailer Pinduoduo also reported an increase, livestreaming sessions from February to March of this year grew by five times.

Indeed, despite the widespread negative forecast for economies and consumption markets, Mogu's decision to create an all-in-one livestreaming business ecosystem this year was an ambitious response to the harsh yet lucrative competition.

### Go-live players

According to Mogu's annual report, livestreaming contributed 30 percent to the platform's gross merchandise volume (GMV) in the first half of the 2020 fiscal year, totaling \$198 million.

However, it is worth considering how the environment has changed in recent years especially given that livestreaming is now the latest trend in China.

In fact, the [COVID-19](#) pandemic resulted in the country officially listing "livestreamer" as a formal profession in its employment and labor laws.

Currently, entities across China are betting big on the longevity of livestreaming.

Chen Qi has said previously that Mogu is surrounded by rival ecommerce giants in this red ocean, just like a paratrooper that lands in a "livestreaming warzone."

Now platforms from Taobao to JD.com, **Little Red Book** (Xiaohongshu), **Douyin** and **Kuaishou** are all tapping the growing phenomenon. Even the shared-shopping App Pingduoudo launched a live-streaming session in November 2019.

To win the livestreaming battle, the company has invested heavily to build a livestream-based sale-driven mechanism through a number of supportive strategies.

These cover stable basic pay, supply chain assistance, online traffic control, professional agents, tailor-made training and livestream resource sharing. These are helping to facilitate the progress of Mogu's livestreaming from product merchandising to livestream equipment purchasing.

This newest project features an attractive package to attract livestreamers. It includes an above-average-salary, compensation, and a commission-free contract to incubate fashion influencers with large fan bases.

The race to top is not easy, however, and far from guaranteed.

Taobao, as the main player, controls most of the resources such as human capital, low direct selling price and customer pipeline.

On the other hand, the lifestyle-featured social platform Xiaohongshu or Little Red Book owns a chunk of influencer stars who are driving the consumption of typically female products from cosmetics to mother and child supplies.

Mogu is missing these advantages but does possess several overlapping businesses.

Chloe Jiang, a senior consultant focused on China's ecommerce sector, told *Jing Daily* that data from the key livestreamers on Mogu is unexpectedly high especially their single-time sales of target products and the increase rate of their returned purchasers.

"I don't see any promise if Mogu solely competes with other ecommerce giants in regular livestreaming area," Ms. Jiang said. "However, Mogu holds a higher re-purchasing rate than Taobao or Xiaohongshu."

From resources to revenue

COVID-19 solidifies Mogu's confidence in the livestreaming business, which allows it to keep and cultivate fashion influencers.

According to the fourth quarter of the fiscal year 2020 report, the gross merchandising volume (GMV) of livestreaming sessions was 46.2 percent of Mogu's overall GMV of the year, with a year-on-year hike of 91.6 percent. This sector is now the main engine lifting Mogu's whole business in China.

Traditionally, Mogu has focused on users instead of products while the likes of Taobao have focused on online hypermarkets.

Showing human faces to target audiences is Mogu's core value. Since 2013, success has grown from the generation of a digital community a space where female consumers, in particular, share fashion tips and coupon insights to create excitement in shopping.

However, at the time, the lack of integrated merchandising and supply chains hindered Mogu upgrade to a livestreaming e-tailer. Moreover, stakeholders were concerned by the high rate of cash burn Mogu allowed for its transformation.

While this heavy investment in livestreaming then preempted the current livestreaming trend, for many the question remains: Can Mogu transform livestreaming resources to revenue? Its market cap shrank to around \$390 million last year versus notably down from \$1.3 billion in 2018 upon going public.

But a year later the company had reduced its burn-through by 29 percent.

As a social ecommerce platform incubating around 49,000 fashion influencers who pump out content to more than 63 million active Chinese users, Mogu has certainly impressed the market with the progress it has made over the past year. But how to balance the funding and the growth rate is a fatal issue threatening the company's future.

Risks in a new model

While there have been risks in Mogu's change of business model, it has now started to reap rewards.

In the past, Mogu's CEO, Mr. Qi, has said in an interview the "market does not look good." By focusing entirely on livestreaming and changing strategy it put due pressure on the company.

However, by shifting most of the resources to the livestream category, commission revenue from the new business has eventually taken the lead.

According to the financial reports from a recent executive meeting, active users have leapt to 3.6 million post-pandemic, while the average repurchase rate has increased to 86 percent.

"The competition of ecommerce is all about either products or livestreamers," a business development manager at Xiaohongshu disclosed.

"We [at Xiaohongshu] have the most advantageous livestream resources in fashion and lifestyle among all competitors. But I know Mogu has some very professional top fashion livestreamers with a sticky and loyal fan base."

There are more than 20,000 licensed livestreamers on Mogu, but the company is cautious. It has strict requirements and scanning systems as customers no longer browse everything before pinpointing what they really want rather a click on one button will help them reach to the most trendy and cost-effective products.

Livestreamers who cannot reach minimal livestreaming hours, sales amounts or followers will be removed from Mogu's "top list."

Mogu's livestreaming might be entertaining to watch, but it also means business.

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