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What Alibaba's antitrust investigation means for luxury

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Chinese regulators have launched an investigation into "alleged monopolistic practices" by Alibaba, and it will likely have repercussions in the luxury industry. Image credit: Courtesy of Prada. Composite: Haitong Zheng

By [Avery Booker](#)

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One of the biggest news stories to come out of the China market in recent months was the announcement last week that Chinese regulators have **launched an investigation** into "alleged monopolistic practices" by **Alibaba**.

The revelation sent shares of Alibaba and its rivals **Tencent Holdings Inc.**, **Meituan** and **JD.com** into freefall, with the companies losing nearly \$200 billion in value since last Thursday.

Throughout 2020, the central government in Beijing has gradually **tightened its leash** on major tech players due to concerns about their expansive growth in the areas of media, **gaming** and education.

One area of particular concern for Chinese government regulators is how China's biggest tech companies (Alibaba and Tencent) have become heavily vertically-integrated ecosystems encompassing everything from ecommerce and social media to film and television production/distribution.

With Alibaba firmly in the crosshairs, some commentators have predicted that Beijing is on the verge of a stronger albeit targeted tech crackdown for 2021, with the primary focus on ecommerce in general and practices such as predatory pricing in particular. And it has made an early example of Alibaba.

As analysts at Nomura put it in a note today: "We think [China's State Administration for Market Regulation] might want to use BABA's case as a precedent to send a message to the rest of the industry that the authority is determined this time to address the" pricing issue.

Ultimately, Beijing's latest crackdown on the country's tech champions may amount to a show of force (reminding that it holds the cards) and the payment of some fines or policy changes but nothing more. But with the central government focusing most strongly on Alibaba, it has already caused some reputational damage and has likely repercussions in the luxury industry.

In recent years, Alibaba has taken great pains and invested heavily in **recruiting major global luxury brands** onto its Tmall Luxury Pavilion platform efforts that finally began to pay off over the past two years.

Currently, the platform boasts more than 200 leading luxury and designer brands up from 150 before the COVID-19 outbreak and has aggressively moved to fend off competition from rival [JD.com](#), which also claims to host more than 200 luxury brands.

But as brands prepare for a crucial 2021 following a challenging 2020 defined by COVID-19, many are wondering whether putting too many eggs in the Alibaba basket will be too big a risk.

Some brands on [Tmall Luxury Pavilion](#) are already in deep with Alibaba across multiple branches of its ecosystem: They sponsor streaming programs on Alibaba-owned [Youku](#), collaborate with [celebrity livestreamers](#) on Taobao Live, or accepting [Alipay](#) via their online or brick-and-mortar stores worldwide.

Presumably, Alibaba's rivals are looking on with a mix of concern and excitement. While JD.com and Tencent may lean more to the concerned side, given the breadth of their tech offerings and in Tencent's case involvement in media production, younger platforms like [Pinduoduo](#) and [Bilibili](#) may take the opportunity to court luxury brands.

According to KeyBanc Capital Markets analyst Hans Chung, the biggest beneficiaries of this antitrust investigation could be JD.com and Pinduoduo. He noted that the investigation is "mostly centered around exclusive agreements with merchants on the Tmall platform, which prohibit them from opening stores on rival platforms."

Mr. Chung added that "Pinduoduo could stand to benefit if the unfair practice is removed, given its customer scale and [return on investment] are attractive to merchants."

Considering it already has deals in place with major luxury brands, JD.com could gain as brands potentially look to invest less in Alibaba in the next year and more into other platforms. But [Pinduoduo](#) is an interesting choice for Chung. The five-year-old, U.S.-listed Pinduoduo is a social ecommerce platform with a higher valuation than HSBC, Uber, or Sony and double that of Baidu and it has a stated goal of becoming "a combination of Costco and Disneyland."

Pinduoduo initially fueled its explosive user and [revenue growth](#) through a laser-like focus on price-sensitive consumers in lower-tier cities who supposedly have more leisure time and strong demand for social commerce and [shoppable entertainment](#).

Yet, unlike Tmall and JD.com, which have spent years cultivating relationships with reluctant luxury brands before gradually getting them on board, Pinduoduo has no official partnerships with any luxury brand or group. And the company's brash way of doing business is likely to rub some the wrong way, especially those that would rather destroy unsold merchandise rather than discount it.

So while Pinduoduo may benefit from more spending on lower-priced items among [consumers in lower-tier cities](#), it may not see interest among more premium brands.

Ultimately, we will have to wait and see whether a growing platform such as Pinduoduo can attract the attention of more luxury brands or whether those brands stick with the status quo and continue doing business with Alibaba across its ecosystem. Or perhaps they will start investing more in platforms with strong ecommerce growth potential, such as Bilibili, which has benefited from [content-commerce diversification](#) among luxury automakers and beauty brands throughout 2020.

But just a whiff of antitrust investigations against a powerhouse such as Alibaba is sending shockwaves across China's tech industry. And for any luxury brand heavily invested in ecommerce and online marketing in China, what happens over the next couple of weeks will have a major impact on their planning for the year ahead.

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