



## NetEase Explores An Innovative Model For China's E-commerce

HANGZHOU, China, Aug. 14, 2018 /PRNewswire/ -- Recently, NetEase, Inc. (NASDAQ: [NTES](#)) released second quarter 2018 financial results. The Company's net revenues for its two e-commerce businesses -- NetEase Yanxuan and NetEase Kaola (a cross-border platform) -- stood at US\$660 million, a 75.2% year-on-year increase, which is a significant increase from the previous quarter; while the gross profit margin for its e-commerce business increased to 10.1%. NetEase's e-commerce business platforms have again demonstrated the Company's ability to introduce exciting new online offerings and rapidly improving margins.

### An ODM Model That Directly Connects Manufacturers and Consumers

As one of NetEase's two primary businesses within its e-commerce segment, NetEase Yanxuan has become very popular after it was officially launched in April 2016, mainly through word-of-mouth effect. NetEase Yanxuan features products with a high cost-performance ratio by partnering directly with big manufacturers, improving upstream supply chain, and offering more affordable yet quality products. In addition, through careful selection, NetEase Yanxuan has devoted special attention to the aesthetics and style of each item; it also boasts simplicity and environmentally friendly materials. As a result, the quality and service of consumer shopping have been greatly improved, and consumers' decision-making time has been considerably shortened.

In China, there are two incumbent e-commerce models: Taobao's C2C mode and JD.com's B2C mode. C2C offers a wide range of products and the price is relatively inexpensive, but problems arising from this model are also evident: such as products with inconsistent quality and high choice cost. The B2C model, represented by JD.com, is welcomed by consumers due to its incomparable convenience, supported by self-built logistics, however, the branded goods sold via this model carry less competitive pricing because of the intermediaries involved. In contrast, NetEase's Yanxuan business model sells products under its *own brand name* while these products are designed or improved by ODMs (Original Design Manufacturer). These components help to ensure the best of all world for our consumers: consistent high quality products at competitive price.

Additionally, since the design patents used by Yanxuan-contracted ODMs belong to the manufacturers, they are able to sell their products to multiple brands. Therefore, NetEase Yanxuan is not involved in any potential theft of intellectual property and the Yanxuan Model is rapidly becoming regarded as the third mode of China's e-commerce.

### Being an Industry-leader, Yanxuan Model Is to Be Copied

In the past two years, NetEase Yanxuan has expanded its portfolio covering 10 categories from the original home textiles and home products to kitchenware, toiletries, luggage & travel gear, baby & maternity, food and other products; SKUs (Stock Keeping Units) have also grown from 30 items to more than 10,000. In April of this year, NetEase Yanxuan officially announced the "Good Life 2.0" program. The program is designed to improve supply chain integration, assist in product system upgrading and support better quality of life for our consumers with the opening of 100 Yanxuan HOME stores.

Li Yong, director of the Internet Economics Research Office of National Academy of Economic Strategy, CASS, said that the "Yanxuan business model actually provides consumers with 'refined information', which is a way to help consumers filter products and reduce the cost of choosing products."

Jing Daily, a renowned financial media outlet, published an article in which many Chinese factories welcomed the NetEase Yanxuan model with open arms. Due to the rising labor costs in China, many global luxury brands moved their production out of China, which has brought pressure to Chinese manufacturers. The Yanxuan model creates new orders and demands for these factories to utilize their spare production capacities and move up the value chain. According to Forbes' 2018 China's Most Innovative Enterprise List, NetEase Yanxuan was ranked top 50, well ahead of its retail peers.

The highly appraised business model and its rapid expansion was witnessed by the industry. Many of the industry peers were eager to roll out their own version of Yanxuan, including e-commerce giants such as Alibaba (Taobao Xinxuan) and JD.com (Jingzao).

### **Riding the Trend of China's Consumption Upgrading**

In fact, the Yanxuan Model is created against the backdrop of China's consumption upgrade. There is a major shift in demand for high-end, personalized and diversified products, backed by the increasing population of middle- and high-income consumers. The consumption upgrade has triggered an escalation of consumer groups and consumption structure, which has led to an upgrade of products and services in the direction of "quality, taste, and individuality."

The wave of consumption upgrades and its positive stimulus to the entire economy and society have also received government attention. At China's "two sessions (the NPC and CPPCC)" meetings this year, the Report on the Work of the Government clearly stated that: "We will strengthen the fundamental role of consumption in driving economic growth. We will promote consumption upgrading and develop new forms and models of consumption." In response to a reporter's question, one officer of the National Development and Reform Commission of PRC said that promoting consumption is to focus on the direction of consumption upgrading and strive to increase the supply of high-quality products and services.

Driven by these trends, NetEase Yanxuan removes the intermediaries and traditional sales models. Instead, NetEase Yanxuan sets the prices on high quality goods, thus providing users with excellent value for their money with stellar products. In addition, in order to fundamentally guarantee product quality, Yanxuan's procurement department inspects every production area of raw materials in-person, and is deeply involved in the manufacturing process when selecting raw materials, designing products and sampling. These processes that promise high quality are just what consumption upgrading calls for.

SOURCE NetEase Yanxuan