

The Development of Livestream Commerce in China

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ABSTRACT

Livestream commerce – a business model in which retailers, influencers or celebrities sell products and services via online video streaming - has been surging dramatically in China over the past five years. This paper defines and identifies the key features of livestream commerce and reviews the timeline of its development in China. It also summarizes the merits and potential issues of livestream commerce as a business model, as well as its effects on firms and consumers.

Keywords: Livestream commerce, China, marketing.

1. INTRODUCTION

Livestream commerce, also known as live video shopping, is a marketing strategy wherein a host, usually an influencer or a celebrity, promotes a product through a live video [1]. For an activity to be considered as livestream commerce, the following components need to be present: (a) the *anchor*, usually an internet celebrity, who promote products online through livestreaming; (b) a video channel or a *multichannel network (MCN)* through which the live sessions are broadcasted; (c) a product or service (*product* thereafter) to be sold from sellers to potential buyers; and (d) an e-commerce site or *platform* where information about the product is provided by third parties and monetary transactions normally take place. It is worth noting that an anchor is someone that promotes commercial products online, as opposed to a key opinion leader (KOL), who promotes creative contents (e.g. knowledge, jokes and film reviews) in their areas of expertise.

A typical livestream commerce session has four main components: a video stream where the host shows products and talks to the audience, a product list with the current product being highlighted, a chat area where viewers can send comments and questions, and a reaction button that people can press to send reactions (see Figure 1). Addition features may include coupon centers and loyalty level statistics [2].

This paper reviews the main features of livestream commerce, its development in China, as well as the benefits and issues it may bring to firms and consumers.

1.1 Features of Livestream Commerce

Compared to traditional e-commerce and other marketing strategies, livestream e-commerce has many unique features:

First, unlike traditional e-commerce where interaction between buyer and seller is limited, livestream commerce is highly interactive and social [3]. During a session, users can interact with the host and other users. They can get their questions answered promptly and, in certain occasions, even request a specific model to put on a specific outfit during the live stream. Reinforcements such as coupons and giveaways are occasionally used to increase engagement.



Figure 1: Screenshot of a Livestreaming Session

Second, livestream e-commerce is unedited, unmodified, and irreversible [4]. The live broadcast

mimics in-store shopping experiences and reflects real appearances rather than carefully arranged commercials. Because of this truthful and irreversible nature, the product contents are more believable to some audience compared to online descriptions of the same product. Some anchors not only display the product, but also unpack it and try it on the spot. For example, “Lipstick King” Jiaqi Li -- the most famous beauty influencer in China -- would apply and remove a makeup during his livestream, making the effect visible and persuasive to the audience. Customers can also request the anchor to show the product from different angles [5].

Third, a sense of scarcity and urgency is usually present during livestream shopping. Products are commonly sold at a great discount for limited time. We often hear the anchors say “3,2,1, line up!” after introducing the product. Users feel that they will lose the deal if they do not place an order during the livestream. Sometimes, anchors strategically release a very few products in the first round, and after those are sold out, they release a second round. In this way, those who missed out in the first round will have a second chance to grab the product and are inclined to wait longer in the room. Since goods sold during livestreams are often at great discount, the anchors and platforms do not make profit by charging high prices. Instead, they make profit by making deals, selling large quantities and attracting new customers. Sometimes they also make profit by charging additional fees related to the product, such as subsequent installation fees for an electronic device purchased by a customer during a livestreaming session.

Fourth, livestream commerce is sometimes marked by celebrity effect - the phenomenon that certain celebrities are so famous that their fans would buy anything they promote regardless of whether or not those products actually meet their need [6]. Many of these

celebrities serve as livestream commerce anchors. They would dress up beautifully during livestreaming and communicate frequently with their fans, many of whom are young students. The larger their fan base is, the better their sales revenue. The celebrity effect appears to prompt people to purchase things that they do not normally purchase within a short time frame. For example, the well-known actress in China, Tao Liu, is famous for selling 10 houses in 10 seconds [7].

Fifth, livestream commerce can reach audiences that are not commonly reachable via traditionally marketing. Many of these audiences are new customers who are introduced to attend the livestream sessions by their friends or families. They sometimes have no prior knowledge of the product nor prior relationship with the seller. From young teenagers to the elderly, white-collar workers to rural farmers, the audience of each live session consists of people from diverse backgrounds. Once familiar with the technology and the features of the livestream room, these audiences can host their own live sessions as well [8]. The network grows exponentially.

2. TIMELINE AND SIZE OF MARKET

Table 1 summarizes the recent development of livestream commerce in China. The livestream shopping market has evolved rapidly in China over the last five years. The growth was particularly fast during the COVID-19 pandemic, during which time total gross merchandise value nearly tripled. As of June 2021, the total number of domestic livestream users has reached 638 million, 384 million of whom are e-commerce livestream users, accounting for 38% of the total netizens. The size of the Chinese livestream commerce market hit 1.2 trillion yuan (\$190 billion) in 2020 and is expected to reach more than \$5 trillion yuan (\$780 billion) by the end of 2021 [9].

Table 1: Timeline of Key Events in the Development of Livestream Commerce in China.

Date	Event
2016-03-30	With the popularity of mobile phones and 4G networks in China, China's first live broadcasting platform, Taobao live broadcasting, was launched in March [10].
2018-04-01	TikTok live and Kwai live were launched.
2018-09-05	TikTok-affiliated streamer Jiaqi Li won the Guinness Book of records for the most lipstick application to models in 30 seconds.
2019-02-13	Livestream broadcasting became extremely popular as the COVID-19 pandemic hits and evolves. Taobao launched an independent app "Taobao Live". It became the only fully independent app on the market that was built purely for e-commerce live broadcasts.
2020-07-01	<i>Basic Standards of Video Live Shopping Operation and Service</i> was implemented by China General Chamber of Commerce (CGCC). [11]

2021-05-25	<i>Measures for the Administration of Livestream Marketing (Trial Implementation)</i> was issued by the Chinese government and came immediately into effect. It clarified the nature of livestream shopping, as well as the legal responsibilities of platforms and influencers. [12]
2021-12-20	Viya, China's most popular influencer, was fined \$210 million for tax evasion.

The product categories most often showcased in live commerce are apparel and fashion (36%), followed by beauty products (7.6%), food (7.4%), and consumer electronics (4.6%). In terms of user demographics, generation Z and millennials dominate, although live commerce is starting to attract middle-aged and more-senior consumers [13].

The biggest players in the Chinese livestream commerce market are Taobao Live, TikTok Live and Kuaishou livestream. Wei Huang ("Viya"), Jiaqi Li, and Youzhi Xin ("Xinba") are the most popular influencers employed by these three platforms respectively. Each of them has more than 20 million fans by the end of 2020, and sometimes they sell products up to \$100,000 in one session. According to data from a third-party source, Viya and Jiaqi Li hosted about 27 live sessions in a month in mid-2020, each selling about 2.2 billion number of products, totaling more than \$13 million [14].

3. A LIFELINE FOR SMALL RETAILERS DURING THE PANDEMIC

During COVID-19, most of China went into lockdown for extended periods of time. The country's economy shrank 6.8% in the first three months of 2020 – the largest first-quarter contraction since 1992. The consumption sector was greatly affected, with retail sales plunging by more than 15% [15]. Many businesses – especially small retailers and merchants - quickly found themselves struggling for survival.

Livestream commerce proved to be an important lifeline for these businesses during the pandemic [16]. As consumers begin to shop almost exclusively from home, more and more retailers recognize the merits of livestream commerce and begin to sell their goods through this channel. Small merchants – including those with little or no previous online presence – have acquainted themselves with digital tools and livestreaming procedures, in order to sell their products to a wider range of audiences. According to the Commerce Ministry in China, the number of livestream commerce sessions topped 4 million in the first quarter in 2020 [17]. Online platforms have reported an explosion in livestreaming activities: the number of new merchants using Taobao's livestreaming platform has surged by more than eight times from January to February 2020, and transaction amount almost doubled. In many ways, livestream commerce has become a new normal channel to drive

sales and create revenue streams for small businesses.

From farmers to governmental officials, people from diverse backgrounds begun to leverage livestreaming to promote products. For example, a Taobao live studio is set in a small county in Shanxi Province to sell black fungus, a local specialty. Instead of having to travel in town to market the fungus, local farmers can now introduce fungus to consumers across the country using only a smartphone and the internet [18]. This type of marketing and selling strategy are facilitated by the local government, who recognizes that livestreaming commerce, if executed well, has great potential to boost local economy. In this specific case, total sales of the black fungus increased tenfold as the product became viral online.

4. MALICIOUS PRACTICES

Despite its many merits, livestream commerce also has disadvantages compared to traditional marketing strategies. For sellers, it is more difficult to build brand loyalty if their products are promoted through livestream shopping. For buyers, various types of malicious practices by the anchors or the e-commerce platform could subject them to frauds.

Driven by profits, some anchors or platforms would commit frauds, violate laws, and cause damages to consumer rights. Their malicious practices could take several forms. For example, the anchors could broadcast false propaganda or exaggerate in their descriptions of the product to mislead consumers. Sellers could sell products of wrong quality or break the contract and not deliver the good. They could also delay delivery, cancel on warranties, or refuse to issue refund. Several types of data-related fraud can take place too. For instance, the anchors or the e-commerce platform that employs them could fake the number of fans in order to attract more consumers.

Compared to malicious practices in traditional and TV shopping, a larger variety of malicious strategies are present in livestream shopping, where the interaction between the seller, the customer and the platform is more frequent and diverse. Compulsive selling strategies (e.g. forced subscription and forced endorsement) and deceptive selling strategies (e.g. fake scarcity, fake social proof, fake exclusive pricing and fake urgency) are most likely to be enhanced by the platform design [19]. The extent of potential harm increases as the level of

information asymmetry among anchors, platform and consumers increases.

Examples of malicious practices abound; four famous incidents in China are described below: (1) Youzhi Xin – the most popular livestreamer on the Kuaishou platform, was fined for marketing and selling counterfeit cubilose (medicinal bird's nests) in November 2021 [20]. After buying the product, customers soon noticed from the product description that the so-called “healing medicinal” was actually made of sugar and water. (2) Mengwei Xie, a famous actor known as Brother “Gazi”, was found selling fake wine via livestreaming in May 2021 [21]. In his streaming session, he told customers that he is selling the fancy liquor Maotai at a 70% discount, and customers who purchase large quantities could get WuLiangye (another type of good wine) for free. It turns out, however, that both types of wine he sold are Original Equipment Manufacturer (OEM) wine that cost less than the discount price he charges the customers. He was penalized by the State Administration for Market Supervision. (3) Chenkuang Chang, a 65-year-old Taiwanese actor, also sold counterfeit liquor via livestreaming. The liquor that was quickly sold out during his livestream session in June 2022 were found to be problematic, either mixed with water or adulterated by other means. (4) Jiaqi Li – the famous influencer associated with TikTok – once sold a product of questionable quality too. In early 2019, he sold a lot of “non-sticking fry pans” that are famous for not having food stuck to the pan. However, during one livestream session, his assistant put an egg into the pan for demonstration, the egg stuck to the pan firmly [22]. Jiaqi Li miraculously saved the scene through some jokes, but the quality of the goods sold in his livestream sessions are still questioned by many audiences.

4.1. The Viya Event

On December 20, 2021, Viya – the “live-streaming queen” of China – was ordered to pay 1.34 billion yuan (\$210 million) in back taxes, late fees and fines by the State Taxation Administration [23]. She avoided taxes totaling 643 million yuan (\$100 million) by concealing personal income and making false declarations in 2019 and 2020. By establishing businesses in sole proprietorship and limited partnership formats, she was able to falsely declare income from livestreaming as income from enterprise operations, thereby evading taxes on those income. As a result of this misconduct, Viya's account on Taobao was immediately suspended.

While there is no way to directly study the effect of the Viya event on her livestreaming sales on the Taobao platform (since her account was suspended), we could investigate and visualize the impact of this event on Alibaba group – Taobao's ultimate owner. In addition to reputation damage, as evidenced in news articles [24], the negative impact of the Viya event on Alibaba's stock price is visible (see Figure 2). The stock price dropped

5.8% on the day of the event, and while it recovered quickly on the following day, it continued to drop in the 6 days that followed. These show that influential anchors of the livestreaming platforms can have big impacts on the platforms' profitability from livestreaming activities. While the impact of this event on Alibaba stock price seems to be temporary, it shows that the anchors' ethical behaviors are crucial to the platform's image and accountability over the long term.

4.2. Regulation

Livestreaming commerce has drawn increasing regulatory scrutiny as its popularity grows. Viya's downfall was not entirely unexpected: early in 2021, the State Administration of Taxation already issued a statement that encouraged livestreaming influencers to self-report and “timely correct tax-related problems” [25]. It was part of the government's effort to routinely cracks down on celebrities' tax evasion to keep industries in line. That said, the fine imposed on Viya was higher than any previous fines on high-profile celebrities, signaling the government's determination to regulate the livestreaming industry. Nevertheless, the government recognizes the tremendous economic potential associated with the livestream commerce industry and does not intend to reverse the broader trend favoring the livestreaming sales model. It is their hope that the traffic and businesses might be partially directed to less-prominent influencers, which takes some time to materialize.

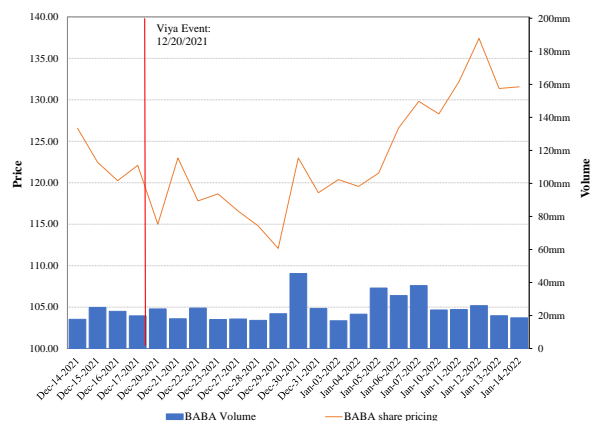


Figure 2: Impact of Viya event on Alibaba Stock price.
Source: S&P Capital IQ.

5. CONCLUSION

This paper reviews recent development of livestream commerce in China. It first identifies the key components and unique characteristics of livestream commerce as compared to traditional marketing. It then highlights the positive impacts livestream commerce brings to small businesses, especially during the recent global pandemics. Lastly, it discusses potential issues of livestream commerce in terms of malicious practices and a specific

example of malicious act done by a famous anchor.

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