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## INDUSTRY OVERVIEW

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*The information and statistics set out in this section and other sections of this document were extracted from the report prepared by Frost & Sullivan, which was commissioned by us, and from various official government publications and other publicly available publications. We engaged Frost & Sullivan to prepare the Frost & Sullivan Report, an independent industry report, in connection with the [REDACTED]. The information from official government sources has not been independently verified by us, the Joint Sponsors, [REDACTED], [REDACTED], [REDACTED], [REDACTED], [REDACTED], any of their respective directors and advisers, or any other persons or parties involved in the [REDACTED], and no representation is given as to its accuracy.*

### SOURCE OF INFORMATION

In connection with the [REDACTED], we engaged Frost & Sullivan, an independent market research consultant, to conduct an analysis of, and to prepare a report about, China’s retail market, China’s retail support services market and China’s SaaS market. Frost & Sullivan is an independent global consulting firm, which was founded in 1961 in New York. It offers industry research and market strategies and provides growth consulting and corporate training. The aggregate contract sum to Frost & Sullivan in connection with the market research services provided was RMB1,130,000, which we believe to be consistent with market rates.

In compiling and preparing the Frost & Sullivan Report, Frost & Sullivan adopted the following assumptions: (i) global social, economic and political environment is likely to remain stable in the period of 2022 to 2026 (the “**forecast period**”); (ii) purchasing power is expected to continue to rise rapidly in emerging regions and to grow steadily in developed regions; and (iii) related industry key drivers are likely to drive the market in the forecast period.

Except as otherwise noted, all of the data and forecasts contained in this section are derived from the Frost & Sullivan Report. Frost & Sullivan has prepared the Frost & Sullivan Report based on detailed primary research which involved discussing the status of China’s retail support services industry market with certain leading industry participants and secondary research which involved reviewing company reports, independent research reports and data based on its own research database. Our Directors confirm that, after taking reasonable care, there has been no material adverse change in the overall market information since the date of the Frost & Sullivan Report that would materially qualify, contradict or have an impact on such information.

### OVERVIEW OF CHINA’S RETAIL MARKET

Retail refers to the activity of selling merchandise directly to individual consumers or end-users. The retail activities often occur through a number of different channels, such as department stores, supermarkets, specialty stores, and brick-and-mortar storefronts, online platforms, etc. Mostly, brand owners own proprietorship of the merchandise they sell, whereas distributors act as the intermediate between brand owners and consumers and make profits by earning the margin.

According to the Frost & Sullivan Report, China’s retail market has registered moderate growth between 2017 and 2021 at a CAGR of 9.2% and increased from RMB15.0 trillion in 2017 to RMB21.3 trillion in 2021. As China’s consumption environment and consumers’ needs are constantly evolving, traditional offline brand owners and distributors are reformulating their strategies to attract and retain their consumers. Usually, they choose to embrace the digitalisation transformation to expand their business and stretch their network. Thus, China’s retail market is estimated to increase at a CAGR of 6.4% from RMB21.3 trillion in 2021 to RMB29.2 trillion in 2026.

#### China’s Retail Market

##### By Category

According to the Frost & Sullivan Report, China’s retail market is categorised into four segments by product category, namely FMCG<sup>(1)</sup>, durable goods<sup>(2)</sup>, agricultural means of production<sup>(3)</sup>, and others<sup>(4)</sup>. China’s retail market is entering a relatively mature stage and raises a variety of new retail formats and brands.

Attributable to the development of e-commerce in the last decades, the retail market in China in terms of revenue reached RMB21.3 trillion in 2021 with a CAGR of 9.2% between 2017 and 2021. During the same period, FMCG was the leading segment of the China’s retail market in terms of revenue, with a CAGR of 5.2%, increasing from RMB9.8 trillion in 2017 to RMB12.0 trillion in 2021. With new retail brands emerging in the market, the FMCG segment is projected to reach RMB14.6 trillion in 2026 with a CAGR of 4.1% between 2021 and 2026. With the increasing level of purchasing power, the durable goods segment is estimated to grow fast with a CAGR of 8.9% from 2021 to 2026 and achieve RMB9.1 trillion by 2026.

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#### Notes:

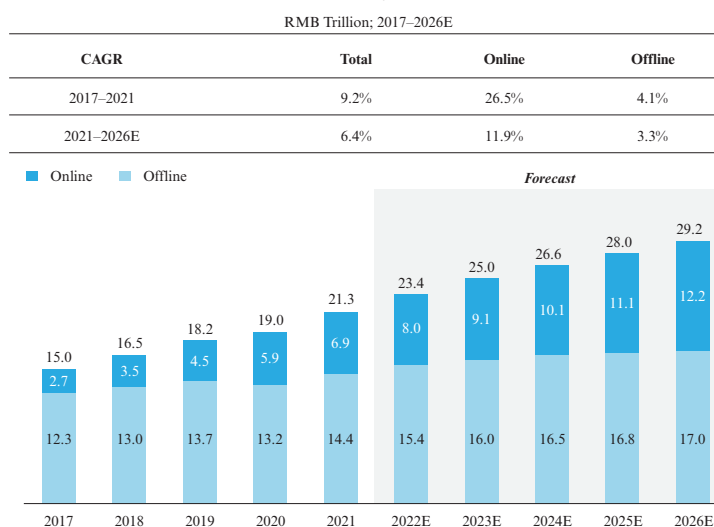
- (1) FMCG (Fast-moving consumer goods) include non-durable household goods such as foods, beverages, cosmetics, tobacco, and other consumables.
- (2) Durable goods include home appliances, consumer electronics, furniture, sports equipment, jewellery, and homebuilding and renovation materials.
- (3) Agricultural means of production include chemical fertilisers, pesticides, and machinery.
- (4) Others include vehicles and automobile parts, clothing, pet supplies, over-the-counter drugs and other products.

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### By Channel

According to the Frost & Sullivan Report, China’s retail market is categorised into online and offline channels. Benefiting from the well-established internet infrastructures and the fast development of the e-commerce economy, online channels is the fast-growing segment in the market and increased rapidly at a CAGR of 26.5% from RMB2.7 trillion to RMB6.9 trillion from 2017 to 2021. Offline channels represented a majority of the market, increasing from RMB12.3 trillion in 2017 to RMB14.4 trillion in 2021 at a CAGR of 4.1%. With the increasing costs of acquiring and retaining consumers in the online channel and deeper and more tangible consumer experience in the offline channel, the offline retail market is expected to remain larger than the online retail market, and is projected to reach RMB17.0 trillion by 2026, registering a CAGR of 3.3% from 2021 to 2026, while the online retail market is expected to increase to RMB12.2 trillion by 2026, registering a CAGR of 11.9% during the same years. The following chart illustrates the historical and projected market size in terms of the revenue of China’s retail market breakdown by channel from 2017 to 2026.

**Retail Market Size by Channel, China**



Note: the market size refers to the sum of revenue generated by retail service providers.

Source: Frost & Sullivan Analysis and Estimates

### Retail Market Challenges Analysis

- **Fragmented Distribution Network.** In terms of the distribution channels, China has rather fragmented retail networks due to its wide territorial distribution. The vast majority of the distribution networks are individually owned by small retail stores, and the management of such distribution networks is relatively labour-intensive. In order to improve efficiency, the traditional distribution systems are seeking the possibilities to be integrated so as to create the economies of scale to maximise its value on the existing long value chain.
- **Information Asymmetry in the Value Chain.** Brand owners in the retail market mainly focus on the production of standardised merchandise on a large scale. However, given that brand owners are at the back-end of the retail value chain, they usually lack first-hand information on the consumer side as to their needs and preference. It is due to such information asymmetry that those brand owners have considerable difficulties in figuring out the actual demand of consumers from the retail sellers, as the relay of information will have to pass through multi-layers and diverse types of distribution channels.
- **Deferred Information Flow.** As for widespread and scattered retail networks, brand owners are also generally not able to adjust their promotional activities in a timely manner due to different spending patterns and consumer behaviours in different locations and the long distribution process. In order to solve these problems, back end brand owners have been striving to navigate real situations at retail storefronts (i.e. points of sale).

### COVID-19 Impact Analysis

- **Online Channels Experienced a Significant Boost.** The offline retail market experienced considerable impact since a number of retail stores were closed in 2020 due to the government lockdown policies to stop the spread of COVID-19. Meanwhile, from the consumers’ perspective, people spent more time staying at home and had greater exposure to the internet, gradually forming the habit of shopping online. In addition, an escalating proportion of traditional brand owners cooperating with retail support service providers to quickly develop their online channels as well to sustain their businesses, and as a result, the online retail market experienced a significant boost since 2020.

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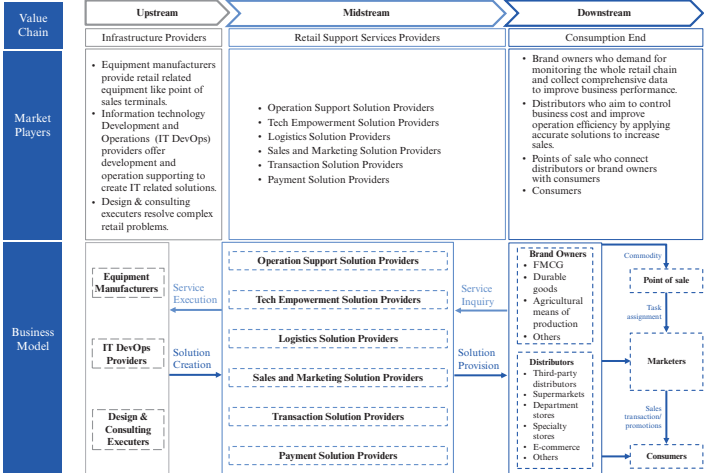
- *An Increasing Number of Companies Recognise the Importance of Adopting Digital Technology.* Negatively affected by the pandemic, the retail market experienced the shutdown of factories and the delay of logistics in 2020 and 2022. A great number of the traditional brand owners recognise the necessity to adopt digital transformation as their businesses were stagnant due to the lack of digitalisation. Subsequently, they are more willing to work in collaboration with retail support services providers that allow brand owners to better monitor the procurement, logistics, sales and marketing to reduce unnecessary costs.
- *The Integration of Online and Offline Channels is Accelerated.* As the increasing digitalisation trend was accelerated during the pandemic, the retail market becomes more consumer-centred. As more and more brand owners incorporate retail services in their businesses, they not only are able to improve consumer experience in offline channels but also flourish their business by involving online channels as a supplement distribution channel. Empowered by advanced digital technologies, brand owners in the market are able to capture consumer needs to better tailor products and improve operation efficiency.

**Impact Analysis of Policy Relaxation on COVID-19**

The PRC authorities first released the “Ten New Guidelines” on 7 December 2022, following the release of “The 20 Measures” on 11 November 2022, in order to accelerate the economic recovery and resume normal operations of the society. Furthermore, on 26 December 2022, the National Health Commission announced that COVID-19 will be formally downgraded from a Category A to Category B infectious disease starting from 9 January 2023, which means that there will be no quarantine measures and travel restrictions. The sudden relaxation of national COVID-19 policies in one month did lead to the soaring of infections in late December 2022 and early January 2023 and some offline activities were affected due to the shortage of labour. However, as PRC authorities are spending more resources to support China’s existing medical system and assure adequate medical supplies, it is anticipated that the adverse impact will be short-term. In the foreseeable future, according to “Domestic Demand Expansion Strategy for the “14th Five-Year Plan” Period” that the State Council released on 31 December 2022, the vital role of spending and domestic demand is strengthened, the government plans to comprehensively promote spending and domestic demand, and accelerate the cultivation of new types of spending and domestic demand which encourages traditional offline businesses to embrace digital transformation and operation upgrading. In addition, PRC authorities also released favourable fiscal policies to promote spending and domestic demand from both of the investment perspective and residents spending perspective. In return, the retail market, which is highly impacted by spending and domestic demand, is also predicted to rebound back to its original growth path before 2020, so as to the retail support service market.

**China’s Retail Support Services Market**

Retail support services are deeply integrated into all aspects of the retail market by matching supply with demand, improving the efficiency of product distribution, simplifying the transaction process, enhancing information transparency and accuracy, exploiting consumers’ potential needs, and empowering the interactions between brand owners or distributors and consumers. With the distinctive development of China’s retail market and the rapid technology advancement, China’s retail support services market has experienced explosive growth in recent years. In addition, the landscape of China’s retail support services market is gradually upgrading since digitalisation has encouraged different types of players entering into the market and offer diversified services for retail brand owners and distributors. The following chart illustrates the value chain analysis of the retail support services market:



Source: Frost & Sullivan Analysis and Estimates

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There are six main types of retail support services, namely sales and marketing services, transaction services, payment services, logistics services, technology empowered services and operation support services.

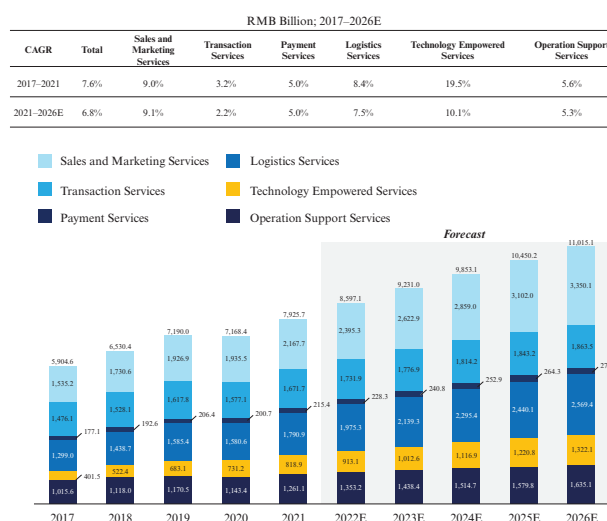
- *Sales and marketing services*: the action of promoting and selling merchandise by effectively delivering commodity information, and market players include advertising companies and marketing agents.
- *Transaction services*: the service of providing a platform (brick-and-mortar or virtual, such as malls, supermarkets and e-commerce platforms) for brand owners to display merchandise and complete transactions.
- *Payment services*: the means of currency transferring for participants (such as through banks, third-party payment institutions, etc.) in retail market.
- *Logistics services*: the method of transporting commodities from brand owners to end consumers. It includes warehousing, logistics management, distribution management, and transportation like express and community delivery services.
- *Technology empowered services*: the technique of leveraging data and IT infrastructure, such as big data analytics, AI analytics, business intelligence (BI), cloud services, information technology, etc., to improve operational efficiency and ultimately enhance sales.
- *Operation support services*: the practice of reducing the operational stress of brand owners by offering outsourced service packages, such as human resources, training programmes, maintenance of platforms, etc.

### By Category

According to the Frost & Sullivan Report, China’s retail support services market in terms of revenue increased from RMB5.9 trillion in 2017 to RMB7.9 trillion in 2021 at a CAGR of 7.6% during the last five years. The slight shrinkage in 2020 was mainly offset by the continuing growth in sales and marketing services and technology empowered services markets. From 2021 to 2026, the retail support services market in terms of revenue is expected to increase to RMB11.0 trillion at a CAGR of 6.8% in the next five years. In particular, the sales and marketing services is a significant category, accounting for over 50% of retail support services market, coupling with an stable CAGR of 9.0% from 2017 and 2021.

The following chart illustrates the historical and projected market size in terms of the revenue of China’s retail support service providers by category from 2017 to 2026.

**Retail Support Services Market Size by Category, China**



Note: the market size refers to the sum of revenue generated by retail support service providers.

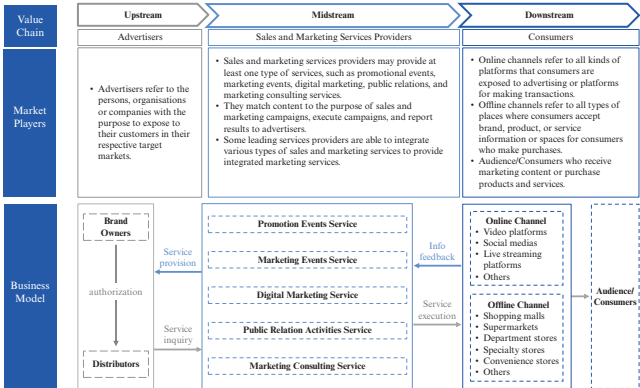
Source: Frost & Sullivan Analysis and Estimates

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**China’s Retail Sales and Marketing Services Market**

**Value Chain Analysis**

Retail sales and marketing services providers generally provide their competitive mix of tactics, methods, channels, media, and activities based on their resources or brand owners’/distributors’ requirements, so that all work together as a unified force. It is a process designed to ensure that all strategies are consistent across all channels and are centred on the customer in order to achieve the purposes that brand owners/distributors set in advance. In addition, all information could be reflected to brand owners or distributors. However, there are some hurdles to influence the accuracy of information and timeliness of delivery. Briefly, the participants in the value chain of China’s retail sales and marketing services providers’ market consist of advertisers, sales and marketing services providers, audiences or consumers. The following chart illustrates the value chain analysis of the retail sales and marketing services market:



For brand owners or distributors in the retail industry, sales and marketing strategy is a long-term and forward-looking approach to planning with the fundamental goal of achieving sustainable business growth. Under such circumstances, an increasing number of brand owners or distributors demand professional sales and marketing services to build a positive social reputation and promote the sales of products and services. In the past five years, the market size of the retail sales and marketing services market in China in terms of revenue experienced fast growth at a CAGR of 9.0% between 2017 and 2021, increasing from approximately RMB1,535.2 billion to approximately RMB2,167.7 billion. The emergence of media resources in various marketing channels and the rise of digitalization are likely to greatly assist brand owners or distributors to select the most effective and professional sales and marketing services providers and engage them at relatively low cost. By 2026, the market size of China’s retail sales and marketing services market in terms of revenue is forecasted to reach approximately RMB3,350.1 billion, yielding a CAGR of 9.1% between 2021 and 2026.

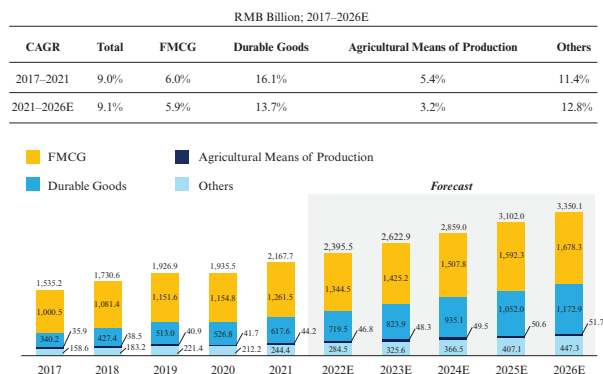
**By Category**

In consistent with retail industry, the retail sales and marketing services can be categorised into FMCG, durable goods, agricultural means of production, and others. Among all categories under retail sales and marketing services market, FMCG sector holds the largest market share, accounting for approximately 58.2% in 2021. Between 2017 and 2021, the FMCG retail sales and marketing services market in terms of revenue increased from approximately RMB1,000.5 billion to approximately RMB1,261.5 billion, representing a CAGR of 6.0% during the period. The retail sales and marketing services market is generally relatively competitive, especially in the FMCG category, as the FMCG has sustained robust growth over the past years and attracted so many sales and marketing services providers to develop service matrix and tactics for them. Durable goods, in terms of revenue, presented the highest growth rate of 16.1% during the same period, increasing from approximately RMB340.2 billion in 2017 to approximately RMB617.6 billion in 2021. Undoubtedly, the pandemic posed huge negative impacts to offline activities in 2020, some retail sales and marketing service providers speeded up the digitalisation progress and enhanced the connection between online and offline sales and marketing services. With the resume of retail and offline commercials in the incoming years, the sales and marketing service providers are expected to achieve bigger growth potentials. In the perspective of FMCG product category in terms of revenue, it is projected to reach approximately RMB1,678.3 billion in 2026, attaining a stable CAGR of 5.9%.

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The following chart illustrates the historical and projected market size in terms of the revenue of China’s retail sales and marketing service providers by product category from 2017 to 2026.

**Retail Sales and Marketing Services Market Size by Category, China**



Note: The market size refers to the sum of revenue generated by sales and marketing services providers.

### Competitive Landscape

According to the Frost & Sullivan Report, China’s retail sales and marketing services market is fragmented. The top five retail sales and marketing services providers took up approximately 23.4% of China’s retail sales and marketing services market in 2021. With the rapid digitalisation transformation progress in recent years, China’s retail sales and marketing services market is becoming more well-established and integrated, which would create long-term and positive impact on the development of retail market, in return. Further propelled by policies like National Economic and Social Development during the “14th Five-Year Plan” Period, instructed by the PRC government, creating a favourable development environment for starting new businesses, which creates new growth potentials for the retail sales and marketing services market. For the year ended 31 December 2021, the Group recognised revenue of RMB416.3 million, accounting for approximately 0.03% in the FMCG retail sales and marketing services market. In addition, the Company accounted for approximately 0.02% of the overall retail sales and marketing market in the PRC in 2021.

#### Ranking of the Leading Retail Sales and Marketing Services Providers by Revenue (China), 2021

Ranking	Company Name	Revenue (RMB Billion)	Market Share
1	Company A <sup>(1)</sup>	175	8.1%
2	Company B <sup>(2)</sup>	156	7.2%
3	Company C <sup>(3)</sup>	65	3.0%
4	Company D <sup>(4)</sup>	60	2.8%
5	Company E <sup>(5)</sup>	51	2.4%

Source: Frost & Sullivan Analysis and Estimates

Notes:

- (1) Founded in 2012, Company A is a Beijing-based, non-listed internet technology company that provide platform-based content and sales and marketing solutions for advertisers.
- (2) Founded in 1999, Company B is a Hangzhou-based, New York Stock Exchange and Hongkong Stock Exchange-listed company that provides e-commerce platform services for customers and business entities, along with related sales and marketing services.
- (3) Founded in 1998, Company C is a Shenzhen-headquartered, Hong Kong Stock Exchange-listed company that offers communication tools and games. In addition, it uses its sales and marketing solutions to help advertisers reach to target audience.
- (4) Founded in 2000, Company D is a Beijing-headquartered, Nasdaq Stock Exchange and Hong Kong Stock Exchange-listed company that specialises in search engine and video platform services, which mainly generate revenues from its sales and marketing services.
- (5) Founded in 2000, Company E is a Beijing-headquartered, Nasdaq Stock Exchange and Hong Kong Stock Exchange-listed company that provides e-commerce platform services for customers and business entities, along with related sales and marketing services.

Source: Frost & Sullivan Analysis and Estimates

### FMCG Retail Sales and Marketing Services Market

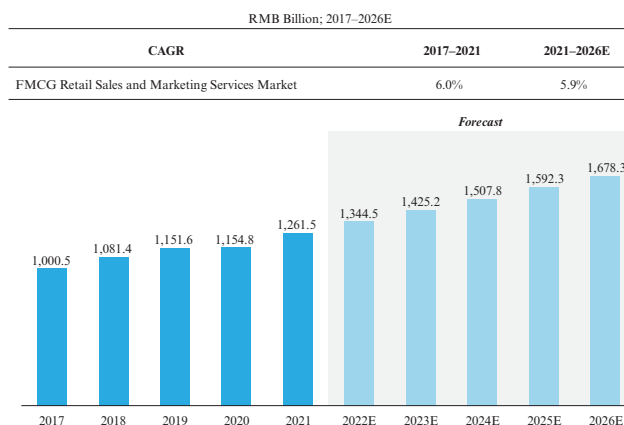
Due to the complex nature of FMCG business which involves diverse channels and enormous transaction scenario (both of online and offline channels), FMCG enterprises normally rely on sales and marketing services providers to assist them to reach and interact with target consumers on a daily basis considering the nature of FMCG’s high consumption and purchase frequency. With the prevalence of digitalisation transformation in recent years, the growth of FMCG retail sales and marketing services market in terms of revenue increased from approximately RMB1,000.5 billion in 2017 to approximately RMB1,261.5 billion in 2021, representing a CAGR of 6.0% during the

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period. Further propelled by the rise of domestic FMCG brands from various channels and consumer groups, the retail sales and marketing services market in China is expecting burgeoning growth potential in the future. With increasing cost of implementing sales and marketing plans through online channels, the technology empowered offline sales and marketing service providers also continuously attract brand owners and distributors to enhance collaboration in the foreseeable future. In this customer-centric era, brand owners and distributors are expected to integrate online and offline to a new level. Under such circumstance, the market in terms of revenue is estimated to reach approximately RMB1,678.3 billion by 2026 with a CAGR of 5.9% between 2021 and 2026.

The following chart illustrates the historical and projected market size in terms of the revenue of China’s FMCG retail sales and marketing service providers from 2017 to 2026.

**FMCG Retail Sales and Marketing Services Market Size, China**



*Note:* The market size refers to the sum of revenue generated by sales and marketing services providers from FMCG enterprises.

### Major Market Drivers

*Consumption Upgrades Prompt Demand for More Customised Marketing Services.* The economic development and upgrade in China have contributed to higher disposable income and rising purchasing power of consumers, which in turn stimulate their consumption demand for different and new products that better align with their diverse social statuses, lifestyles and values. This shift in consumer behaviour prompts brand owners and distributors to increase their spending on retail sales and marketing services to formulate more targeted and customised marketing strategies to cater to the various needs and preferences of these consumers.

*Fiercer Competition Drives Marketing Effectiveness Enhancement.* Changes in product life cycles, customer preferences, and consumer demands cause brand owners and distributors to ensure the effectiveness of marketing to drive more sales. Thus, as competition in the retail industry intensifies, brand owners and distributors increasingly seek and are more and more willing to pay for retail sales and marketing services that focus on boosting the return on investment (ROI). It creates opportunities for retail sales and marketing services providers, which have a large pool of marketers and can effectively match the right marketers with the right tasks to enhance the effectiveness.

*Rising Demand for Offline Experience.* In this era of the rapid upgrade of products, consumers are more inclined to buy products that they have positive offline trial experiences or have seen offline marketing efforts even if there are extensive online product exposures. Therefore, brand owners and distributors are eager to cooperate with retail sales and marketing services providers to develop profound offline sales and marketing initiatives and campaigns in order to attract and retain consumers. It expands the growth potential for service providers that offer trackable records for campaigns and sales, and deliver consumer-insights-based sales and marketing strategies.

### Entry Barriers

- *Capital.* The reason that brand owners or distributors hire sales and marketing service providers is because these companies have relatively easier access to customers which is built through covering a wide range of media terminals and living scenario. In order to enter this industry and meet various needs of advertisers, significant media and human resources and the continuous investment on the development of technology place great demand on the level of initial investment for enterprises. Moreover, market players have to cover wide range of communities in the short-term which also requires large capital costs at the beginning and thus forming a capital barrier.
- *Database.* Due to the scarcity of media resources, the leading players in the industry are normally equipped with width and depth of sales and marketing data and target customer profiles. In addition, considering the complex nature of retail industry which covers a lengthy value chain, especially in FMCG category, service providers in the retail sales and marketing market generally have digitalisation capability so that they are able to provide in-depth analysis on performance based on accurate real-time data. While new entrants are likely to face limitation to provide such accurate information and fulfil clients’ complex demands. In consequence, database barrier is created.

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- *First-mover Advantage.* Retail industry has experienced substantial growth in China in the past years. Nowadays, retail brands have cooperated with established sales and marketing companies who possess valid resourceful network so as to track marketing performance on a long-term basis. Also, these sales and marketing companies have built industry knowhow and deep understanding in respect of brand operation, products, and target customers during cooperation. In addition, the well-established client resources also provide a continuous and stable cash flow for market players, thus posing a first-mover advantage barrier to new entrants in the industry.
- *Experience.* Possessing qualified and experienced management capability and service professionals are key success factors for sales and marketing companies as outstanding talents are able to quickly provide sales and marketing solutions due to their experience and business acumen. Meanwhile, these talents are much likely to handle business development and collaborate with technology teams to integrate technology empowered sales and marketing tools or service innovations. Industry expertise and experience require sufficient and long-term accumulation that a new entrant may not be able to afford or develop such capability in the short term.

### Future Trends

- *Further Expansion of Publishing Channels and Media Resources.* Given the consolidation and business expansion of media companies and Internet conglomerates, media platforms have developed a landscape in which mainstream media platforms have massive customer traffic. To increase awareness, advertisers tend to advertise heavily on mainstream platforms such as popular search engines and social media. To some extent, the cost of implementing sales and marketing plans through online channels is increasing in recent years, giving sales and marketing services providers more opportunities in offline channels. Due to the longevity of media resources and the continuous diversification of technology enabled tools and platforms, it is expected that offline channels and media resources will expand and diversify in the future to meet the needs of various advertisers.
- *Growing Demand from Various Product Sectors.* Attributable to robust economic foundation and the rise of Chinese enterprises, Chinese advertisers’ demand for sales and marketing service has increased significantly. Advertisers have gradually expanded to offer various production or service innovation which contribute new growth potentials to retail sales and marketing industry. And traditional retail brands gradually develop awareness of brand image management and focus more on how to improve their sales targets. The rise of domestic FMCG brands will also lead the growth of sales and marketing service industry. It is expected that the type of advertisers will continue to increase. In the long term, sales and marketing services providers will continue to help advertisers capture the value of their customer base and strengthen their monetization capacity.
- *The Prevalence of Marketing Technology for Integrated Service Capability.* Technology capability has gradually become the next core competency of sales and marketing services providers. Nowadays, established services providers strive to offer holistic marketing solutions to advertisers in one stop. Big data and cloud computing technology enable sales and marketing services providers to gather a vast amount of information to build a comprehensive customer profile for advertisers based on multiple tools and platforms. In addition, new domestic FMCG brands normally were born from internet and are not familiar with offline interactions, which urges sales and marketing services providers to digitalize their offline operations in order to improve marketing efficiency for brand owners and distributors. As more advanced technologies emerge and are applied, sales and marketing services providers are becoming more integrated and technology-driven.
- *Performance Based Advertising become Increasingly Favourable.* Technology has radically changed the marketing industry, giving advertisers the ability to target potential consumers very specifically. Advertisers are able to aggregate search data and social media data to create an accurate customer profile and determine whether or not they are being targeted. As digitalization proliferates, both advertisers and sales and marketing services providers are expected to shift their focus from single channel, either offline or online, to omni-channel. In addition, advertisers will become increasingly performance-driven since there is a possibility that they can collect real-time information. In the future, the proliferation of marketing technologies is expected to further help advertisers improve the efficiency and effectiveness of their campaigns to maximise ROI, sales volume, and profitability.

### Threats and Challenges

- *Fierce market competition.* The sales and marketing services in China is relatively competitive, with a large number of participants with different skills and backgrounds. With the increasing demand for more diverse, integrated and data tracking marketing services and higher standards of data collection in terms of efficiency, accuracy, and reflection speed covering various channels and more complicated sales and marketing scenario, market participants are under pressure to strengthen their competitive advantages through cross-industry or intra-industry mergers and acquisitions, so that they are able to provide more comprehensive service solutions to gain higher market recognition and expand businesses.
- *Occasional decline in marketing spending.* Occasional decline in marketing spending by brand owners or distributors is experiencing a downturn, due to the COVID-19. Cyclical volatility in retail industry caused by external macroeconomic conditions can negatively impact brand owners’ operations, leading to a reduction in their marketing spending. These brand owners tend to have fewer marketing budgets available and become more cautious in allocating resources to marketing campaigns. As a result, market players in the integrated marketing services market may face increasingly fierce competition for limited customer resources.



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### Opportunities and Potentials

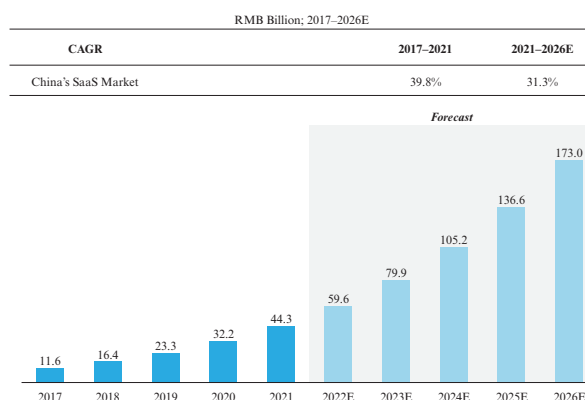
- *Technology can empower traditional sales and marketing services with relatively low cost.* The proliferation of media channels, including the rapid development and integration of interactive technologies and digital media, has made it possible for brand owners or distributors to clearly profile customers. In addition, with the help of big data, sales and marketing companies are able to obtain various valuable insights of data flow, marketing effects, sales volume, and so forth. In turn, it helps a great amount of business opportunities for the sales and marketing services providers, who are capable of providing evaluation of different sales and marketing events. Moreover, it will not be costly for them to cover various kinds of sales and marketing services since they could also adopt cloud technology to support their execution of sales and marketing campaigns.
- *Proficiency enhances collaboration between advertisers and sales and marketing services providers.* With experience and expertise, many sales and marketing services providers have become more familiar with the effectiveness of different types of sales and marketing campaigns towards target customers. On the other hand, advertisers understand that the effectiveness and efficiency of the collaboration between advertisers and services providers significantly determines the performance of market campaigns. Therefore, a sustainable and mature cooperation between both sides can ensure the long-term development for both participants.

### OVERVIEW OF CHINA’S SAAS INDUSTRY

The construction of basic infrastructures promoted by the government’s policies significantly improve the performance of SaaS products. Further accelerated by the COVID-19 pandemic, more enterprises begin to actively participate in the application of such software delivery model as they recognised the benefits of reduced cost and enhanced profitability brought about by SaaS products. According to the Frost & Sullivan Report, from 2017 to 2021, China’s SaaS market in terms of revenue increased from RMB11.6 billion to RMB44.3 billion at a CAGR of 39.8%. As the market becomes increasingly competitive, SMEs are increasingly adopting SaaS products due to their capital-light and easy-to-use features.

The following chart illustrates the historical and projected market size in terms of the revenue of China’s SaaS providers from 2017 to 2026.

**SaaS Market Size, China**



*Note:* the market size refers to the sum of revenue generated by SaaS service providers.

*Source:* Frost & Sullivan Analysis and Estimates

By virtue of SaaS products, brand owners and distributors are able to better track and analyse comprehensive consumer and business information at a lower cost, delivering marketing activities that efficiently increase traffic and retain consumers. With the technological advancement going forward, such trend is expected to prevail among traditional companies as the price and capabilities of SaaS products become more affordable and crucial to the development of their business. Thus, the market in terms of revenue is expected to increase at a CAGR of 31.3% to RMB173.0 billion by 2026.

### Major Market Drivers

- *Development of basic infrastructures and advanced technologies provide better user experience and efficiency.* The development of basic infrastructures significantly improves the internet speed and connection stability which, in turn, creates an ideal environment in which the SaaS products are able to operate smoothly. After years of development, the performance of SaaS products has been drastically improved as compared with traditional software. Coupled with its unique advantages, such as customised, easy-to-use and capital-light features, they are becoming a better alternative than traditional software.
- *Transformation of traditional software companies.* Traditional software companies have to conduct frequent installations for updates and extensions, which are costly to both the users and the software providers. Recognising the flexibility and the growth potential of SaaS products, a number of traditional software companies have instantly initiated their SaaS businesses in the past several years. In addition, traditional software companies possess valuable client resources, and hence are able to easily expand their SaaS business to take advantage of the expanding SaaS market in China.

## INDUSTRY OVERVIEW

- *Low-cost SaaS products are particularly suitable for small and mid-sized companies under the digitalisation trend.* Given that the return on the marketing costs on mainstream shopping platforms has been barely profitable, small and mid-sized brand owners and distributors begin to collaborate with retail support service providers to establish their own private traffic on their own platforms to enhance profitability. In addition, compared with the traditional software that requires a considerable upfront payment and complex maintenance and operation responsibilities, SaaS products usually charge their users based on a flexible and relatively much cheaper subscription fee. Thus, an escalating number of small and mid-sized brand owners and distributors consider SaaS products as an appropriate and efficient tool for them to participate in the digitalisation trend to reduce unnecessary costs and enhance profitability.

### Future Trends

- *Bipolar development of standardisation and personalisation.* The emergence of SaaS products helps minimise redundant work and subsequently improve efficiency in the industry. As the entry barriers of the standardised SaaS market are relatively low and the new entrants have few competitive advantages, an increasing number of new SaaS market entrants have to differentiate themselves to stand out. In general, they utilise their industry experience through providing personalised SaaS products to meet clients’ fragmented needs. As the personalisation trend in the SaaS market begins to prevail, the service characteristics of SaaS is expected to become more evident in the future.
- *Diversified expansion of the SaaS market.* The variety of SaaS products are expected to boom in the future. Vertical SaaS products, which focuses on a particular industry, have begun to increase over the past few years and are anticipated to sustain such momentum in the next several years. In addition, as the SaaS model requires less upfront capital investment, more companies, especially small and mid-sized enterprises, are projected to participate in the digitalisation trend through the application of horizontal SaaS products which provide basic or general standardised products for enterprises for supporting single or multiple specific functions in business.
- *The integration of standardised SaaS products.* As more and more enterprises choose SaaS products to promote their digitalisation progress, SaaS product providers began to either launch their own software platforms, or release their own standardised SaaS products. For one thing, the integration of SaaS and its development platforms can unify various isolated SaaS products. In addition, such integration accelerates the development of the platform, and in turn, elevated the R&D efficacy. In the future, certain SaaS development platforms launched with low or little coding requirements are expected to significantly simplify the SaaS development process and enhance the rapid expansion of the SaaS market. Along with the integration of SaaS and its development platforms, various forms of SaaS products are anticipated to emerge.

### RETAIL MARKET OF JAPAN AND MAJOR ECONOMIES IN SOUTHEAST ASIA

The development of Asia’s retail market is partly driven by the steady growth of the retail market in Japan, Singapore in addition to China. Considering robust economic outlook, large population sizes, and steady political environment, the retail market in these countries would sustain the momentum and also brew the development of the retail support services market, making it an opportunity for retail brand owners and retail support services providers. Since Singapore and Japan are relatively mature markets, the market sizes of two countries in terms of revenue are projected to grow from approximately RMB164.0 billion and RMB6.7 trillion in 2021, respectively, to RMB179.3 billion and RMB6.8 trillion in 2026, respectively. Furthermore, the retail sales and marketing service markets in the aforementioned nations (Japan, Singapore and Indonesia) have a relatively fragmented domestic competitive landscape. In addition, some well-established foreign retail sales and marketing service providers operate in these nations. The following charts illustrate the historical and projected retail market sizes in Japan, Singapore and Indonesia:



*Note:* the market size refers to the sum of revenue generated by retail service providers.

*Source:* Frost & Sullivan Analysis and Estimates