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PRESENTATION

Operator

Good morning, and good evening, ladies and gentlemen, and thank you for standing by for Baozun Second Quarter 2020 Earnings Conference Call. (Operator Instructions) As a reminder, today's conference call is being recorded.

I'd now like to turn the meeting over to your host for today's call, Ms. Wendy Sun, Investor Relations Director of Baozun. Please proceed, Wendy.

Wendy Sun ***Baozun Inc. - IR Director***

Thank you, operator. Thank you, everyone, and thank you for joining us today. Our second quarter 2020 earnings release was distributed earlier today and is available on our IR website at ir.baozun.com as well as on Global Newswire Services. On the call today from Baozun, we have Mr. Vincent Qiu, Chairman and Chief Executive Officer; Mr. Junhua Wu, Chief Growth Officer; and Mr. Robin Lu, Chief Financial Officer.

Mr. Qiu will review the business operations and the company highlights, followed by Mr. Lu, who will discuss financials and guidance. They will all be available to answer your questions during the Q&A section that follows.

Before we begin, I would like to remind you that this conference call contains forward-looking statements within the meaning of the Securities Exchange Act of 1934 and the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements are based upon management's current expectations and current market and operating conditions and relate to events that involve known or unknown risks, uncertainties and other factors of which are difficult to predict and manufacture beyond the company's control, which may cause the company's actual results to differ materially from those in the forward-looking statements.

Further information regarding these and other risks, uncertainties or factors is included in the company's filings with the U.S. SEC. The company does not undertake any obligation to update any forward-looking statements except as required and applicable by law.

Finally, please note that unless otherwise stated, all figures mentioned during this call are in RMB. It is now my pleasure to introduce our Chairman and Chief Executive Officer, Mr. Vincent Qiu. Vincent, please go ahead.

Wenbin Qiu ***Baozun Inc. - Chairman of the Board & CEO***

Thank you, Wendy, and thank you all for joining us today. While many sectors in China are still navigating the challenges imposed by COVID-19, we saw a strong recovery in e-commerce in the second quarter. Consumers are increasingly adopting e-commerce as a part of their daily lives and are spending more on categories that improve their quality of life. This, in turn, is creating an even larger opportunity for the retail industry to accelerate online penetration further, and we are seeing growing needs from our brand partners for creative go-to-market strategies, tactical IT, data analysis and marketing solutions, sophisticated and integrated omni-channel initiatives and logistic services.

We believe the strength of our results reflects our unique ability to create additional value for our brand partners and speaks to the resilience of our business. I am very proud of what our team has accomplished so far in this unique environment in 2020.

For the second quarter, our GMV grew by 31% year-over-year and more importantly, we saw a solid recovery across various categories. Revenue increased 26% with service revenue leading the way with a more than 43% rise year-over-year. We continue to make meaningful progress in engaging with new brands and optimizing our category mix with a net addition of 11 new brands. These new brands included several luxury brands as well as a few FMCG brands, especially in the food and health categories.

In addition, as a part of our high-quality growth strategy, we focused on optimizing our category mix and ramping up newly added brands alongside our broader service offerings post-COVID-19. This helped to improve our blended take rate for the non-distribution model during the quarter.

While we are pleased to have facilitated our brand partners' even greater success in the second quarter, we also noted the increase in macro and economic uncertainties amid the COVID-19 pandemic and proactively took steps to unleash additional flexibility and operating efficiency.

First, we have been continuously refining our service offerings for medium-sized brands within our portfolio to leverage our technology infrastructure and improve efficiency and productivity. In 2019, we launched ROSS, our retail operations support system. And over the past few quarters, we have fine-tuned several of its modules and demonstrated its capability to improve operating leverage and increase capacity. Recently, we set up a business unit called BOC or Business Operation Center, which is powered by ROSS and leverages shared functionalities to adapt our delivery system to serve medium-sized brands with greater efficiency.

BOC allows us to seamlessly switch our operational setup from brand to brand on top of our traditional offerings of highly customizable solutions and the dedicated resources for premium brands. We believe BOC allows us to streamline, consolidate, integrate and standardize our operations, which will help drive greater efficiency improvements through technology and shared economy, while we serve the medium-sized brands within our portfolio.

Second, we saw an accelerating evolution in e-commerce strategies for the brands we serve in the domestic market. As you may recall, we formed a joint venture with a leading domestic FMCG brand in mid-2019, which has delivered remarkable results in just 1 year. This achievement has established a unique, proven value proposition for our domestic brand partners. In fact, more than half of our newly added brands in the first half of the year were domestic brands, and we are seeing even more in the pipeline.

To fully take advantage of this emerging opportunity, we set up a dedicated operating center for domestic and newly established brands, which we refer to internally as the Growth Brands Operating Center or GBO. As a leading player in a constantly evolving industry, we pride ourselves on our track record of innovation and the launch of BOC and the GBO is another milestone, demonstrating our non-stop efforts, looking for new ways to support our brand partners and stay ahead of the competition.

Overall, over the past 3 years, we have centralized and relentlessly strengthened our technology footprint around cloud infrastructure and AI technology. This foundation allows us to deliver an integrated digital operating platform to drive automation and enhanced intelligence for our brand partners. We believe digitalization and innovation will continue to be vital for strengthening our competitive moats, as guided by our vision, "technology empowers future success".

As our brand partners embrace faster digitalization and increasingly focused on e-commerce, we believe they will continue to adopt more systematic, creative and flexible approaches to the e-commerce strategies, that we are well positioned to deliver as a cutting-edge leader in this space. We are confident that our strong strategic execution will continue to drive sustainable long-term growth.

I will now pass the call over to Robin to go over our financials for the quarter. Thank you.

Bin Lu ***Baozun Inc. - CFO***

Thanks, Vincent. I'm pleased to report a solid set of results for the second quarter with both a decent recovery in top line growth and more importantly, meaningful margin expansion. We believe the resilience of our financial results is attributable to our strategic deployment over the past few quarters towards high-quality growth. As a part of this, while we have continued to push through a variety of cost control initiatives, our focus has been to identify emerging opportunities in new categories and new channels. And we have developed a truly adaptable business model.

We are delighted that our continuous efforts have resulted in a very strong bottom line growth. Our non-GAAP operating profit grew by 81% year-on-year, and our non-GAAP operating profit margin hit 8.7%, which was a record high for the second quarter since 2015. We believe this represents a solid milestone in terms of delivering our high-quality growth strategy.

In addition to strong P&L performance, we are also happy to report a significant improvement in our cash flow. As we communicated on our last earnings call, the postponement of collections had a negative impact on working capital in the first quarter. However, this was temporary and the direct result of COVID-19.

Throughout the second quarter, our accounts receivable collection normalized. And in fact, for the most part accelerated, especially with the help of our business process management technology. This allowed us to achieve an overall positive free cash flow for the first half of 2020.

Lastly, before we go into details on our second quarter financials, I want to highlight our continued efforts to transition to our high-quality growth strategy by optimizing our category mix. On one side, we accelerated our acquisition of new brands with the strategic goals to strengthen growth momentum and penetrate service scope to enhance value proposition for our brand partners. On the other side, we continued to de-emphasize less profitable categories and the brands.

For example, we further optimize our 3C category and proactively reviewing some brand partners that have been impacted by uncertainties post-COVID-19, especially some brands under distribution model. These initiatives may temporarily impact our GMV and revenue growth rate on a year-over-year basis, but they are very much in line with our high-quality growth strategy.

So far in the third quarter, we are seeing a strong seasonality and despite the current uncertainties in the global macro economy, we will continue our efforts to deliver high-quality growth and further optimize our category needs to drive healthy and sustainable bottom line growth.

Accordingly, we anticipate that the third quarter 2020 GMV will grow by at least 15% year-over-year, and the total net revenues will be between CNY 1.75 billion and CNY 1.80 billion, which represents a growth rate of 16% to 20% year-over-year. In line with our pursuit of high-quality growth as we continue to optimize our resource allocation and leverage synergies across our business, we are very confident we will achieve around 40% year-on-year growth in non-GAAP operating profit in the third quarter of 2020.

With that in mind, I will now go over the second quarter 2020 financial results in detail. As always, we believe a year-on-year comparison is the best way to review our performance. All percentage changes I'm going to give, will be on that basis.

Once again, please note that all figures that I mention will be in RMB. Total GMV during the quarter increased by 31.2% to CNY 12.8 billion. Within that, distribution GMV grew by 9.1% to CNY 1 billion. And our non-distribution business GMV increased by 33.6% to CNY 11.7 billion. As Vincent addressed earlier on the call, we witnessed a broad recovery across different categories.

In addition to continued strong GMV growth momentum in the sportswear, luxury and FMCG categories, the previously lagging men and the women clothing category also started to recover. Particularly during the 06 '18 campaigns, all in all, GMV of our apparel category, which includes both wear, luxury and men's and women's clothing grew by over 45% year-over-year. While we are pursuing high-quality growth, electronics GMV declined year-over-year as a result of our previous efforts to switch away from less profitable brands. Personal care products in the appliances category, which is mostly in our distribution model was relatively weaker.

First, personal care appliances had a fairly high base in the same quarter last year. Second, we chose to maintain healthy pricing in order to sustain profitability as we pursued our high-quality growth strategy during the June 18 marketing campaign. Accordingly, total net revenues increased by 26.3% in to CNY 2.15 billion. Breaking this down, product sales revenue increased by 9.3% to CNY 928 million and the services revenue increased by 43.2% to CNY 1.22 billion during the quarter.

Total cost and operating expenses were CNY 1.99 billion, compared with CNY 1.62 billion in the same quarter last year. In particular, cost of products increased to CNY 776 million from CNY 679 million last year, which was in line with the increase in sales from the distribution model. Product sales gross margin improved to 15.8% last quarter to 16.4%, mainly due to our efforts to optimize the category mix and a pricing strategy to preserve profits.

On a year-on-year basis, product sales gross margin declined, mainly due to incremental contribution from new brands and deeper industry-wide discounts that were offered to promote sales during 6/18 campaign post-COVID-19. Our blended gross margin was 64%, an increase of nearly 4% from last year, mainly due to higher revenue contribution from service revenue.

Fulfillment expenses increased to CNY 575 million from CNY 392 million in the same quarter of last year, mainly due to a rise in GMV contribution from our distribution and consignment model, especially as more brands engaged with us for end-to-end solutions and O2O initiatives because of our strong and stable performance during COVID-19 pandemic in Q1.

As we expected, as China's logistics infrastructure almost fully recovered in the second quarter, our unit fulfillment costs normalized. Our fulfillment expenses, as a percentage of GMV, increased to 4.5% from 4% a year ago, which was mainly due to a higher proportion of the consignment model in our non-distribution GMV and lower average ticket size. This was partially offset by our improved utilization of warehouse resources.

Sales and marketing expenses increased to CNY 522 million from CNY 413 million in the same quarter last year, which was in line with the GMV growth as well as expansion in digital marketing. It was partially offset by the effectiveness and the efficiency improvements of our marketing services and our continued cost control initiatives. As a percentage of GMV, our sales and marketing expenses ratio improved to 4.1% from 4.2% a year ago.

Technology and content expenses remained stable at CNY 102 million compared with the same quarter last year. As we have now established our cloud infrastructure and deploy our AI technology in our DOP to drive automation and intelligence, we believe we are in a stronger position to stabilize our ongoing technology investments. As a result, we anticipate that future investments will grow at a very modest rate for the rest of 2020.

During the second quarter of 2020, our investment in future innovation and productization totaled CNY 22.5 million compared with CNY 21 million last year. Technology and content expenses, as a percentage of GMV, improved to 0.8% from 1.1% last year as we experienced greater operating leverage.

G&A expenses totaled CNY 54 million, a slight increase from CNY 52 million in the same quarter last year, which reflected our disciplined cost control while we scaled our business. All in all, income from operations increased by 87.2% to CNY 161 million from CNY 86 million in the same quarter last year. On a non-GAAP basis, income from operations was CNY 187 million, up 81.4% from CNY 103 million last year.

Non-GAAP operating margin reached 8.7%, which was a new second quarter record for us. Net income attributable to ordinary shareholders of Baozun totaled CNY 120 million an increase of 78.6%. Basic and diluted net income attributable to ordinary shareholders of Baozun per ADS were CNY 2.04 CNY 2.0, respectively, for the quarter.

Non-GAAP net income attributable to ordinary shareholders of Baozun totaled CNY 146 million, an increase of 73.4%. The basic and diluted non-GAAP net income attributable to ordinary shareholders of Baozun per ADS were CNY 2.48 and CNY 2.43, respectively, for the quarter.

As of June 30, 2020, we had CNY 2.3 billion in cash and cash equivalents and short-term investments compared with CNY 1.7 billion as of March 31, 2020. The increase was mainly due to the recovery of collections that I mentioned earlier and the improvement of working capital efficiency.

This concludes our prepared remarks. Thank you.

Operator, we are now ready to begin the Q&A session. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Alicia Yap from Citigroup.

Yik Wah Yap ***Citigroup Inc., Research Division - MD & Head of Pan-Asia Internet Research***

Thank you, good evening management. Thanks for taking my questions. Congrats on the solid result. My question is on the brand strategy. So with the disruptions from the pandemic this year, how would you categorize the attitudes from brands? Are they care more of selling through the SKU and building to sacrifice on pricing and spend on the promotional dollars? Do you anticipate brands would modify their productions and selling cycle in the future to optimize costs and maybe margin impact? Especially for domestic brands, do you see more domestic brands are approaching by Baozun and engaging us to help them on the integrated online/off-line strategy? And how would that actually translate -- this opportunity translate to our financial in the coming quarters?

Junhua Wu ***Baozun Inc. - Chief Growth Officer & Director***

Okay. So this is Junhua. Let me address your first question. So we do see a lot of international brands are setting different pricing strategies, especially after the COVID-19. So most of those brands are adjusting their pricing strategy to bid a lower price and to compromise a little bit in terms of their margins to get clear order on-hand inventory, especially for the first quarter, during the COVID-19, they had a lot of issues off-line. So more and more off-line resources in terms of their marketing spending also their off-line execute resources will be moved to online.

And then we do see the very clear tone of the whole year. So for all those international brands, leveraging all their existing on-hand inventory and compromising a little bit margin on getting a higher GMV on that part.

And we do not see this is a very long-term strategy from all those brands. And during the low season like the coming Q3, more and more international brands, and they are focusing on doing their daily sales without a big campaign, especially on the big ecosystem. So daily sales also become very important especially in Q3. But we also foreseen the coming quarter 4 will be another round of the campaign base driven. The mindset of consumers are always looking forward to see a deeper pricing strategies, especially during the Double 11 and the other campaigns.

In terms of all those brands of their selling circle of all those existing products in their life cycles, we do see some of the brands, they shrink their fall/winter assortment planning in the coming quarter 3 and quarter 4. Most of the brands, they also will migrate their spring/summer inventory for the second half of this year. So we don't see -- this is a long-term trend, but only within this year. For domestic brands, I'll leave Robin give you some answers on that part.

Bin Lu ***Baozun Inc. - CFO***

Sure. It's Robin. Let me answer your question about domestic brand. I think that's another great opportunity for Baozun to figure out the growth space. When you recall, as we mentioned in the prepared remarks, we set up a joint venture with a famous domestic brand and has achieved a very good result within a year. And with this joint venture, we just learned how we can translate our experience and our know-how to help the domestic brand.

On the other hand, I think there is a great opportunity for the domestic brand in 2 areas. The first one, we worked with a little bit matured and the existing domestic brands to help them to go online and to just grow their business as fast as quickly as possible.

Another opportunity is we work with this existing brands to work with them to incubate some new brand based on their very strong supply chain and a very strong technology so that we can catch about the future brand growth opportunities. So that's why we set up a new organization called the GBO, as mentioned in Vincent's remarks.

As a matter of fact, we have over 50% of our newly introduced brands in the first half of this year, domestic brands and majority of them coming from FMCG category. And we do think FMCG just like we mentioned about in the last year about the luxury categories, one of the growth area for the future and the FMCG is another area, especially for the domestic brands in FMCG. So that's why we have the new organization focused on the domestic brand based on our current experience and our very good cooperation fees. I can just give you an example. Just this afternoon, one of the famous healthy food domestic brand, just gave me a call, wanted to work with Baozun to incubate some new brands based on their supply chain. They will visit us very soon in the weekend. So that's -- I think we do see there is a very good trend and opportunity for us to work with those ambitious companies so that we can keep our future growth. Thank you.

Operator

Our next question comes from the line of Binnie Wang from HSBC.

Wai Yan Wong ***HSBC, Research Division - Head of Internet Research of Asia Pacific & Analyst***

Hi, good evening management, thank you for taking my question. My first question is actually on the Double 11 plan this year because we saw Alibaba actually announced its Double 11 plans in terms of adding a lot more about like 25,000 brands and then also 500,000 of like small, medium enterprises and also some of the overseas brands growing in the scale. So I just wonder what is any update in terms of our strategy, too, here. Do you think that we can further adopt more -- procure, like having all these merchants on board? And what is the mix of kind of like overseas brands versus like local domestic brands, any idea would be great.

And then secondly, I give a follow-up on the question -- I guess, on the answers management just gave out. I thought it's very interesting that there's a step-up in FMCG. Do you actually see that the ad budget from this FMCG is -- will be bigger or maybe even as comparable to a payroll advertiser? Because in the past, we tend to think a payroll advertiser has big advertising spending budget, so which is very good as we get more and more of these merchants. How about for FMCG? Thank you so much.

Junhua Wu ***Baozun Inc. - Chief Growth Officer & Director***

Okay, Binnie, this is Junhua. So let me answer you the first question related to the Double 11. And yes, sure. And let Robin address the second question for you. So although Tmall hasn't released all the details about their gameplay in the coming Double 11. But we do know there is a very structural Tmall, Double 11 campaign. The strategy is to pull ahead all their warm-up stage and presales stage than before. So we prepare -- starting to prepare all those Tmall, Double 11 campaign with the brand earlier, especially for all those fashion brands and all those kind of the luxury brands, especially.

So in August, in this month, we have been working with a lot of brands to get prepared with their resources in terms of marketing dollars, in terms of their assortment planning for the coming Double 11. And especially under the overall situation and environment about post-COVID-19, more and more brands they bet on a lot of stake on the Double 11, especially in the fashion category.

So if you're talking about the gameplay and the game rules for this coming Double 11, we can say that. So there will be more interactive with consumers happening. There will be more outside Tmall traffic coming into that ecosystem. And they will pull ahead of their pre-stage like warm-up stage or pre-order stage, like 2 weeks ahead of last year.

So which means that all those brands have an earlier chance to harvest their presale orders or actual card one-off orders than the last year before. So this is also a very clear strategy from that ecosystem indicates that they want to make sure that in terms of the observation based on each consumer's pocket money, so the Tmall is trying to just get all those pocket money earlier than last year, so in that work with that strategy. So Baozun will be prepared for that, too. That's my first question. So Robin gets the second question.

Bin Lu ***Baozun Inc. - CFO***

Sure. Let me take the second question. About working with the small size brands, especially the local brands, I think, as we mentioned before, we have a BOC and a GBO organization which is well prepared to work with this brand. And as a matter of fact, we start to work with some emerging brands already. And we think we have a great opportunity to work with them. The reason for that is we have a very strong proposition in the operations and know-how about how to work with that and how to help this brand to grow very fast. So that's -- yes, that's -- we are very active to join this kind of game to work with local brands, it was actually like a medium or even smaller-sized brand.

And regarding FMCG advertisement, I think it's very hard to say to compare between the apparel industry FMCG. As we may understand, FMCG is a big investor in the traditional channel before. And just like years ago, they just converted their advertisement spending or marketing spending from the traditional channel to online, and now they are kind of like diverse -- trying to diversify their spending from Tmall only across channels, which we can help them to work with Douyin and even Kuaishou. And we have very tight working relationship with both Douyin and Kuaishou and really help them to do everything for that.

And on the other hand, we want to work with this brand in a very small size so that we can help them to grow in the marketing spending operations, even the logistics and IT services so that helps them to go to the omni-channel. It's another competitiveness of Baozun based on our system.

Yes, I think that's the answer to your question.

Wai Yan Wong ***HSBC, Research Division - Head of Internet Research of Asia Pacific & Analyst***

Thank you so much. It is very helpful.

Operator

Our next question comes from the line of Tian Hou from T.H. Capital.

Tianxiao Hou ***T.H. Capital, LLC - Founder, CEO & Senior Analyst***

Yes. Good evening management. I have 2 questions. The first one is regarding the category mix. So in the opening remarks, so you guys mentioned about high-quality growth and category mix. So I wonder what are the top category today and versus a year ago. So that's the number one question.

Number two, regarding the competition. So what we saw today, Alibaba, themselves, set up an operational center to help merchants to do better operation on Alibaba. And so they're doing that in-house right now. And I wonder if that becomes some kind of pressure to you. So that's the second question. So I would like management to give us some color in the competition front.

Bin Lu ***Baozun Inc. - CFO***

Sure, it's Robin. Let me answer your first question. I think Junhua can go to the next question.

Before I give you some color about category mix, we want to explain again about what our high-quality growth strategy is. I mean of course, that's really based on our judgment about our industry. We think they are classified to 2 phases. In the Phase 1, that's driven by the growth of the industry and store operations oriented and focus. And in the Phase 2, we would think about there are more detailed or more penetrated service in the different service areas. And also, the technology is key in the Phase 2.

Regarding the category mix, we need to figure out the profitability about the GMV quality. That's why there is like what we call optimization of our brand portfolio, something like this. So based on this judgment, quarters ago, we just have the strategy about high-quality growth. There are different parts. Number one, we think we need to optimize our brand portfolio and in some certain categories, we need to give up more brands so that we can get like a certain level of the profitability in the other categories.

And then number two, we need to adapt our organization, our technology and our structure to be very good and to be very adaptive to the change of the environment of the market. So I think this quarter, we gave you the very positive results about how we -- what we do or what we have been doing constantly to optimize our cost structure and optimize our categories. So I think that's kind of what we call the high-quality growth.

In the end, we want to drive up our operating margin and our bottom line financial growth. So we are still in the process, but I think by the end of this year, we will finish up the optimization of portfolio and by the way, I think with the disappear of the COVID-19 impact and also with the competition of our optimization, top line growth will return to 30% year-over-year for the next year.

About the category mix, I think, when you look at our apparel category, that include sportswear, luxury, men's and women's category. I think the high-quality growth rate happened in the luxury categories. And as I mentioned in the last question, we think the FMCG will be the next one, which has a very high growth rate. But of course, in the sportswear, it's very stable, very healthy growth rate every quarter in the past and in the future as we are expecting. And also we are growing up some other categories in the next like cosmetics, something like this.

Junhua Wu ***Baozun Inc. - Chief Growth Officer & Director***

All right. So let me address your second question related to the Alibaba in-house operation, a potential or so-called competitive competition with Baozun operating. So actually, I believe that you've got some news lately, so from the Internet that you heard -- Alibaba has founded an operation center in the Jinghua city to cover the Zhejiang province operations. So this is part of their Alibaba, they call the spring thunder project, in Chinese, they called that chunléi, Jinghua.

So actually, this project has launched in the beginning of this year, tend to cover all those small, medium brands or entities in Taobao and also on Tmall. So this is not overlapping with Baozun's existing addressable market. So they tend to just set up an operation center to provide a fundamental basic technology and operating system to let all those small, medium brands or entities to run their own business.

A lot of their entities are like manufactories, like traditional manufacturers, and they have capability to just manufacture all those brands, selling to a Tier 3 -- from Tier 3 to Tier 6 cities. So this is all their "Chun Lei" projects all about doing. So we do not see this as kind of the competition with Baozun's operating, consider our addressable market is focused on international leading and domestic leading brands.

Tianxiao Hou ***T.H. Capital, LLC - Founder, CEO & Senior Analyst***

Thank you. It is very clear.

Operator

Your next question comes from the line of Thomas Chong from Jefferies.

Thomas Chong ***Jefferies LLC, Research Division - Equity Analyst***

Can I ask about the outlook and opportunities online streaming, online shopping, as we see the strong GMV growth in Taobao live as well as the industry?

Bin Lu ***Baozun Inc. - CFO***

Thomas, your question is not very clear. As we hear about is about the live streaming, is that correct?

Operator

Yes.

Bin Lu ***Baozun Inc. - CFO***

Okay. Let me try -- let Junhua to try to answer this question based on what we heard about, okay?

Junhua Wu ***Baozun Inc. - Chief Growth Officer & Director***

That was not very clear to me. So let me give you some color on the livestreaming part, if your question is related to that part. So live streaming is one of the approaches of our digital marketing. So it's actually one way to just -- just like we're getting the traffic from like KOL or the other kind of celebrities and in-store live streaming.

So if you're talking about the live streaming and the digital marketing, basically, we will categorize them into 2 sections. One is live streaming with KOL or celebrities. The second one is live streaming from an in-store operations like a branded cell or their offline store of their in-store associates, something like that. So the opportunities for the outlook of the live streaming is really helping -- this is a new initiative to helping get more traffic, especially new consumers to the store.

So we have the ROI, and we have all the script design. Baozun is providing a very comprehensive services for helping our brand partners if they want to engage with different kind of way of live streaming. So this is really helping us to get new customers. But if you're talking about the outlook in the future, how do we just categorize all those different parts. We believe that the brand will be engaged with their in-store live streaming heavier because the cost is relatively lower, and they will engage with KOL or celebrities live stream like several times a year, consider this is relatively a higher cost. But each way, the Baozun and the brands will be together to estimate the return of investment of each approaches in the live streaming. I don't know if I address your question or not.

Bin Lu ***Baozun Inc. - CFO***

Yes, let me add something based on our -- what I hear about the question. I think we have a very, very clear position about live streaming. Number one, we are representing the brand, we onset the brand better and we work with the KOL or even the in-store live streaming companies together and to identify what kind of SKUs is better for the live streaming business. And number 2, we already engaged in the live streaming operations into the daily operations spaces to the -- across the stores.

And number 3, we are signing up some strategic agreements with typical KOL and the typical in-store live streaming companies. So that we can embrace these kind of new channels to be working with them. And also, we do see -- with the past corporation, we do see our strong value proposition about outstanding the brands and provide more supply chain and some IT support for the -- also including some logistics support for this company. So we are not going to be NCN company. But we are working with them very closely with a different value positioning. And I think that's a very good business model for us to be working with them.

Operator

Our next question comes from the line of Joyce Ju from Bank of America.

Lixin Ju ***BofA Merrill Lynch, Research Division - VP & Research Analyst***

Good evening management. Thank you for taking my question. My first question is actually related to the category growth. I noted you guys actually mentioned like FMCG categories like have a lot of new additions to our new brand pipeline. So could you actually give us a sense like how big GMV contribution and what's the rough growth rate, take rate and also the operating profit level for this particular category? It seems will be our new growth driver for the next probably like a couple of years.

And also, I mean we have a sense like among different big categories like apparel, FMCG, electronics and also probably home appliances, could you give a rough sense like which one have the highest growth, which one have the highest like take rate, which one have better operating leverage just on like order just give some order of like different like categories.

And also, I have a small follow-up is on the housekeeping questions just for what's our actual FMCG for our existing brands for this quarter? [Nothing so], but just growth for the existing brands like for this quarter. Thank you.

Bin Lu ***Baozun Inc. - CFO***

Well sure. About the same-store sales growth is 49% in Q2. I'll answer this question first. And then about the categories, I think I need to give you more explanations about our outlook in Q3. As we mentioned in the remarks, we are switching away some of the brands in the 3C because it's in the very low take rate areas that we don't want to do that anymore. And that has some impact on the GMV outlook temporarily. But we have a very strong pipeline in FMCG and luxury brands, which can replace them step by step.

Of course, in the luxury, we should understand because some of the luxury supply chain is outside China. And they need some time to ramp up. And there still has some delay about the luxury brand opening stores in TMall and other platforms. But I think that will be ramping up and finish up before the end of this year. And about the FMCG in the -- most of them is domestic areas. I think the -- if you see the year-over-year horizon, that both categories will be more than 100% year-over-year growth.

And just now, I mentioned about our largest category is still in the apparel, which includes sportswear, luxury, men's and women's category. Sportswear has very healthy growth rate, no change as before, very stable and very healthy. And for the luxury, it's over 100% year-over-year growth. And the men's and the women's is still getting recovered, since 6/18, and we hope they can get back by the Double 11.

We do see a lot of positive sense about Double 11. We think this third quarter is a very strong seasonality because of between -- in between 6/18 and Double 11, especially under the environment of the COVID-19. So that's kind of like a very specific time as Q3 and we make use of this time to do a lot of adjustment so that we can have a better growth rate for the Q4 and next year. Thank you.

Lixin Ju ***BofA Merrill Lynch, Research Division - VP & Research Analyst***

Got it. Robin, may I have a small follow-up, is actually just for the 3Q outlook, may we get a sense like the slowing down of the GMV, we understand it's the course like less promotions from the brand and also people had already to a lot of consumption in the second quarter. I am just curious which particular category will see the biggest like impact, like in the third quarter, i.e., like the deceleration, the growth rate decelerates materially from second quarter to third quarter.

Yes. I mean is it apparel or is it like (inaudible).

Bin Lu ***Baozun Inc. - CFO***

Yes. I think -- I mean, for the -- in the category, 3C category or electronics category with so-called electronics category is still in a very weak area because our optimization on this category and I think you may recall, the quarter a year ago, we have a very high base about this category, and we also announced in Q2, we had a decline in that category. I think that's similar in Q3. I think that's a big impact about our GMV. However, it's very healthy for us to pursue a high-quality growth because we are trying to adjust the GMV so that we have more profitable GMV coming through to our portfolio.

Lixin Ju ***BofA Merrill Lynch, Research Division - VP & Research Analyst***

Got it. Thanks a lot.

Operator

Our next question comes from the line of Charlie Chen from China Renaissance.

Charlie Chen ***China Renaissance Securities (US) Inc., Research Division - Analyst***

Hi management. Thank you for taking my question. I have a follow-up question on the quality growth strategy, which you mentioned a few times previously. It seems that the margins rolled out really nicely this quarter. So I would like to get a bit more color on how this strategy work. For example, are you simply giving more services or selling more products to clients that are willing to pay you more, give you better terms or better take rates? Or you are actually selling more products or services to clients that generates better margins or returns to the firm? So I think the follow-up question would be, is there any particular services or products that have better margin or return across all? Can you give us a few examples on that? Thank you.

Bin Lu ***Baozun Inc. - CFO***

Sure. It's Robin. Let me answer this question. Just now I expect what the high-quality growth strategy is as we understand. I mean regarding Q2, I think that's a really good reflection of what we do and how we work very hard in the past quarters and delivered this kind of result. I think there's multiple factors.

Number one, regarding the top line, revenue, we do add up the services, for example, we had a very stable and very good performance in our logistics service in Q1 during the COVID-19. And after Q1, more and more brands coming to us to [raise] their demand about consignment model, which you can see on our consignment model revenue really drive up our service revenue. And of course, the pure service revenue also have a very decent growth.

And number two, about distribution, we are very precautiously to optimize our distribution portfolio, because, for us, we think the -- for example, there is a baby formula brand and have very mess-up in their market price. And goes to hurt the gross margin. Precautiously we just discontinue this service and switch the inventory back to the brand and their designated distributor and we just try to protect our gross margin. There is some challenge in the market, but we can always very precautiously to solve the problems. And that's number one.

I think number two, we have a very good development in the technology and both the brands need our technology to integrate online to off-line, which contribute more to our service revenues. And also internally, we utilize ROSS system, as Vincent mentioned about, we just automated and improved our efficiency for our process really gave us a lot of space to do the cost reduction initiatives and to adapt our business model to this fast-changing environment. I think after the past quarters -- past few quarters endeavor, you do see our leverage or efficiency improvement in the different cost initiatives.

And number 3, I think we finish up very advanced technology platform, which is called DOP, it's called digital operating platform. And we just -- we don't need to spend a very high growth of technology to keep our very competitive position and in the technology really, for this kind of stable investment technology and give us more space about margin improvement. So this kind of like multiple factors to contribute to our high-quality growth and delivered results in Q2.

Charlie Chen ***China Renaissance Securities (US) Inc., Research Division - Analyst***

Thank you, Robin. Very clear. I just have one other very quick follow-up question on the pipeline of new brand partner acquisition for the rest of the year. Can you give us some color on that? Thank you.

Bin Lu ***Baozun Inc. - CFO***

Yes. We have -- I think we have a very strong pipeline. Just now as I said, based on our set up timetable about the adjustment and optimization of our brand portfolio and more importantly, based on our very strong pipeline, we are expecting 30% revenue year-over-year growth for the next year. So that's really based on the strong pipeline. In the meanwhile, I think we can keep the OPM, I mean, operating profit margin expansion momentum, just as this year for the next year. Thank you.

Charlie Chen ***China Renaissance Securities (US) Inc., Research Division - Analyst***

Thank you.

Operator

Our next question comes from the line of John Choi from Daiwa.

Unidentified Analyst

Thank you for management taking my questions. This is Rob been asking on behalf of John Choi. Is it the right way to expect 3Q to have a slower growth because of the seasonality as we eliminate some of the brands? But are we -- but we will see better margins as those brands will be taken out and expect GMV and revenue to see a strong reacceleration in 4Q. And also, could management comment on the improvement in the take rates this quarter? And is it mainly because of the GMV ramp-up from the brands that we acquired in the second half of 2019? And would the GMV ramp-up will be able to offset some of the weak seasonality in 3Q? Thank you.

Bin Lu ***Baozun Inc. - CFO***

Yes. I think that's for my question. Yes, I mean roughly, your -- to answer your question is, yes. And for the 3Q, I think this is a very specific year. Internally, we are doing some optimizations. And actually, there are in between the 2 big promotions, 6/18 and Double 11, it's kind of like a typical seasonality, but we see the stronger seasonality impact in this year.

And about the take rate, I think we are getting back from -- based on the calculation, we are getting back to 10.4% service take rate and I think that's mainly because we have more service brands coming in for the last year. And also, we are ramping up the service, for example, for the IT revenue and logistics revenue coming up for these new brands and they contribute to our improved take rate.

Operator

Our final question for today comes from Sally Chan from CLSA.

Sally Chan ***CLSA Limited, Research Division - Research Analyst***

Hello, good evening management. Thank you for taking my question. I have 2 questions. One is, we saw the services take rate had quite a notable increase of like 0.6 percentage point on a year-on-year basis. So just wondering if management could share more color on the drivers behind like how much of it was driven by category mix. And then how much of it sort of was driven by the new brands revenue contribution?

And then my second question -- sorry, and then how to look at the take rate for the rest of the year, maybe?

And then the second question is actually on our mini-program strategy in WeChat. I'm just wondering if there's any update there. And then what's our strategy like going forward? Some thoughts on that would be very helpful. Thank you!

Bin Lu ***Baozun Inc. - CFO***

Yes. About take rate, I think, you can understand, is half driven by the category mix and half driven by the new brand introduction.

And about the mini program, I think we are very proud of the recent progress in the mini program, starting by the IT support and the store operations, we start to provide digital marketing services in the mini program. And most importantly, after one and half year for the business unit of the mini program, it has been in the breakeven position in Q2. I think it's a milestone for them to work very progressively in the future.

And also, we have a very strong relation with the brands and in the brand e-commerce side in the mini program sector. So that's -- we think that's very hopeful to grow this business very quickly. Thank you.

Operator

Thank you. I'll now turn the call back to the management team for the closing remarks.

Wendy Sun ***Baozun Inc. - IR Director***

Thank you, operator. In closing, on behalf of the Baozun management team, I would like to thank you for your participation in today's call. If you require any further information, feel free to reach us to (technical difficulty) joining us today.

This concludes the call.

Operator

Thank you. Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may all disconnect.