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PRESENTATION

Operator

Good morning, ladies and gentlemen. And thank you for standing by for Baozun's First Quarter 2021 Earnings Conference Call. (Operator Instructions) After management's prepared remarks, there will be a question-and-answer session.

As a reminder, today's conference call is being recorded.

I will now turn the meeting over to your host for today's call, Ms. Nicole Zhao, Investor Relations Manager for Baozun. Please proceed, Nicole.

Nicole Zhao ***Baozun Inc. - Investor Relations Manager***

Thank you, operator.

Hello, everyone, and thank you for joining us today. Our first quarter 2021 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. Arthur Yu, Chief Financial Officer; and Ms. Tracy Li, our Vice President of Strategic Business Development. Mr. Qiu will review the business operations and company highlights, followed by Mr. Yu, who will discuss financials and guidance. They will all be available to answer your questions during the Q&A session 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 the current market and operating conditions and relate to events that involve known or unknown risks, uncertainties and other factors, all of which are difficult to predict and many of which are 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 and in the company's announcements, notice or other documents published on the website of the Stock Exchange of Hong Kong Limited. The company does not undertake any obligation to update any forward-looking statements except as required under the applicable law.

Finally, please note that unless otherwise stated, all figures mentioned during this conference 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. - Co-Founder, Chairman of the Board & CEO***

Well, thank you, Nicole, and thank you all for joining us.

We are pleased to announce another solid quarter of high-quality growth. Our total net revenues increased 33% year-over-year to CNY 2 billion, and our non-GAAP income from operations more than doubled to CNY 76 million. We added a net total of 15 brands, including luxury apparel, cosmetics, food and health brands as well as brands from the Full Jet acquisition. We believe these numbers reflect the quality and trust of the relationships we have developed with brand partners.

And now please turn to Slide 3. Overall, we are on track to deliver our medium-term strategic plan. Let me provide some highlights about how we are progressing with our 3 key initiatives.

Now please turn to Slide 4. For customer first to drive growth, our luxury sector is an example in which we've made continuous progress this quarter. In addition to signing on new brands, we also provided more value-added services. This includes interactive digital marketing, IT customization and premium warehouse and logistics services. They all have greatly improved the user experience and generated a higher profit contribution. Luxury has become a significant profit contributor, accounting for 15% of our GMV in apparel and accessory category and growing over 50% year-over-year. In addition, we enhanced our leading position in luxury and strengthened our consulting and branding insight capabilities through the acquisition of Full Jet and the strategic alliance with the Fosun Fashion Group. In late April and early May, the core Full Jet team made a visit to Europe and generated a number of promising business leads. Overall, we remain optimistic that the luxury sector will be one of our key growth drivers in the year ahead.

On our omnichannel strategies, we are helping brand partners to obtain incremental sales and customers from a variety of emerging channels. This quarter, we integrated additional SaaS functions in our Tencent mini program packages and helped several sportswear brands run their Douyin platform. We also tested our new PDD stores for certain brands in apparel and accessories and FMCG categories. Additionally, we made great progress working more closely with JD.

Our efforts translated into tremendous progress, and we accumulated extensive know-how in setting the right go-to-market strategies for each platform. During the quarter, non-Tmall channels accounted for 35% of total GMV, a meaningful increase from 25% for the full year of 2020. More encouragingly, based on our initial assessment, consumer overlap for our multi-platform stores is less than 10%. This indicates that we are successfully helping our brand partners incrementally expand their businesses. It also shows that we have great potential to further expand our addressable market.

On the cost structure optimization front, tech-driven business process re-engineering and business model innovation continue to show results. Operating efficiency metrics, unit fulfillment costs and sales and marketing cost per GMV have all improved compared with a year ago. This is also true for technology and content spending.

Our centralized integrated operating platform, BOC, has helped over a dozen brands drive significant cost savings over the past 6 months. At the same time, our ROSS infrastructure supports our BOC through process re-engineering. As an example, ROSS includes integrated functions for one-stop content design, which helps us standardize workflow, improve teamwork, enhance data accuracy and improve communication efficiency. On average, brands have been able to reduce their operating costs by over 10%. We have expanded this service package to a broader apparel and accessories category. And we anticipate that this will be an important driver for operating efficiency and cost saving going forward. In addition, our remote service centers in Nantong and Hefei are both on track and have started trial operations in March. We believe that after they both ramp up, there will be meaningful cost savings from the second half of 2021.

Now let's turn to Slide #5. Technology has constantly helped us to widen our competitive advantage. We launched significant upgrades to our IT infrastructure to support and adapt evolving omnichannel strategies. For example, we integrated into over 20 platforms, including Tmall, Tencent mini-programs, Douyin, JD and Pinduoduo. Pre-integration helps our brand partners launch on these platforms quickly, literally on a plug-and-play base. We keep enhancing our ROSS services to help brands deploy differentiated strategies across multiple platforms. This sustainably improves efficiency and reduces our brand partners' working capital.

Our efforts in technology innovation will never stop. In addition to promoting greater cost efficiency, we are also developing an innovative top line growth engine for our brand partners. Recently, we launched a series of data-driven toolkits to optimize brand sales. Internally, we call this "SEMA" or Selling Machine. By mining extensive datasets and leveraging machine learning capabilities, SEMA maximizes conversion rates and overall shopping experiences. It does this by recommending products and assortment planning and display strategy on the front end. SEMA is currently in beta testing and effectively improving traffic utilization. We have identified a few key brands for which we plan to deploy our SEMA toolkits across Tmall and Tencent mini-programs. We expect broader deployments in the coming quarters.

In relation to digital marketing, we are also making progress on our content marketing, live streaming and data services. During the quarter, we expanded our live streaming studio to 2,000 square meters and established a dedicated studio for Douyin live streaming workforce. We're happy to see that a few brand partners have achieved top-ranking events with high ROI on the Douyin platform. Meanwhile, we completed several equity investments in the digital marketing arena. These included a top 10 Tmall MCN, a fast-growing Douyin MCN with data and news feed analytics and a content marketing partner. We believe these equity investments will enhance our digital marketing flexibility across different ecosystems. This will reinforce our value proposition by facilitating the digital marketing success of our brand partners.

On the warehouse and logistics side, we expanded capacity in apparel and accessories, beauty and cosmetics categories. By the end of 2020, our infrastructure capacity has grown to 640,000 square meters, including specially designed warehouse for the luxury sector, where demand is ramping up sharply. We also focused on providing more customized services. For example, we plan -- we launched a comprehensive B2B business as well as more budget-friendly service offerings. We always approach everything with a customer-first mindset, and we'll continue to launch differentiated services based on the needs of our brand partners. Meanwhile, we will actively look for opportunities to enhance our logistics capabilities through strategic alliance with third parties.

Now on Slide 6. Early this May, we published our first environmental, social and governance, or ESG, report. It reflects our commitment to long-term sustainable development. We view ESG as a commitment to our shareholder, stakeholder, communities and was rated BBB by MSCI in 2020. This is a top ranking in the e-commerce industry. We believe good governance is important to sustain commercial success in the long run. We appreciate the participation of many of our shareholders in our survey while we were preparing this report. We will strive to set new benchmarks in the brand e-commerce service industry as well. Meanwhile, we deepened our investments in human resources and look forward to enabling our people to exceed their potential and to develop their careers together with Baozun.

Overall, we are optimistic about the e-commerce sector continuing to create new opportunities. We will keep innovating to capture them and drive growth both organically and through selective M&A. We believe we are well on track to achieving sustainable and profitable long-term growth.

I will now pass our call over to Arthur to go over our financials. Thank you.

Arthur Yu ***Baozun Inc. - CFO***

Okay. Thank you, Vincent. Hello, everyone. I will start on Slide #8.

We saw strong growth in total GMV, which increased by 44% to CNY 13.2 billion. Our distribution GMV rose by 37% to CNY 1.1 billion, and our non-distribution GMV increased 44.4% to CNY 12.2 billion.

Breaking it down by category, we continue to see strong growth momentum in the apparel and accessories, electronics and FMCG categories. The strong performance of the luxury sector helped apparel grow nearly 30% year-on-year with new luxury brands on board on Tmall. However, we faced some temporary headwinds in March due to the concern raised by Better Cotton Initiative. This negatively impacted the growth of the apparel and accessories category, especially sportswear brands.

Electronics grew nearly 40% year-over-year, while FMCG contributed triple-digit year-on-year growth from a low base last year. FMCG now accounts for about 15% of overall GMV. On the other hand, we still see slow year-on-year growth from the appliance category, but the trend is improving significantly compared with Q4 2020. We believe the healthy and balanced growth of our GMV demonstrates the resilience of our business model backed by our diversified brand portfolio across a wide range of categories.

Now please turn to Slide 9. Total net revenues increased by 33% to CNY 2 billion. Product sales revenues increased by 39% to CNY 972 million, and service revenues increased by 28% to CNY 1 billion. While the growth in service revenues was not as fast as product sales revenues, remember that our service revenues in Q1 2020 were not badly impacted by COVID-19. When we look at the overall revenue growth across a longer period from 2019 to 2021, the CAGR for product sales revenue and service revenue were both around 25%, which demonstrates a healthy growth trend.

Our product sales gross margin was 15.4%, a slight decline from 15.8% a year ago due to a change in category mix, but it improved from 12.7% last quarter. Our overall gross profit margin was 59.3%, an slightly down from 61.3% a year ago due to higher revenue from product sales.

The take rate for the non-distribution model was 8.6%, down from 9.8% a year ago. This reduction in take rate was expected as we made progress in our omnichannel strategy. As Vincent mentioned earlier, for the first quarter of 2021, non-Tmall platform accounts for approximately 35% of our total GMV. The take rate of some of the new emerging channels is not comparable to Tmall at least in the early phase. So it will somehow dilute our blended take rate. As we continue to scale our business and service model in new channels get more mature, we believe the ultimate take rate and profitability will improve in the long run. However, as the contribution from new emerging channels grows, we anticipate the dilution of the take rate will continue over the next few quarters.

Now let's turn to operating expenses on Slide #10. In line with our growing business, fulfillment expenses increased to CNY 508 million and as a percentage of GMV improved to 3.8% from 4.5% a year ago. This was mainly attributable to improvement in product efficiency and increased use of lower-cost last-mile delivery carriers.

Sales and marketing expenses were CNY 471 million and as a percentage of GMV improved to 3.6% from 4.0% a year ago mainly due to the improved effectiveness of our digital marketing services and efficiency gains from deploying the latest technology in our operations.

Technology and content expenses were CNY 93 million and as a percentage of GMV improved to 0.7% from 1.0% last year. Most of this was attributable to more effective cost control, efficiency improvements and better prioritization of our system development pipeline.

G&A expenses increased to CNY 80 million. The increase was expected and mainly reflects a variety of investments we made to support our long-term growth. Firstly, we recruited new talent, especially for our growing omnichannel services. We also upgraded our compensation packages for our critical roles in order to attract and retain the best talent in the industry. Secondly, we saw an increase in professional fees related to our increased M&A activities. And thirdly, we have started to incur additional expenses related to our new headquarters. As a percentage of GMV, G&A expenses increased slightly to 0.6% from 0.5% primarily due to the above factors. These were partially offset by efficiencies from the third-party procurement and more disciplined cost control.

Now please turn to Slide #11. Income from operations increased by 313% year-over-year to CNY 53 million. On a non-GAAP basis, income from operations increased by 106% to CNY 76 million from CNY 37 million last year. Operating margin for this quarter was 2.6%, while non-GAAP operating margin was 3.7%.

And on Slide #12, non-GAAP net income attributable to ordinary shareholders totaled CNY 61 million, an increase of 136% year-over-year. Basic and diluted non-GAAP EPADS was CNY 0.83 and CNY 0.82, respectively, for the quarter. As of March 31, 2021, we had CNY 4.5 billion in cash, cash equivalent and short-term investments.

Lastly, earlier today, we announced our USD 125 million share repurchase program over the next 12 months starting from 18th of May 2021. This program is consistent with our disciplined approach to capital allocation and focus on better use of cash to increase shareholder value.

Overall, we are pleased with our financial results. Despite some short-term headwinds from the concerns raised by Better Cotton Initiative, our business has shown great resilience. Looking ahead, we will continue to execute our strategies throughout the year and deliver sustainable and profitable growth to our shareholders.

This concludes our prepared remarks. Thank you, everyone. Operator, you are now ready to begin the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We have the first question coming from the line of Alicia Yap from Citigroup.

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

Hi, good evening management, thanks for taking my question. I have a question regarding the upcoming June 18 promotion. So with 1 month approaching that event, can management share with us, compared to last year, what are the biggest difference in terms of the consumer sentiment and also the merchants' readiness in terms of the preparations for these June 18 campaigns? Have the merchants already started to prepare? And are they more willing to spend their marketing budget for promotion? Or actually, have you seen any scale-back on the promotion that they will be more prudent this year?

Arthur Yu ***Baozun Inc. - CFO***

So maybe, Tracy, can you take the first question?

Chunlu Li ***Baozun Inc. - Vice President of Strategic Business Development***

Yes. I think the whole company right now, we have going to the [prepartion] (corrected by company after the call) model to prepare for the 618, which is only 1 month left, I think we can take the question from 2 points of view. Firstly from the brand part, actually I think we prepared this much more longer time compared with last year. And from the merchant wise and also the promotion cadence part, our brands are more mature than before. And you can see Tmall actually and also other platform has released their cadence this year, and all of our preparation is corresponding for this.

And another point I want to highlight is actually, from the platform itself after regulation, you can see actually the Alibaba will have been more closer and friendly to our brands and merchants, and this has been demonstrated by providing new tools to merchants with lower costs, especially by waiving some of the deposit fees and then lower the entry barriers for new brands, which means, I think, for this year's 6/18 for the smaller and the middle-sized brands, their P&L are going to be a little more improved. And for our larger brands we've been collaborative right now, we are finding multiple ways besides the Tmall platform and other platform like emerging channels to realize the growth.

Operator

The next question comes from the line of Ashley Xu from Crédit Suisse.

Ashley Xu ***Crédit Suisse AG, Research Division - Research Analyst***

Thank you management for taking my questions. I got 2 questions. First is that you have mentioned about the Selling Machine. Could you please elaborate more on this? And what's the latest progress and what we should expect in next stage?

And my second question is about the impact from the cotton issue. How should we see the impact for both 2Q and full year in terms of how large the impact would be and how long that would continue?

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

Okay. Ashley, I will take the first one about the Selling Machine thing, and then I'll ask Arthur to answer your second question about BCI.

As what we mentioned, Selling Machine, I think the results generated now is quite encouraging, but it's still in a quite early stage. So I think the major task today for the team is that we just want to deliver a deeper and a more solid result before we can roll out these toolkits to other brands. But anyway, we are quite optimistic for the potential of this tool, and we think this will be instrumental for a lot of brands to generate their incremental sales in the future. Yes, I think we can see this in the near future, not very long.

Now the second one about BCI, Arthur?

Arthur Yu ***Baozun Inc. - CFO***

Yes, let me share some thoughts on the BCI. For the BCI, I think it's mainly impacting the apparel categories and for us is mainly the sportswear and fashion brands.

It's a sensitive issue and very difficult, very hard to predict what's going to happen next. Therefore, the brands are keeping a low profile, and Baozun is helping brands to manage the customer and manage the communication properly and helping brands to decide when to make the investment into the advertising to generate the best of returns.

We start to see the impact since the end of March and throughout April, which we have seen some impact to our top line or the growth. But starting from May, we have seen a sign of recovery, so we are waiting to see what the 6/18 outcome looks like to decide the true impact for the full year. Our base scenario for planning the business forward is we think the impact will be in Q2 as a one-off hit, but our second half of outlook will kept unchanged. So that's our overview for the BCI.

Operator

We have the next question coming from the line of Joyce Ju from Bank of America.

Joyce Ju ***BofA Securities, Research Division - VP & Research Analyst***

Management, congrats for the solid results this quarter. Just want to have a first follow-up question on the June 18 event, which is that I just want to check for this year, yes, given we actually see a greater exposure in the non-Tmall channel, so for this year for June 18 promotion

Joyce Ju ***BofA Securities, Research Division - VP & Research Analyst***

Oh, yes. Sure. I mean given we actually see an increasing exposure in non-Tmall channel, could you share with us a little bit more in terms of this year what changed? Or like what's incremental in our services provided to the customers to prepare for the June 18 given we now have like more other platform promotions need to prepare?

And the second question is actually within this quarter, significant increase of our non-Tmall percentage GMV. Just trying to understand which platform contributes most to this like incremental growth and how we should expect this ratio to change over the like short term and also the mid to long term.

Arthur Yu ***Baozun Inc. - CFO***

So maybe, Tracy, talk about the non-Tmall side, and then I will talk about the non-Tmall -- what's in there

Chunlu Li ***Baozun Inc. - Vice President of Strategic Business Development***

Sure. I think regarding the omni-channel landscape right now, I also would like to take this from two points of view. For the longer term actually, you see from the brand point of view - to have a healthy and a sustainable growth, the brands need to continue building their existence and their future proofing. They are starting this by constantly adopting to China's sophisticated online commerce environment. So from this point of view, you can see even in the coming, I mean, 6/18, they've been trying to split the budget and also to try different angles on the promotion part, use different tools and the different platforms. You can see some of our categories, especially in fashion, beauty and also luxury, they've been utilizing some of the live stream ways as a pop-up even as of May 20 campaign right before the 6/18 to test the water, I mean, the business model and also the consumer landscape in that platform.

And also, I think the second point from the platform itself, there is strong DAU in those especially content-oriented platform. That shows they have a great potential to realize a closed-loop e-commerce business there, so which means we look good on this. That's why from Baozun's -- our own efforts, we've been trying to act quick and make progress in the emerging channels to build our workforce and also investments here to make sure when the environment come up, we can do better in there.

Arthur Yu ***Baozun Inc. - CFO***

Okay. Now I will make some comments about the mix of the omnichannel increase. So basically, for the increase of the non-Tmall of the channel, of the percentage, we saw the increase from all channels outside of Tmall and most significantly from the mini-program, but not falling far behind our brand store dot-com. So this is further proof that in the market, if you are looking for an omnichannel solution where Baozun, after we enhance our technology capability, we can offer this service in a very fast pace to our customer.

And also, I want to repeat that even though we made progress in the non-Tmall kind of channel, Tmall itself is actually growing healthily. We delivered over 20% year-over-year growth from the Tmall channel, which is ahead of Alibaba's Tmall channel year-on-year growth. So it's actually a demonstration of Baozun's capability to help the brands to be successful in the Tmall channel as well. Going forward, we will keep making the investments into our strategy to go for the omnichannel andhelping our partners to deliver more incremental growth for their business.

Joyce Ju *BofA Securities, Research Division - VP & Research Analyst*

Just a quick follow-up. Could you just remind us like what's the economics for other channels? Are they similar to Tmall? Or are they actually very different? And also, with higher percentage of GMV coming from other channels, should we expect our blended take rate more than having a different track?

Arthur Yu *Baozun Inc. - CFO*

Okay. So we're in the early days in terms of omnichannel. We are still in the stage of making the investment. Therefore, the take rate for other channels is not as good as Tmall.

And also, we talked about in the past the different channels has a different cost model. So for example, if you look at the mini program, it actually has a marked simpler operation which requires significantly less cost compared with the Tmall operations. Hence, our take rate charging model will be different compared with the Tmall channel. But having said that, what we have made very clear, what we don't want to do is to go for the growth in expense of profit. We are looking for sustainable long-term growth. So our new channels we develop, we will aim for making that channel profitable in the medium and longer term.

Operator

We have the next question coming from Thomas Chong from Jefferies.

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

I have 2 questions. So the first question is, can we talk more about our M&A strategies? And my second question is, can management elaborate more on cost base optimization and trend on operating expenses?

Arthur Yu *Baozun Inc. - CFO*

Okay. So I heard 2 questions. One is on M&A strategy. And secondly is on the cost base, kind of how we optimize the cost base, right? So I will go for the M&A strategy first.

So basically, we laid out our medium-term plan last time. So we want to become a CNY 150 billion GMV company in 3 to 5 years' time. So in order to do that, we're actually looking at our growth driver. We think if we only go for the organic growth, we'll not be able to deliver our medium-term objectives. Therefore, we are actively using M&A as a way to grow our top line. So that's the first direction we are aiming for through our M&A.

And secondly, as the requirements of our customer expanding, we need to enhance or improve our own capability, so in that way, we will be able to serve our customer better. So therefore, on one hand, we're looking at using our internal capability to do it. And at the same time, we look at external to acquire the capability to help us to do it faster.

So for example, if you think our strategic alliance with iClick, it's actually helping us to catch up on the SaaS capability very quickly in the mini program, which helps us to provide a better service for the customer. So that's the second one.

And then the third one. We have seen some channels where the growth has a huge potential. So for example, Douyin. So in this quarter, we actually made some equity investments into some live streaming companies, which help us to enhance our live streaming capability. So with that all in mind, we actually will actively looking at the different targets and using the M&A as a driver to grow our business. So that's on the M&A strategy.

On the cost optimization. So this is one of our strategic pillar. So there are 2 ways we want to do this. One way is we are a technology company. What we are doing is to use the technology to drive efficiency, i.e., in the earlier, as we mentioned we have a BOC, Business Operating Center, which is based on our ROSS platform and also a lot of the system tools we developed. With all that, we actually have delivered a significant saving through automation and through a better process management.

And at the same time, the second enabler for the cost optimization is through our initiative of RSC, what we call a Remote Service Center, which we start to build from early this year in Nantong and in Hefei. The goal of achieving that is actually to enhance our customer service by moving the operations in a very structured way from high-cost location Shanghai into lower-cost locations, where, at a lower cost, we actually can acquire higher-skilled labor to do the work for us. So in that way, without compromising the customer service, we will be able to see something between 15% to 25% cost efficiency just from a labor rate percentage.

And if you think about if we're adding the technology process reengineering and the location-driven labor cost efficiency, we actually see a bigger impact on our cost base. From some early trials we have seen, we actually see something between 30% to 35% overall efficiency if we're adding those 2 things together.

So we are now expanding those 2 initiatives to the wider business unit within Baozun, and we think we will systematically improve the cost base of Baozun going forward.

Operator

We have the next question. This is coming from Feitong Zhang from CICC.

Feitong Zhang ***China International Capital Corporation Limited, Research Division - Associate***

Hi management, thanks for taking my questions. I have 2 questions. First one is regarding to new brands. I want to know our new brands. This quarter, we have many new brands. I want to know the number of new brands coming from our investments or cooperation with iClick or Full Jet or Fosun, those corporation, to have better understanding to our brand portfolio. And also, what is our same-store sales growth for this quarter? This is my first question.

And my second question is, what is management view on Tmall platform post regulation? Will it be more friendly to merchants or more to local brands, et cetera?

Arthur Yu ***Baozun Inc. - CFO***

Okay. I will take the first one and Tracy and Vincent can talk about the second one.

Firstly, the 15 brands is actually a mix of both the organic growth and also the acquisition from Full Jet. So basically, Full Jet contributed 6 brands within the 15 brands we actually have acquired.

And secondly, for the same-store growth, if we look at the same store, it's actually 27% year-over-year same-store growth. But if we look at the same brand growth year-on-year, it's actually go up to 31% to 32%, which means our omnichannel strategy is actually helping the brands to grow the channels as well on top of the same-store growth year-over-year.

Tracy?

Chunlu Li ***Baozun Inc. - Vice President of Strategic Business Development***

Sure. Yes. Regarding the Tmall post the regulation, I think it's doing a lot of published drafts right now. And also, we have a lot of closed-door event with Tmall. You can see actually Alibaba has been more closer and more friendly to the merchants. They have been demonstrated by providing new tools to merchants with lower cost and by waiving some of the deposit fees and lower the entry barriers to new brands. I think they will have direct improvement on brands' P&L, especially for the small and the middle-sized companies and local brands.

And also, I think one thing we would like to point out is about the Shanghai hub. I think last month in April, in the Tmall closed-door event, TOP TALK, and the Tmall leader has expressed their first priority this year will be to improve the consumer experience further and create a better marketplace environment for merchants and also the service provider like TP. So the relocation will help Tmall to better serve international companies selling goods on the site. And also, the relocation will impact Tmall's a lot of categories starting from beauty and outdoor sports, and also their consumer operation units will move to Shanghai in the first wave and some of the other units will follow. And since Baozun headquarters is also located in Shanghai, so I think this movement will also further strengthen our collaboration with brand and also Alibaba Group together. Thank you.

Operator

We have the next question, which is coming from Charlie Chen from China Renaissance.

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

This is Charlie. Thanks management for taking my questions. So I have one question about the take rate. So you just mentioned that the take rate for emerging channels are not comparable to Tmall channels. So can you share with us more details about whether those low take rates from the new channels are because of the product category that you are selling in the new channels are naturally having lower take rate or you are giving some sort of subsidies or helping those brands to grow initially so that you are voluntarily taking a lower take rate? And also, the follow-up question is how do you think the take rate trend in the new channels going forward.

Arthur Yu ***Baozun Inc. - CFO***

Okay, Charlie. Thanks for the question. I think from a take rate in the new channel perspective, it's actually a mix of both factors you just mentioned about. One is on the different categories. So for example, we have seen the FMCG category, which has a stronger potential in the platform like JD, like the mini program, which has historically comparable lower take rate.

But most importantly is like I mentioned earlier, it's actually the cost structure difference. When we do a business, we don't do a business because of the cost rate. We do a business by looking into the revenue we generate and also the costs we incur through that business in order to see how much profit will contribute to the bottom line.

So by looking at the different model in the new channels, we're actually not purely focused on the GMV, we're actually focused on the revenue. So for example, if it has a bigger GMV with a lower kind of take rate but generates a significant revenue, which impacted the cost with a healthy margin, then we think it's a business we should be doing going forward. So we are not focused on take rate, but we are focused on the bottom line profitability. So that's number one.

Number two is we did make some investments in the early phase. So for example, as Vincent mentioned earlier, technology investments into our system, which is on a plug-and-play basis, will actually present a lot of channels. When a brand has a new request, we'll actually very quickly take it on board. So that investment and that's the investment area we will keep investing in the next few quarters.

But after that, after we have built a scale and after our technology investment has gave us the efficiency, we will be able to see the benefit from the scale of the business, which will increase the profit margin and also the take rate of the new channels. So that's the plan going forward.

Operator

(Operator Instructions) As we have no further questions at this moment, I would like to hand the conference back to our host. Nicole, please take over.

Nicole Zhao ***Baozun Inc. - Investor Relations Manager***

Thank you, operator.

In closing, on behalf of Baozun's management team, we would like to thank you for your participation in today's call. If you require any further information, please feel free to reach out to us. Thank you for joining us today. This concludes the call.

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

Thank you.

Arthur Yu ***Baozun Inc. - CFO***

Thanks, everyone.

Chunlu Li ***Baozun Inc. - Vice President of Strategic Business Development***

Thank you.