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Q3 2022 Baozun Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 29, 2022 / 11:30AM GMT

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and thank you for standing by for the Baozun's Third Quarter 2022 Earnings Conference Call. (Operator Instructions) 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. Wendy Sun, Senior Director of Corporate Development and Investor Relations of Baozun. Please proceed, Wendy.

Wendy Sun Baozun Inc. - IR Director

Thank you, operator. Hello, everyone, and thank you for joining us today. Our third quarter 2022 earnings release was distributed earlier and it is available on our IR website at ir.baozun.com as well as on GlobeNewswire services. They have also posted a PowerPoint presentation that accompanies our comments to the same IR website where they are available for download.

On the call today from Baozun, we have Mr. Vincent Qiu, Chairman, and Chief Executive Officer; Mr. Arthur Yu, Chief Financial Officer; Ms. Tracy Li, our Vice President of Strategic Business Development; and Ms. Sandrine Zerbib, President of Baozun Brand Management. Mr. Qiu will review the business operations and the company highlights, followed by Mr. Yu, who will discuss financials and key operating metrics. 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 current market and operating conditions and relates 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 announcement on the website of Hong Kong Stock Exchange. The company does not take any obligation to update any forward-looking statements, except as required and applicable law. Finally, please note that unless otherwise stated, all figures mentioned during this conference call are in RMB and the comparators are on a year-over-year basis.

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

Thank you, Wendy. Hello, everyone. And thank you all for your time. Despite the ongoing challenging environment, we are encouraged with resilience of business. As shown on Slide #2. In addition, we deliver double digit growth in several categories, including luxury, fashion apparel, and FMCG. Moreover, digital marketing and IT solutions revenue increased by 22%. While product sales continue to decline as planned as we keep optimizing distribution model. Service revenue grew 4% year-over-year.

Business development during the quarter was on track with a net addition of 7 brand partners of store operations. For existing client base, it's worth noting that our business development also speaks to higher engagement in omni-channel and more value-added services. Our integrated omni-channel operations help brands to timely identify evolving e-commerce trends, thus enhancing resource

allocation efficiency. During the quarter, over 42% of our brand engaged with us on an omni-channel approach.

We continuously develop new features and tools to augment bundled value-added service. This quarter, we launched a short video clipping tool, which automatically converts long video or live streaming record to short videos. We also co-developed with a marketplace an AI-based outbound calling system to make proactive communications to targeted brand customers. This helps us with better purchase frequency and conversion.

We expanded the regional service centers to more sites recently and added new scope to them, supported by our customer service management systems S-ANY as a backbone. We improved not only service quality but also efficiency. The new module named D-ANY, which means Design Anywhere, has been developed and ported on to S-ANY for a centrally managed content creation tool during the quarter.

Despite the short-term headwinds from macro environment, we are glad to see that brand partners still take China as one of the most critical markets with a lot of potential. We continue to see a trend of digital transformation such as the rapid convergence between online and offline or OMO continues. Along with the digital transformation trend and the emphasis on our China for China strategy, where are investing in IT solutions for the long term. As such, our technology-related revenue sees notable growth with a sound pipeline for additional growth.

In light of the strong demand, we officially launched a BOCDOP, the Baozun omni-channel digital operation platform, a packaged solution with powerful customization capabilities. BOCDOP is centered on multiple channel order fulfillment and delivers powerful omni-channel D2C, data intelligence and decision support functionalities to our brand partners.

Following many years of non-stop investment in technology, we started expanding upstream in recent years and target to evolve into a technology-driven omni-channel commerce player. Early this November, we announced our acquisition of GAP Greater China, one of the largest American specialty apparel brands. Along with acquisition, we launched the Baozun Brand Management, a new line of business that we see as a strategic addition that naturally flows from our core e-commerce service and technology offering. The acquisition is a good fit to develop BBM since we have worked with the brand for many years. We love it and we believe in it.

It has only been a few weeks since our announcement, and we are still in the process of finalizing the acquisition. It is encouraging that since the news was on air, many other brands have come to us to discuss about China-for-China strategy and about our technology-driven approach. It has become obvious that our brand management offering clearly can add more to our value proposition, and it differentiates us from traditional service providers. While it will take time and hard work to fully actualize our vision, we believe a close-loop demand-to-supply value chain as well as integrated offline-and-online commerce will make brands unique and much more successful than before.

I shall now hand over the call to Arthur to go over our financials. Thank you.

Arthur Yu Baozun Inc. - CFO

Okay. Thank you, Vincent, and hello, everyone. Please turn to Slide 4. During the quarter, our total GMV increased by 16% to RMB 18.6 billion, mainly due to outstanding performance of one leading electronics brand. Excluding this brand, the adjusted GMV would have been flat on a year-over-year basis. Total revenues declined by 8% to RMB 1.7 billion of rate product sales declined by 29%, while service revenue increased by 4% compared with the same period of last year.

Now let's turn to Slide #5 for a breakdown of revenue. Despite a decline in total revenue, several categories, including apparel and FMCG achieved double-digit growth. The value-added services has shown more resilience in this quarter, where digital marketing and IT solutions increased by 22%, and warehousing and fulfillment service revenue declined by only 7%. Overall, the contribution from value-added service increased to 23% of total revenue in this quarter.

Please turn to Slide #6. In this quarter, our cost of products decreased by 30% to RMB 415 million, mainly due to continued efforts in optimizing product sales business. As a result despite a reduction of 29% in product sales revenue, the gross margin for product sales

improved by 175 bps to 16.6%. Moreover, our overall gross margin improved by 800 bps to 76.2% driven by a combination of a higher service revenue mix and improving gross profit margin.

Now turning to Slide #7. Our non-GAAP income from operations was RMB 17 million during the quarter, representing a non-GAAP operating profit margin of 1%. Non-GAAP net income was breakeven this quarter, mainly impacted by unfavorable exchange rate movements.

Once again, we have prepared waterfall diagrams depicting our analysis of how our top line and bottom line evolved year-over-year. As a reminder, this analysis is unaudited and should solely used as supporting members to aid discussion.

First, on Slide #8. This diagram shows our net revenue walk from 3Q 2021 to 3Q 2022. In red, you can see the biggest item impacting our revenue this quarter was product sales, as we continued our efforts to optimize low-quality distribution revenue. Revenue from DM and IT services, which we view as value-added services grew by 22% this quarter. Revenue from warehouse and logistics declined by 7%, mainly due to our decision to devise a subsidiary in the business, which I will address more later. Excluding such investment, revenue from warehouse and logistics should have been a slight increase year-over-year.

On a positive note, these initiatives led to better profitability. Now please turn to Slide #9 for the indicative work of non-GAAP operating profits. As mentioned earlier, the combination of higher COVID-related costs and general operating deleverage due to lower revenue resulting in less profit for online store operation businesses, generally across all categories. However, as shown, non-GAAP operating profit from digital marketing and IT improved by RMB 30 million year-over-year. In addition, the optimization of low-quality distribution business contributed RMB 3 million and profits from warehouse and logistics business improved slightly by RMB 1 million. We also generated a positive savings of RMB 3 million from back-office cost optimization.

In cost optimization, we continue to gain higher efficiency by centralizing our operating capabilities, rationalizing incentives and consolidating office footprint. More significantly, this quarter, we selected small cities such as Jinan, Chengdu and Anqing to expand the scope and scale of our regional service centers. Now approximately 60% of our customer service staff are allocated in regional service centers. By placing customer service staff in regional centers, we lowered cost, increased service flexibility and agility to better cope against Covid-induced turbulence. Moreover, we expanded beyond customer service and added more operating functions at regional service centers, including content creation and live stream studios.

We also further deepened our cooperation with Cainiao to leverage on its established infrastructure and network. As you may recall, in the second quarter, we began to manage Cainiao's warehouses in the apparel category, got business referrals in luxury and premium sectors and also launched more RFID-based solution for some of our key sportswear brands. Motivated by these synergies and after further careful evaluation, we decided to reduce our shareholding of Baobida, a last-mile delivery agency to minimize duplication with Cainiao. As you may recall, last year, prior to our strategic alliance with Cainiao, we invested into Baobida to expand our logistics capabilities. However, now with Cainiao's alliance, we decided to withdraw our investment position into a minority holding in Baobida.

Now turning to Slide #10 about our cash flow. As of September 30, 2022, our cash and cash equivalents totaled RMB 2.9 billion. In light of macro uncertainty, we continue to improve working capital efficiency. During the quarter, we launched new initiatives to further advance our back-end process to improve inventory management, billing and collected activities. Historically, in order to prepare for the Double 11 festival, the third quarter typically require peak operating cash flow. This third quarter, benefiting from the program in our inventory procurement planning, we were able to narrow the operating cash outflow to only RMB 113 million compared with RMB 740 million a year ago.

During the quarter, we repurchased approximately 700,000 ADS for approximately USD 6.1 million. To date, with our share buyback effort, we repurchased a cumulative total of USD 68 million in the last 9 months.

Lastly, the voluntary conversion into a primary listing status on the main board of the Stock Exchange of Hong Kong Limited became effective on the 1st of November. Baozun is now a dual primary listing company on both Hong Kong Stock Exchange and the Nasdaq Global Select market. This marks a significant milestone in our capital market journey.

Overall, our effectiveness in maintaining operations and supporting our partners' success during this period of macro uncertainty underscores the durability and strength of our business model. Throughout this year, we prioritized cost transformation and working capital efficiency, and our efforts are bearing fruits in terms of higher gross margin, lower operating expense and better cash flows. The establishment of Baozun Brand Management, along with the acquisition of GAP Greater China will provide us with good opportunity for future growth.

This is my financial review section, and that concludes our prepared remarks. Thank you. Operator, we are now ready to begin the Q&A session.

QUESTIONS AND ANSWERS

Operator

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

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

I have 2 questions. First, if management can share with us any preliminary color that you are seeing in terms of the consumption sentiment and across all the channels post Single Day. So in relation to that, how should we think about the overall GMV and revenue growth for the fourth quarter? And if management also have any preliminary view on the 2023 outlook.

Second question is your digital marketing and IT solution is actually doing pretty well. If you can elaborate a little bit what type of the brand's customer and the operation metrics like the take rate that you can share with us related to this service? And will this revenue line continue to deliver decent growth in the coming quarters? So how should we think about that?

Arthur Yu Baozun Inc. - CFO

Okay. Thank you, Alicia. So maybe, Tracy can comment on the Double 11 performance and the consumption sentiment. And I can answer about the view of Q4 and next year. If that's okay? Tracy?

Chunlu Li Baozun Inc. - VP of BD

No problem. Thanks for the question. I think right now, the China consumer is still very largely impact from the COVID-19 and also you can see in recent 2 months, actually from the logistics point of view, there's still a lot of lockdown and impact on that. But on the Double 11 number, we can see the overhead number is still under pressure, which means there is no big increase. But still is a very important window we see the trends on different categories. So on that part, actually, I can summarize some of the observation from our point of view, from our BI system and also from the public system. We see from the consumption trend, the upgraded consumption, home improvement, self care and the sports lifestyle are the 4 heated scene.

Take the sport lifestyle scene for example, the sales of the category outdoor, sports equipment & yoga, and also the sports footwear were lifted by range from 28%, 9% and 9% year-on-year increase respectively. And also, you can see the fitness, mountain climbing, skiing, urban sports, camping, and the running and basketball contributes most of the category. And also, we can see the luxury and also jewelry, bags and luggage has reached steady growth in the past 4 quarters.

So I think among these 4 areas, we still can see the opportunity for next year. But also, there are also down trends category like the fashion accessories and also men's and women's footwear. And this has been reflected over 2 or 3 quarters decline in most of the daily sales and the big promotion. So for all of those part, we still need a steady growth way to speaking out.

And besides the category shift, I think we also see the platform pay more attention on the user retention and the acceleration of private domain from new business incrementals like Ali supported multiple address in one order and Douyin newly added store member enrollment benefits, the membership coupon and membership gifts.

And all of this have gave our potential to collaborate brands and platform together on the digital marketing and also interactive technology related. So I think on that part, we can back to other parts to talk about our next year's plan, yes.

Arthur Yu Baozun Inc. - CFO

Okay. Thank you, Tracy. In regarding to the Q4 outlook, our current view is from the GMV perspective. We see some good momentum in electronics and FMCG. But we also see some strong headwinds in terms of the apparel and sportswear. So overall, we believe our Q4 GMV will be in line with the market, which is likely to be flat year-over-year. In terms of the revenue, at this moment, we still see the optimization of the low-quality product sales will continue unless the market sentiment pick up. So from a revenue perspective, we think there will be a low teens decline year-over-year. The main contributor factor is the product sales, which we continue to optimize.

In terms of the next year, I think it's a little bit too early to comment because there are still some very big factor, which is in the overall macro kind of condition and also the COVID policy. But our view for next year from a current perspective is conservative. And we want to plan on a conservative basis for the next year as well, i.e., to focus on the quality instead of focus on the growth.

But on your second question, Alicia, regarding the digital marketing and IT solutions, i.e., our view on the value-added service. I think that's one of the areas we see there's a quite strong momentum from our client base. So basically, at this moment, our brand partners start to focus on the medium- and long-term investments of the business in China. So therefore, we have seen a strong kind of the pipeline from the value-added service, like the IT solutions, like the digital marketing and the martech-related kind of proposals from our offerings.

So we think that will continue. And given the investments into the technology in the last few years, I think Baozun is well positioned to take on those opportunities at the current market situation.

Operator

We will take our next question. Our next question comes from the line of Charlie Chen from China Renaissance.

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

I got 2 questions here. The first one is regarding the GMV combination. So I can see in this quarter, the GMV contribution from non-Tmall channel seems to be a little bit lower than last year, 4-Q 2021. So can you explain what's the rationale and background behind this? And what's the long-term goal of this GMV growth between Tmall and non-Tmall channel? That's the first question.

And the second question is regarding the GAP acquisition as well as the whole restructuring. So can you give us more color about the progress after you acquired announced the acquisition of GAP. And also, I can see Baozun seems to be transforming from a pure marketing agency to a more comprehensive service company. So how do you expect the length of this transition period? When do you see the synergies or integration should be completed and we can see some results or impact going forward?

(technical difficulty)

Wendy Sun Baozun Inc. - IR Director

Actually, how about Charlie, do you talk about the brand management for the second question? Maybe Sandrine, can you take this one.

Sandrine Zerbib - President of Baozun Brand Management

Yes, sure. Hello, Charlie. This is Sandrine. Thank you for your question.

So it's about 3 weeks, we have signed with GAP, we have not completed the acquisition and generally, if everything goes smoothly on the approval procedure. So we are very mobilized in the preparation, which now focuses on really taking a deep dive with a different GAP function to enable a deeper operation. And then based on this we will be able to pretty much more detail.

But still I understand you want to have it bit of color. So for the time being, what we are learning from the feedback confirming what we

were seeing in the -- what we're seeing here in the due diligence. That on the one hand, there will be some quick wins in terms of a bit of a restructuring and cost cutting, mainly can the fact that we are now managing different Chinese company. And then going forward, as we mentioned earlier, we see some real opportunities around product that can be shaped in a relevant way. And as you may remember, we have full freedom on the supply chain.

The supply chain is ours, so we can really improve the speed market reactivity to trends and also bring some elements that are more locally relevant to in the product design and development. That's one aspect.

The other aspect is ready to work and actually, the first one, we're also trending to date, to work on the gross margin and reduce the discount level, which are in our view, too high today. And we believe that by differentiating products by channels, which is not really done today, we can really improve the discount situation.

The third aspect, which would be priority is for us to revamp the current portfolio of stores. So it's not a about opening many more stores, it's going to be really to make the current stores both in terms of operations much better than what we have today. So this is pretty as much cover I can give to the based. With all this, financially, we think that it can translate into a very significant reduction of the loss in FY2023. We consider that loss can be reduced by around half as it be in FY2022. Then we will see a further reduction of loss in FY2024 in order to reach breakeven point in FY2025 and profit in FY2026. So that is for GAP. And I would leave it to Wendy to allocate the other questions to add some other people.

Arthur Yu Baozun Inc. - CFO

Okay. Thanks Sandrine. Charlie, let me maybe answer your question on the Tmall. So the trends you have seen is actually impacted by a major electronics brands outperforming in Q3. So if we excluding the increase of this one single brand, our Tmall percentage has actually dropped, i.e. non-Tmall has increased by a single digit. So that's the true reflection of what's going on in the non-Tmall channel. And in addition, our omni-channel strategy is actually not with of purpose to push the people from the Tmall to a non-Tmal channel. It's actually to encourage people to go for the omni-channel, which is increase the stickiness and to drive more value-added service from Baozun to the client.

So by this quarter, we have 42% of our total brand partners choose Baozun to operate omni-channel. So this is our current situation. Thank you.

Operator

We will take our next question. Our next question comes from the line of Thomas Chong from Jefferies.

Thomas Chong Jefferies LLC, Research Division - Equity Analyst

I have 2 questions. My first question is, could management share some color about change of domestic versus international brands? And my second question is, could management share some updates about the cooperation with Cainiao and our thoughts about expansion into Southeast Asia market?

Arthur Yu Baozun Inc. - CFO

Okay. So Tracy, if you can take the first one, then I will take the second one.

Chunlu Li Baozun Inc. - VP of BD

Sure. No problem. Thanks for the question. I think in terms of the -- to win in the consumer side, I think they're facing the same pressure no matters it's foreign or local brands, how to solve the short-term problem and how to invest in longer term to win in the next round. But for the online segments, we can see actually most of the players are still emphasizing the importance of the online part because of the relatively poor store performance in recent quarters. So right now, actually, we are working with our brand partners to come out with a 3-year plan to talk about how to connect with their consumers directly and then how to allocate their budgets smartly, I mean, cross-channel and also to reach the direct communication with the consumer.

And also from the -- for the local brands part, very likely to share. We have some breakthrough during the past few months to seek the

collaboration opportunity in professional areas like IT service, content marketing, an interactive marketing technology and the consumer customer service. I think in the longer run, the professional in specific areas still will be the win in the service market.

Arthur Yu Baozun Inc. - CFO

Okay. Thank you, Tracy. In regarding to the Cainiao, we have continued our good progress in terms of getting the synergy. So as we mentioned in the past, we see the synergy coming from 3 areas. So the first one is joint BD. So with the Cainiao and Alibaba ecosystem, we would be able to -- I mean, we are seeing some additional BD opportunity coming in from the ecosystem. So which is helping both Baotong logistics and also Baozun as whole to conduct the business.

The second one, we see is actually to utilizing the scale and infrastructure of Cainiao. So basically, in terms of the warehousing and in terms of the last-mile delivery, Cainiao scale has provided a very good kind of support for us to get more resource. And finally, we see as the technology enhancement basically previously, is actually Baozun makes the investment into the technology on the logistics part. And now we can utilize the Cainiao network on the technology enhancement like RFID technology, which is giving us more efficiency when we operating the warehouse. So overall, we think we are in the good trend with our alliance with Cainiao.

In terms of the Southeast Asia expansion, we are continuing to focus on building our own capability in that region. And also our approach is trying to replicate some best practice and take the learnings we have from operating the e-commerce in China. But also our approach in the Southeast Asia is what we closely with the brands, to grow the e-commerce offering in that region. So while we have made more progress, we will come to report back to the market.

Operator

We will take our next question. Our next question comes from the line of Wan Jiao from CICC.

Unidentified Analyst

We noticed that the number of brand partners for store operations increased. As the macro environment is weak, could you please share something about customer acquisition strategy used in this quarter? And could you please share some details from the new brand partners such as their industry, scale and the main channels we help them to operate?

Arthur Yu Baozun Inc. - CFO

Okay. Tracy, would you like to take on and then I can maybe add on more color after you.

Chunlu Li Baozun Inc. - VP of BD

Sure. Thanks for the question. For the last quarter, actually, most of our new wins focusing on our new revenue source, which is the IT client and also digital marketing clients. And you can see actually, they are combined with our emerging category like our 3C category and also the luxury category. So which indicates actually our strategy on the one-stop solution, which means we start from the operation, but we extended our service to other part strategy works. And you can see actually in this market, we can see some of our clients actually invest a lot in the long-term strategy, including the interactive marketing and also their data and also infrastructure set up. Yes.

Arthur, do you have any other answer for this?

Arthur Yu Baozun Inc. - CFO

No, I think another thing I would like to add is in terms of the value-added service, we are utilizing the omni-channel and also utilizing the foundation we have built over the time, we think that will be the new business coming in the next few quarters. That's it.

Operator

(Operator Instructions) The next question comes from the line of Qi Fang Yang from Guangfa Securities.

Unidentified Analyst

So I have 2 questions. The first one is about the Luxury revenue has reached fast growth during the past quarter. So could you please elaborate over on the future strategies for expanding the luxury category? Also do you have a certain benchmark percentage of luxury categories contributed to the revenue? My second question is, do you have the investment strategy for the 2023?

Arthur Yu Baozun Inc. - CFO

Okay. Let me answer your second question first. And then Tracy can cover the luxury questions. Yes. In terms of the investment strategy, as you have seen, we recently made the announcement of acquiring GAP China's business. So in the short term, our focus will be building the GAP China business and building the Baozun Brand Management as a new business unit. So we will focus our efforts on integration and also transition to make sure it is a success.

And in terms of the investment, our focus will, the brand-related investments will be our focus. So I mentioned in the last few quarters, Baozun has made investments, either the minority investments or the controlling investment into 6 brands. And we have made some good progress in terms of those brands, which in Double 11, the GMV from those six brands, adding together has grown over 200% year-over-year, which shows the enhancement of Baozun is adding value to those brands.

And also for GAP, the Double 11 performance has also been good. The GMV has grown 22% year-over-year for the GAP during Double 11, which outperforms the market. All these shows was Baozun enhancement, we will be able to add more value to those brands grow kind of story. At the same time, when we're looking at the investment, we're also proactively optimizing our investment portfolio. As mentioned earlier, the Baobida, which is the last mile delivery investments we made, we actually proactively introduced another strategic investor to take the controlling stake and make Baozun become a minority stake. This is because this investment is a little bit duplicate to our strategic alliance with Cainiao. So with that in mind we actually optimize our investment portfolio to turn ourselves from a majority shareholder into a minority shareholder.

Looking at the medium to longer term, I think our investment priority are focused on the international expansion and also building technology capability on top of the brand management. And with the current market condition, we actually keep an open eye on the good value assets as we did for the GAP China acquisition. Okay. So that's on the investment strategy.

So Tracy, maybe you add something on the luxury business. Yes.

Chunlu Li Baozun Inc. - VP of BD

Yes, come back to the luxury story. I think we need to look at the industry from different angles. In short term, actually, definitely, the market is facing pressures on the slowing down growth, take this Double 11 for example, many brands have ramped up in variety and intensively to enhance the sales such as deeper discount, interest-free installments and also GWP gift.

But on the other hand, we see many of our brand partners are investing for the middle to longer strategy. Some of them take these 2 years as opportunities to adjust their pricing strategy. They are more focusing on the product innovation itself and also the brand group, they emphasis on the consumer-centric and increase their budgets on content marketing and the data infrastructure. We see a lot of innovation initiative happening in this Double 11. They lift their NTF try-on and also, you see a lot of limited edition SKUs and online special shoes has moving to the live stream topics to continue to drive the sales and also to attract new members. So I think that is the two sides of the fact base currently in the industry.

And for Baozun, we still treat luxury as our strategic part of our overall business. Because of the luxury market is still growing, they still have lower penetration, and we see a lot of business leads in new pipelines right now. And in the longer run, I think it's not just rely on 1 or 2 cases. We rooted in, I think, over 10 years practice in fashion and then we develop our luxury industry solutions in more forward-looking strategy, which is more omni-channel with leading IT solutions and more consumer driven with a strong in-house sales team, and more reliable and value-added service related to logistics solutions. And with all of this, we have the strong belief to grow with the market in the next 1 or 2 years.

Operator

We will take our next question. Our next question comes from the line of Charlie Chen from China Renaissance.

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

One question regarding the launch of BOCDOP. So I heard Vincent mentioned that. So can you share more color about this topic? And how do you think about the cost and the top line contribution for 2023?

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

Thank you for the question. This is Vincent. I will talk about the concept of this is BOCDOP, what we call is BOCDOP. In Chinese, we gave it a Chinese name called the Baoduo, this product line or solution. And then Arthur, maybe you can talk more about the revenue and expectations.

Arthur Yu Baozun Inc. - CFO

Yes.

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

Yes. Actually, in the past several years, Baozun's core system, we call this a middle-end system, including all the order fulfillment, order management and processing system and also order fulfillment system. We call this middle end. This middle end or DOP Digital Operating Platform plays a very important role to support an omni-channel retail and D2C-based business. Because all the traditional ERPs, they don't have these kind of offerings. I mean China, because of the omni-channel and the online/offline integration is much faster and advanced than the other countries and market. So there is a strong demand in the local market for this kind of system. With this system, all the brands can operate their retail and D2C business. They can open stores on Tmall and JD and WeChat everywhere in the same time. And they can process all the orders from the channels and make sure they can deliver all these orders to the customers. So that is the system.

So previously, it's just about the highly customized system for each of the clients Baozun did the same as the other players. Recently, we put a lot of investment in the packaging and the product types of this solution. But right now, I think the productization level is much higher than before. So we package this as a solution. It's a more ready to market. So we are trying to market the solution to Baozun client base and also other new clients and also some medium and small size of the clients trying to help them with them with omni-channel solution strategy. So that is the concept of the products. We are seeing very good progress and we're trying to make it better in the future, the near future.

And Arthur about the revenue, what's your view on that? Yes.

Arthur Yu Baozun Inc. - CFO

Yes, sure. So Charlie, thanks for the question. From a financial point of view, I think we may continue the investments into technology, which is to build the competitive advantage of Baozun over our competitors. And from the introduction of the BOCDOP, which is actually helping us to commercialize those technology in a more advanced way. So looking forward, we will be able to see the investment side. We continue to make a similar amount of investments into technology year-over-year. So the cost would not increase.

However, we foresee the revenue from the technology will increase year-over-year because our better structured productization and also commercialization of our IT offerings. So in return, that will help us to drive our profit margin from the type offering into the market.

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

One more thing. Thank you, Arthur. One more thing is not only support or the clients with omni-channel order processing and fulfilling capabilities, but also with all the data collected from different channels, we can also deliver a much better business intelligence capability and decision support capability to all the clients. Yes.

Arthur Yu Baozun Inc. - CFO

Yes. And also in addition to that, I think investment into technology not only benefits the traditional e-commerce business, it will also benefit the Baozun business management business as well. So with the GAP China, we will be able to use our technology to drive the transformation of the brand we acquired as well. So that will help to create more value.

Operator

There are no further questions. So I would like to hand back to management for closing remarks.

Wendy Sun Baozun Inc. - IR Director

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

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.

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