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PRESENTATION

Operator

Good morning, ladies and gentlemen, and thank you for standing by for Baozun's First 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, Investor Relations Director of Baozun. Please proceed, Wendy.

Wendy Sun Baozun Inc. - IR Director

Thank you, operator. Hello, everyone, and thank you for joining us today. Our first quarter 2022 earnings release was distributed earlier today and is available on our IR website at ir.baozun.com as well as on global newswire 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; 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 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 the announcement on the website of Hong Kong Stock Exchange. The company does not undertake any obligation to update any forward-looking statements, except as required under applicable law.

Finally, please note that unless otherwise stated, all figures mentioned during this conference call are in RMB and the comparisons are on 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 joining us. As you know, Shanghai, where Baozun is headquartered, had been on strict lockdown since mid-March 2022. This has presented unprecedented challenges to business activities in China. As of today, I'm very glad to report that we were able to minimize disruptions. Thanks to our hardworking people, best-in-class technology and the diversified regional service centers, we are very confident that we can support our brand partners in navigating the turbulence.

Let me start with sharing some progress we have made in this quarter. Please turn to Slide #2. To date, 2022 has been quite unique due

to the COVID lockdowns and a weak consumption sentiment in the macro environment. However, our total GMV grew 28% to CNY 17 billion, driven by strong growth in FMCG and electronics. Services revenue increased by 24%, whereas product sales revenues declined by 30% as expected due to our ongoing brand portfolio optimization in recent quarters.

During the quarter, we made notable progress in deepening service penetration as our value-added digital marketing and IT solutions generated high double-digit growth. We view this progress as an important step in our efforts to minimize macro environment risks and enhance our value-added proposition to empower brand partners.

Please turn to Slide #3. Our strategic business development efforts continued to bear fruits with faster brand acquisitions and the accelerated progress in the emerging channels. This first quarter, we won over several new brands, especially in the luxury, premium and lifestyle sectors. Leveraging on this momentum, we have more flexibility to rationalize less profitable businesses and focus on higher business efficiency. Overall, we added a net of 12 new brand partners in the first quarter and the total number of brand partners for store operations increased to 345.

Looking at the channel breakdown. This quarter, non-Tmall GMV accounted for 40% of total compared with 32% a year ago. Notably, JD, WeChat and Douyin all developed a triple-digit growth rate. In our view, omnichannel strategies effectively help brand accrue user access and the brand equity, which is critical for sustainable growth. Our integrated digital operating platform along with our ability to lead brand partners to set the right omnichannel strategy enables brand partners to expand their e-commerce flexibility and capture incremental business opportunities. With our powerful omnichannel capabilities, a brand can seamlessly offer its products and services no matter which channel consumers prefer to use.

Looking at our progress in JD. During the quarter, we launched a mini program integrated store for an Italian luxury brand and opened flagship stores for a French luxury brand and an American premium fashion brand. These cases have been widely successful and regarded as industry benchmarking business cases. We continue to view rich content initiatives and live streaming as powerful tool sets to leverage and enhance user experience.

We have established a threefold service metrics composed of daily in-store live streams, content-oriented digital marketing and the Douyin partner business. Douyin is still in its early phase of brand e-commerce, we set up of our dedicated Douyin sub-branch with over 200 staff currently serving in several dozens of brands. With our omnichannel enabling propositions, our Douyin partner business has already achieved solid headway in apparel, appliance and lifestyle categories.

Now let's share with you some trends on technology innovations on Slide #4. In recent quarters, the rapidly evolving e-commerce dynamics have pushed many brand partners to elevate their efforts in digital transformation. In particular, further the trend of omnichannel, brands want to master the digital convergence between online and offline spaces as well as enhanced customer relationship management to enrich life values. For example, a few months ago, we launched a dealer transformation program for one international electronics brand partners to digitalize business flows from factories to stores and to consumers. Subsequently, the brand expanded the program to incorporate more platforms such as JD Daojia and Dianping to the system and widened the deployment to over 3,000 stores nationwide today and targeting to double the deployment by the end of this year.

Another typical trend is brand's efforts in setting up China-for-China IT systems. In one of our recent China-for-China project with a leading international sportswear brand, we also launched a one-team methodology by fully integrating our e-commerce partner team, our IT team and the brand partner's team. We work together and win as one team. We focus not only on commercial and merchandising, but also on consumer privacy protection and lifetime value creation. Both of these 2 examples successfully demonstrated our technology offering's great potential. With the increasing importance of online business to drive sales growth in China, we anticipate technology and transformation will continue to play a critical role for our brand partners.

Looking ahead. Although our strategic progress remains healthy, we anticipate short-term turbulence due to the recent unprecedented COVID lockdown in China continuing impact on consumer sentiment.

Let me share about our prompt response to COVID, as demonstrated on Slide #5. As per our mission statement, technology empowers

future success. Our technology asset afford us with the extended capability and flexibility to help our brand partners navigate external disruptions. We leveraged our one inventory system and O2O toolkit like Shopdog to seamlessly integrate online and offline inventory. Our service, Service Anywhere platform, S-Any has been a powerful backbone, enabling us to serve our brand partners from different locations with improved quality and efficiency through digital intelligence. Our regional service centers in Nantong and Hefei physically ensure flexible and reliable remote-based services, and we further expand our operations into 9 additional cities across China. In logistics and supply chain, we work with our brand partners to transition from a centralized warehouse into a great management system, and our operation team continuously monitor platform policies to adjust product and marketing strategies, nurturing brand care and pricing relationship management.

On top of minimizing disruptions, our integrated WeChat mini program solutions help the brand partners migrate their offline assets to online resources. This reinvigorated their offline inventories and sales staff, mitigating their impact from shutdown of many of their brick-and-mortar stores during the COVID lockdown. One of our luxury brands rolled our first program, first mini program, to over 50 offline stores in more than 20 cities and sustained meaningful sales growth even during the lockdown period.

Overall, ensuring smooth continuous e-commerce operations in response to unpredictable COVID lockdowns requires tremendous dedication and coordination efforts. Our ongoing efforts in category diversification portfolio optimization and technology innovations have greatly helped us to enhance resilience. We will continue to execute on our sustainable growth strategy and proactively explore additional growth drivers such as set forth in our medium-term plan. This March, we established a subsidiary in Singapore, making a foundational milestone for expansion into Southeast Asia.

With that said, despite the lockdown challenges, we will come back our business with courage, intelligence and agility to protect the interest of the company and all of our shareholders. At the start of this year, we launched a comprehensive compensation restructuring initiative called BBO, which stands for Baozun Business Owner, to cultivate an ownership-oriented culture and organization. Our BBO aims to tie incentives more directly to individual contributions, empowering more entrepreneurial view and efficiency.

Lastly, we would like to reiterate our commitment for sustainability. Last week, we issued our second annual ESG report, launching a new set of additional green initiatives. We are targeting a carbon emission reduction of 50% for 2030 compared to the 2021 baseline and carbon neutrality by 2050. In the longer term, we strongly believe our resilient business innovation and the technology investments will triumph and earn us trust, branding and fortune.

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

Arthur Yu Baozun Inc. - CFO

Okay. Thank you, Vincent, and hello, everyone. Now let me first do a quick review of financials of the first quarter 2022. Please turn to Slide #6. During the quarter, our total GMV, led by FMCG and electronics, increased by 28% to CNY 17 billion. But excluding one electronics and one FMCG brand, the adjusted GMV would have declined by around 10%, mainly due to the BCI and weakening economy impact on sports and fashion apparel taxes.

Although our non-distribution GMV expanded by 33% to CNY 16.2 billion, our distribution GMV declined by 29% to CNY 765 million. The reduction of distribution GMV was a reflection of our continuous progress in optimizing brand portfolio to focus on high-quality business in the past few quarters.

Our total net revenues declined by 2% to CNY 2 billion due to a decline of 30% in product sales revenue. Service revenue increased by 24% to CNY 1.3 billion, benefiting from solid growth in service segments as well as new contributions from acquisitions in the past 12 months.

Turn to Slide #7. As we recently streamlined our organization into 4 business groups, we accordingly will start providing a breakdown of our revenue stream to help bring their progress. During the quarter, revenue from our traditional online store operation business accounted for 55% of total business. Revenue for warehousing and fulfillment, digital marketing and IT solutions accounted for 26% and 19%, respectively.

In this quarter, revenue from our e-commerce business declined by 19%, mainly due to a reduction in low-quality product sales business. At the same time, we are glad to see our value-added services has achieved double-digit growth year-over-year. We believe this validates our progress in service penetration and customer engagement. And we will continue to offer innovative products and services to expand Baozun's share of wallet from our brand partners.

Now turn to Slide #8. During the quarter, our cost of goods sold increased by 28% to CNY 596 million, which was mainly due to a reduction in product sales. In the second half of March 2022, major cities such as Shanghai experienced unexpected COVID lockdowns resulting in a significant increase in undelivered goods and stagnated orders that we reported as an increase in cost of goods sold on a consolidated basis.

Given that the entire second quarter to date remains in lockdown, we anticipate to see a similar trend in the second quarter.

So as a result of COVID lockdown impact, our gross profit margin for distribution model reduced to 12.5%, mainly due to a change in pricing strategy and adjustments in category mix and the increase in costs related to default on imperfect products. But if we take into account the service revenue, our overall gross margin improved by 11% to 70%, mainly driven by higher service revenue, which generates a healthy margin.

Now I'd like to turn to operating cost and expenses on Slide #9. Please note that the breakdown of operating expenses by organic business and M&A on this slide is based on the company management account.

Fulfillment expenses were CNY 629 million, an increase of 24%. This was primarily attributable to the incremental fulfillment cost of CNY 177 million related to our 2 acquired logistics business last year. Excluding the impact from acquisitions, fulfillment expenses from organic business was CNY 452 million, a decline of 11%.

Sales and marketing expenses were CNY 616 million, an increase of 31%. The increase was mainly due to increased BD-related staff costs to drive growth and an expansion in digital marketing services, which was partially offset by efficiency improvements.

Technology and content expenses were CNY 105 million, an increase of 13%. The increase was mainly driven by growth in GMV and the company's ongoing efforts in productization and commercialization during the quarter, which was partially offset by company's cost control initiatives and the efficiency improvement.

G&A expenses increased to CNY 91 million, an increase of 14%. This increase was mainly due to rise in human resource-related expenses from acquired business last year.

Now turn to Slide #10. Based on the above mentioned items, our non-GAAP income from operations was CNY 4.7 million during the quarter, and our non-GAAP OP margin was 0.2%.

Once again, we have prepared a waterfall diagram 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 be used as supporting numbers to aid discussions

First, on Slide #11. This waterfall diagram shows our net revenue's walk from Q1 2021 to Q1 2022. In red, you can see that distribution, logistics and sportswear and fashion apparel were the biggest drag this quarter. Meanwhile, digital marketing, luxury, IT solutions and others were the positive growth contributors.

Next, turn to Slide #12. We also provide here an indicative walk of non-GAAP income from operations and cost streams. As shown in blue, we have positive contributions from digital marketing and IT solutions. In red, the overall macro weakness dragged down the profitability of store operation business due to smaller economy of scale.

For M&A, this quarter, there was a non-GAAP operating loss of CNY 10 million, which was mainly related to Baobida as its express

business was significantly impacted by the COVID lockdown. And additionally, we continued to invest in people and infrastructure, which contributed to the red in back-end and strategic investments.

Now turn to Slide #13. In light of the current challenging situation that contains minor uncertainties, our financial management and priority will focus on 3 areas: improving operating efficiency, continued portfolio optimization to improve working capital efficiency, and finally, tightening overhead cost controls.

Firstly, the regional service center, or RSC, is a key component of our multi-location strategy that improves service quality, minimizes risk and reduces operating costs. During the quarter, we enriched more functions, including operations and design, into the regional service centers. We have migrated over 50% of our customer services from Shanghai to regional service centers in Nantong and Hefei. As RSC keeps ramping up, we anticipate generating even more economic of scale. We also began allocating more medium-sized brands to our business operation center in order to leverage shared mechanism to improve efficiency. This integrated platform serves multi-brand partners, helping to optimize low-profit business and further streamlines our overall business. For full year 2022, we anticipate cost savings of approximately CNY 20 million from these strategies.

And secondly, we will continue our efforts in portfolio optimization and enhancing our working capital efficiency. In light of the current macro environment, cash efficiency enhancement is more critical. We will evaluate inefficient and low-margin brand partners to optimize and to minimize the risk. We have established a dedicated project team to focus on our bidding processes in order to improve our accounts receivables and inventory management systems.

Thirdly, we aim to further optimize our high quarter cost base and improve Baozun processes by implementing more disciplined initiatives. We expect notable process improvement and cost reduction.

Now turn to Slide #14 about our cash flow. As of March 31, 2022, our cash, cash equivalents and the restricted cash reached CNY 3.4 billion, a decrease of CNY 1.3 billion from the previous quarter. The decrease was mainly attributable to repurchases of convertible senior notes and our share buyback assets, which totaled CNY 1.2 billion. We estimate a total savings of approximately CNY 10 million from the retirement of convertible senior notes and its associated interest expense during the quarter. In addition, as you may have noted from our announcement, we have fully completed the repurchase of convertible senior notes due 2024 with total principal amount of USD 275 million in early May, making our balance sheet leaner.

Lastly, an update on our buyback initiatives. During the quarter, we repurchased approximately 2.3 million ADRs for approximately USD 20 million. Meanwhile, our Board of Directors also authorized an additional USD 80 million share repurchase program in this March, making our remaining authorized of \$70 million as of March 31, 2022.

Overall, despite some turbulence in macro environment, we are continuing to increase the resiliency and sustainability of the company. We aim to further lower the cost and target positive free cash flow for the full year. With a solid balance sheet and a strong brand pipeline, we are confident that Baozun's business model will deliver shareholder value in the long term.

And this is my financial review section 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 is from Thomas Chong with Jefferies.

Thomas Chong Jefferies LLC, Research Division - Equity Analyst

I have 2 questions. Can management comment about the impact of the pandemic and the macro headwind to our overall business and the trends of different categories in April and March so far? And can you also share if the luxury segment also gets impact?

And my second question is about our expectation on the June 18. Can you share the updates about the expectation from the user and also from the merchants?

Arthur Yu Baozun Inc. - CFO

Maybe for Tracy to give some color about this, yes?

Chunlu Li Baozun Inc. - VP of BD

Yes. Sure, sure. So this is Tracy speaking. I think the new wave of pandemic has posed a great impact on China economy. And we see from the public information, the total retail sales in April has dropped 11% Y-o-Y to almost same level of April 2 years before, right? And so our observation from Baozun BI, the 11 key categories have showed over 20% decline during the March 15 to May 15. And it is the same trend in the quantity of the consumer buying group.

And also I think the trend is quite similar among categories like apparel, sports, footwear and cosmetics. But except for 2 categories: the first one is the outdoor and also the luxury part. So I will give more details about luxury later.

But in terms of the -- I mean, the consumer demand and any behavior in recent 2 months, we do see the purchase intention recover from the first week of May. And you can see actually this differs by geographically in China, like the Shanghai buyer, actually, they significantly dropped during the past 2 months, but they rebounded back from the second week of May. But Zhejiang and Jiangsu has recovered quickly than Shanghai. And other provinces like Shandong and Guangdong is not that impacted by pandemic.

And I think national-wide, we see the buyer amount has recovered in recent 2 weeks, almost reached the same level of the first week of March. But I think the transition is still catching up. We right now actually, we are working closely with our brand partner to mobilize resource for 618, as you mentioned. Actually, I think with the loss in the past 2 months, most of our brand partners expect the sign of the consumption recovery in the 618.

And right now, we are trying to utilize our resource on merchants and discounts and also marketing fees spared from the last 2 months. We are trying to hit the targets, but it's still hard to say how much we make up for the loss of the last 2 months given some of the brand is still troubled by the domestic and overseas logistics.

So I think for the 618, it's very unique right now because most of us are working remotely at home. But I think thanks to our regional service centers in Nantong and Hefei and also our Service Anywhere platform, S-Any, we are able to work from different locations but with I think same level of the quality and the efficiency.

And in terms of the category, you mentioned about the luxury. I think the -- definitely, this category slowed its growth rate and showing inactive in April. But from May, actually, we see the sales has returned to the growth Y-o-Y thanks to the -- actually, some big campaigns such as super brand day and the Hey Box. We work with top brands in this category.

And also, I think in the past 2 weeks, we're actively adjusting our paid media and the content marketing direction to lift a portion of other cities besides Shanghai and Beijing and to the lower cities. You can see actually our portion from the middle-tier city has leaped 20% higher than before.

And also, I think for the luxury part, we see some positive progress on their digital transformation because of the lockdown. Actually, this has accelerated their localized strategy like multi-node logistics solution, One Inventory from offline to online and also the CRM system update.

So we're working closely with our brand partners to capture the changes, and we believe our technology asset has afforded us with extended capability and flexibility. I hope this solves your problem. Thank you.

Arthur Yu Baozun Inc. - CFO

Yes, I would maybe just add a few more points on top of what Tracy answer. So basically, there's a lot of uncertainty. And from a business point of view, during the uncertainty, we put cash at a very high priority. Therefore, our business is more focused on protecting the cash flow and improving the working capital efficiency. And we also are looking into optimizing our portfolio to reduce the potential risk of our existing business.

And secondly, we think it's actually a good opportunity to prove Baozun's differentiation compared with our peers because we can provide a stable service for the logistics for the customer service and for the IT. And during the last month, we have proved we have that capability, and we received some really good feedback from some of our largest brand partners.

And finally, given the situation in China, we're also looking at overseas expansion, try to divert this risk.

Operator

Our question from Vicki Wei with Citi.

Yi Jing Wei Citigroup Inc., Research Division - Associate

I have 2 small questions. So would you please update about the cooperation with Cainiao and focus on warehouse and logistics business? And second, would you please provide for example, the growth and traction of non-Tmall channels, is it fair to assume the demand from short video platforms and retail are more resilient than Tmall? Or are you seeing similar witness in spending across all channels?

Arthur Yu Baozun Inc. - CFO

Okay. I will maybe answer the first question, and then maybe Tracy can add some thoughts on the second one. So in last quarter, we completed our deal with Cainiao. And this quarter, we made good progress in terms of integrating the 2 teams and start working together.

In the last time, we introduced the strategy of one plus X, i.e., using Baozun's long-term capability in the sports and apparel category try to bring new categories into Baozun with Cainiao's help. So basically, we have made good progress.

From Cainiao's perspective, what Cainiao has provided to Baozun is its long list of potential kind of customers, which gave us a lot of opportunity to do business development. And secondly, Cainiao has a larger scale of economy. They have a countrywide network in terms of the warehousing and logistics network, which we utilized. And during the last 2 months, we were able to use that capability to reduce the impact to our customers by using Cainiao's national network.

And thirdly, China has a larger economy of scale, which can bring down the procurement costs, which we were able to tap into the procurement process of Cainiao on the material, on the warehouse equipment, which will down the line bring the savings to Baotong. So that's on the Cainiao part.

On Baozun part, we also can help this venture because Baozun's customers were actually moving into the end-to-end service, the omni-channel service, which logistics is a very important part of that. We can sell the full end-to-end solution, which brings the Baotong logistics into that play.

And secondly is our technology capability, which along with Cainiao's capability, we can make a stronger technology enabler for Baotong to sync our process and to improve our service quality.

So that's how we are making progress in Cainiao, and we expect we will have more progress in this year. Okay. I will pass on to Tracy for the second one.

Chunlu Li *Baozun Inc. - VP of BD*

Yes. Yes. And for the second question is regarding to the dynamic change on the marketplace. I think right now it's still very early to give a conclusion of this because actually the data is not that comprehensive in the other platform right now. But in the past 2 months, given our BI track result, we do see the new channel seems to have more resilience in terms of the demand. I think we saw many categories still growing week by week in the past 2 months. Even apparels were back. Those kind of categories, they are harmed by the pandemic. But it is only last 2 weeks. The category quickly catch up in the last week of April and surpass the size from May.

So I think the advantage of that is they are more lower-tier cities focus and much younger consumers. And on the other hand, I think majority of their players right now is more brands and even no brands. Their flexibility in terms of the manufacturing and logistics has keep them less impact by the lockdown.

But I think on the other hand, we should see the dynamic changes happening too. The compensation has become much worse and the advantage of first come, first win almost the past. So the real stuff I mean, the brand equity has become more and more important.

So we do see other platforms like including Pinduoduo and Kuaishou, they are quite aggressive to actually connecting the brands also. And we also have several important pilots that will happen in those 2 seasons. So I think to brand to mitigate the loss of the transition is important. But to find a portfolio with a level of certainty on ROI is important, too.

So that is exactly our understanding on the omnichannel strategy. So as Vincent mentioned before, I think our strategy is to enable the brand partner with our powerful capability in omnichannel to provide the seamless offer where the product and the service can capture the channel consumer prefer to use, no matter where it is. Yes.

Operator

Our next question is from Joyce Ju with Bank of America.

Lixin Ju *BofA Securities, Research Division - VP in Equity Research & Research Analyst*

I have 2 questions. The first question is this quarter is the first quarter the company started to have a separate disclosure of digital marketing and IT Solutions segments, providing more transparency in terms of the service revenue and also profit. Just trying to understand more about this business, how we internally look at it. Could you actually share more colors in terms of our strategic plan on this revenue lines and the business? And how we should expect this to grow in the future?

And my second question is, we all know the pandemic actually have a lot of impact on consumer demand. However, apart from the demand -- or from the brand perspective, in terms of like industry competition, how we actually see the competitive landscape of our business has changed due to the pandemic. Any like -- we are seeing more competition or price war? Or we are actually seeing a more stabilized or like small players kind of just squeeze out from the market? Could you share some color?

Arthur Yu *Baozun Inc. - CFO*

I will quickly answer the first one, and leaving Vincent to talk about the TP kind of the overall competition situation, yes? I think it's the first time we split the DM and IT revenue. But that's also a key focus of the strategy of this year. So basically, in the last few quarters, we have seen the growth momentum from the traditional business, i.e., the traditional store operations start to slow down. But however, from the customer and from our brand partners, what they are looking for is some value-added service can help them to sell more online, which we internally we have this capability from digital marketing to IT solutions to help the brand partners to achieve that result.

And also that expanded our service into an area where Baozun has a very unique proposition, i.e., our technology capability. The digital marketing is around data and technology is around Baozun's technology infrastructure and products. We have made a significant investment over the last few years.

And by focusing on those 2 categories, we were able to utilize our investment and try to generate more higher-margin business from our brand partners. So that's our thought, and that's how we organize our business, and that's how we are going to achieve our strategy.

Now I pass to Vincent for the second question.

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

Sure. Yes. I think during the lockdown, a lot of things have changed. And also it is just like an examination for all the players, no matter -- different brands and different service providers in the market. So I'm quite glad to see that even during this kind of pandemic and lockdown, our capability helped the brand partners to be very resilient to the change and to stabilize the business. So it is not easy.

I think 3 points are quite important. The first one is that during the lockdown, we can see that Baozun's technology and also logistics, multi-city warehousing planning, omnichannel capability, all this helped a lot of our brands to sustain their business. And some of the brands even can have growth during the lockdown. So it is because during the past several years, we continue to invest into logistics and also IT capability, digital marketing so we can help the brands not only in a common days, but also the pandemic period.

So today's achievement is all about we invest in all these capabilities before. So that is number one. That's why the biggest brands are supporting Baozun, empowered by the Baozun. And we are the most trusted partner to them.

The second one is that in the past 15 years, we kept learning from the best brands, learning of the retailing, the -- also the distribution, logistics, digital marketing, branding, all this kind of thing. And we generally cultivated this kind of knowledge into solutions. Just now we mentioned Shopdog, SHOPCAT, logistics, S-ANY, all these kinds of solutions are a good response to the brand, the best brands demand in the past 50 years.

And we also transformed all this kind of technology into to a set of solution which we can use to serve more and more brands in the future. So that's why we can see that the trend of the revenue from digital marketing, IT and also logistics are very healthy. So we benefit from this as well.

Thirdly, I think we have kind of, I would say, strategic planning just like several quarters ago -- we shared with you the long term and medium term planning readout. So by this way, we can prepare more resources during different kinds of market scenarios. For example, today we have adequate financial resources to support the company to do more M&A, to do more investments during this period.

Although the market is not good, but talking about M&A and also investment, it is actually a good period. So in this case -- and these 3 points are integral parts of our strategy to support the company to grow and to deliver better and better service, more valuable service to the industry.

Operator

Our next question comes Sophia Tan with Credit Suisse.

Sophia Tan

I have 2 questions on behalf of Ashley. My first question is about the outlook of second quarter and next half of this year. How should we think about the potential impact on both top line and bottom line, taking into consideration the pandemic's duration and corresponding containment measures?

My second question is about the cost organization. Can management share with us with what measures we have to take this year to cut cost and OpEx. How will this imply to both gross margin and operating margin?

Arthur Yu Baozun Inc. - CFO

Okay. Thank you for the question. I think there's a lot of uncertainty and there's a lot of potential scenarios could happen with the current lockdown. So currently, we are conservative in terms of the whole year financial in terms of the top line. But we do see our GMV will continue to have a double-digit growth given we have some really good brands, some real solid brands in the electronics and also in the FMCG sector.

But underlying, we are concerned in terms of the apparel and some quite -- some sectors which are impacted by the economy's slowdown. So therefore, from a revenue perspective, we think we will see a weaker revenue compared with the last outlook we have. But it's still too early to see how much impact that will be.

I think a good time for us to get back to the market will be after 618. Then -- we still cross our fingers to hope there will be a bounce back in the 618 just like what happened in 2020, the first wave of the COVID.

In terms of the cost control initiatives. In that actually, we made a lot of progress on that. So first of all, our initiatives in terms of cost control or cost optimization is not simply on cost cutting. What we have done is to do the process reengineering, at the same time to use our strong IT capability to use the system to drive automation. So that we have used in our headquarter in Shanghai and also our regional shared service center in Nantong and Hefei. So that significantly improve the operating efficiency.

At the same time, after we moved about 50% of our customer service people from Shanghai to Nantong, it also reduced our labor costs due to the location difference.

And secondly, we have done a review internally looking at our headcount. We have implemented a very strict headcount control mechanism. So the foundation of that is to look at the value creation of each row and each function. And also, we're looking at the profit contribution per FTE from our frontline business, trying to differentiate which results brings more profit to the company and trying to rationalize that.

And also, and also during that review, we have highlighted some low efficient brands we are currently operating. And our way to operate is to switch the low-profit brand and replace by some high-profit new business with actively BD.

And finally and very simply, is the overhead control. And that's a culture in terms of we try to implement. We want to spend every single penny and by doubly looking at both sides before we put that money on the table. So that culture has deeply implemented in every people in Baozun. And we hope with that culture and with our process reengineering and system automation capability, we will be able to very well control our costs in the very difficult time this year.

Operator

Our next question comes from Charlie Chen of China Renaissance.

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

I have 2 questions here. The first one is, we all know that China's economy is particularly challenging for this year. So is there any noticeable change among your brand partners in terms of their willingness to spend in marketing? And is there any changes in terms of like Chinese consumers' consumption downgrading instead of upgrading? So all those major changes. How do those changes -- how do those trends impact Baozun's decision-making process in terms of things like prioritization of your brand partners, pricing strategies with your brand partners? So that's my first question.

And my second question is regarding the brand partners, especially the international brands. It seems that they are actually losing market share in some particular categories such as apparel. So how do those international brands looking at China's future market going forward? Are they continuing to spend in China? Or how is their determine in Chinese market? And also as well, if that's the case, what's the progress of your onboarding Chinese local brand partners for this year?

Arthur Yu *Baozun Inc. - CFO*

Okay. Let me ask Tracy to answer the first one, and invite Vincent to answer the second one, if that's okay.

Chunlu Li *Baozun Inc. - VP of BD*

Yes. I think that in terms of the investment in China, especially on the marketing parties, I think right now it's still early to give a conclusion, say, either a similar or -- trends to minimize their or reduce their investment here. But I think there were 2 valid points I can share with you and as a team. And the first, I think, definitely given the uncertainty in the market, to use the marketing investments

largely is definitely the direction.

You can also see the trends from the recent policy -- or see the regulation published by the -- like the TopTalk from the Alibaba in last month, right? We've been proactive to cut down some channel, which lower ROI. So this is also indicated, say, for the brands part. They will definitely see the combination and the portfolio of their marketing investments between the media and content marketing and also the campaign together to see what is the right and the balancing ally for this.

And secondly, I think it will actually accelerate their progress in China. We call about the localized solutions, because actually given for most of our brands, we've been working right now. Their China business already takes a significant share of the total global business. So I think the pandemic has come down their in terms of the growth rate. But also to give their second thoughts on the strategy policy, say, how they will adjust their strategy in China in terms of the merging and also the market investments, especially on the local asset part. And also, I mean, decentralize the mix on the channel and the mix on the price level things to compete with the competitor in the market.

So I think that is the 2 points I would like to share. And for Baozun, our direction in the next 12 or 16 months, I think quality definitely comes first, no matter on the channel choice or the right partner choice. So we always treat our quality of the service as our first priority.

And I think in terms of our collaboration with brands, we will provide our best level of the service to work with the best level of the brand. And also, we will proactively to adjust our category mix between the apparel and also the consumer goods and also our channel mix between the traditional platform and the new rising platform.

And also, I think, as I mentioned, is in quality here, we were trying to actually maximum our revenue portion besides the commission part, but also the marketing and technology and the logistic part. I hope this solves most of your question from the #1.

Arthur Yu Baozun Inc. - CFO

Yes. I will just add 2 more points on the first one in terms of the selection. We select our brand partner based on the value creation we can have for the brand partner as well. So basically, we are not the cheapest in the marketplace, but we provide a premium service. Therefore, we hope we can charge a higher fee based on our premium service. So we have a standard in terms of -- from a commercial point of view, what's the margin we need to achieve in order to decide whether or not we bring a brand partner on board. So that's the first one.

The second one is, during this time, we particularly looking at the cash and especially the payment term and the inventory level. So there are instances that we have rejected a very good -- a very famous brand with a distribution business because of the not very good payment term. So in that way, we can protect our inventory risk and to improve our working capital efficiency. So that's 2 things I would like to add. Vincent, please.

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

Let me quickly cover the second question. Given this lockdown, I think a lot of experts in China today, they feel quite surprised, especially in Shanghai. But I think from the headquarter or strategic perspective of these brands, I think China market is still very important given the size. So it's too big to ignore. So at least I think this should be more than neutral from a brand perspective. So we are quite optimized for the international brands in China.

After this this strong lockdown, I think they will recover because we have a very, very rich brand assets other than the other brands. So for us -- because we are quite strong in this one, so I think this will benefit us.

The second one for the domestic brands. Just as what I said, in the past 50 years, we have already constructed a reliable breed of solutions, including digital marketing, IT, logistics. Recently, we also developed our RSC, which can provide trustworthy customer service and also operational services to different brands.

So this kind of solution right now is open to the market and also -- especially to the domestic brands, local brands. So we are seeing very solid progress in different functions, including digital marketing. We are serving more and more local brands. IT, in which we have very

big wins too. Logistics, we are serving some other very influential sportswear and also apparel brand in the local brands. And also even for RSC, we have some recent wins for the local brands.

So in this case, I think we are making good progress for local brands, and we think we are also optimistic for the international brands to recover. So no matter for clients or shareholders, I think the business is in good hands.

Operator

Thank you. I would now like to turn the call back over to Wendy Sun for closing remarks.

Wendy Sun Baozun Inc. - IR Director

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