

## **[China Lottery Industry Update] 03-22-18**

### **What does the battle between JD and Alibaba tell us about the trend in China's lottery industry?**

In the three years since the suspension of internet lottery, both Alibaba and JD have been continued to be active in other areas related to the lottery industry in different ways.

While both companies participated in lottery sales, according to industry source, in 2014, JD generated RMB400 to RMB500 million in lottery revenues (from approximately RMB4-5 billion in total lottery sales). Using industry average (10% commission, 80% margin), lottery generated profits of approximately RMB32 to RMB40 million, representing 9-11% of JD's 2014 profits of RMB360 million. This compares with Alibaba's estimated total lottery sales of RMB10 billion.

While JD has become active again in lottery in 2017, Alibaba has been working on different initiatives related to the industry since the suspension of online lottery in 2015. In March 2016, Alibaba announced it would acquire 60% stake of HK-listed lottery company, AGTech Holdings Limited, and subsequently agreeing AGTech will operate its Taobao and Alipay lottery businesses exclusively. This is followed by its announcement to collaborate with AGTech to incorporate lottery into over 10,000 Rural Taobao stores. Alipay is also working with Sports Lottery to create Smart Lottery Stores across five provinces covering 30,000 Sports Lottery Stores. Moreover, Alibaba and AGTech launched SF Lottery in conjunction with Sports Lottery, and have already begun selling in four provinces.

On the other hand, JD's activities in the lottery sector restarted, with its most recent collaboration between JD Logistics and Jiangxi Sport Lottery called the "Jing Cai Plan", which allows both parties to work together in areas of marketing, logistics, procurement, and public welfare. This is followed by several promotional activities with Welfare Lottery beginning April 2017 to promote and market lottery using JD's e-commerce resources. In December 2017, JD signed a strategic cooperation framework agreement with Zhongyue Technology Co., Ltd., a New OTC listed lottery company to allow both companies to work together to promote a multi-purpose lottery smart sales terminal system in JD convenience stores.

One can argue that Alibaba lottery went further and deeper than JD lottery in the lottery industry. The promising prospects within the industry, together with the enormous customer base, brought Alibaba huge success back in 2014. Once Alibaba owns the first mover advantage in more O2O markets, especially in new retail through the lottery business, it will be that much harder for JD to turn around the table and win the battle. Ostensibly, the predominance in the lottery business has fundamental influence in the two giants' future business.

The 2018 World Cup is around the corner yet the suspension of internet lottery has not been lifted. Although this policy has affected the income of companies within the industry, it is good news for giants like Alibaba and JD. The suspension policy has eliminated a large number of illegal and small companies who have no competitiveness but has given Alibaba and JD an opportunity to leverage data analytics, user traffic, etc. to cooperate with lottery centers. Foreseeably, the resources and profits in the lottery industry will be drawn to companies like Alibaba and JD and the appearances of small and medium size lottery companies will die down in the progress of online lottery.

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