

Social Commerce

A paradigmatic shift
in the retail landscape



Introduction

Social media is revolutionising the world of retail. With a global customer base of nearly 5 billion active and committed users, the social mediascape provides a gift-wrapped platform for brands to market and sell their products and to reach new demographics. Since the late 2000s, brands have used social media platforms to advertise their products; but this relationship has evolved in recent years as the worlds of ecommerce and social media have coalesced to give rise to social commerce, a \$585 billion industry forecast to grow to ~ \$6 trillion by 2028.

Social commerce is the method of selling products and services to consumers directly on social media platforms, which have become the key battleground for consumer attention among retailers. Its appeal lies in its ability to provide value to both stakeholders in the shopping process: retailers are provided with a digital sales and marketing platform for their business at limited cost, while consumers have a simple, convenient and interactive shopping experience. It has also provided extensive employment opportunities for entrepreneurially minded individuals such as brand ambassadors or 'influencers' who can harness the power of social media platforms to establish and monetize their own personal brands.

What the industry looks like

The social commerce industry can broadly be categorised into the following subgroups:

- **Shopping integrated into social media** – social media platforms market products with buy-now tags, advertisements or direct links to an ecommerce site to carry out the purchase. This method is widely used by multinational social media platforms such as TikTok, Facebook and Instagram and is popular in the Western world.
- **Social Group buying** – platforms which allow users to purchase products in bulk as a community in order to lower the price through volume. The group buying model provides customers with a gamified, social and enjoyable shopping experience which replicates the interpersonal nature of offline shopping, while allowing merchants to lower costs through bulk ordering. Social group buying platforms generally target low-income and price-sensitive consumers and are popular in emerging markets.

Some brands are not active on social media and rely entirely on influencers to market their products.

- **C2C trusted sales platforms** – platforms which allow users to communicate with and sell products to other users. C2C platforms supervise and moderate transactions and user interactions in order to create community trust. Perhaps the most successful and famous C2C trusted sales platform is eBay.

China – the pioneer

The Chinese social commerce market is the largest and most developed by a distance. Several notable factors have facilitated China's dominance of the global social commerce industry. Firstly, the raw numbers: China has 930 million social media users, 360 million more than India in second place, and the country's social commerce GMV in 2021 was \$363 billion, more than 10 times that of the US. China also has a growing middle class with disposable income and materialistic tendencies, and the market is largely controlled by two tech giants, Tencent and Alibaba, which own the majority of social media, ecommerce, digital content, and online payments capabilities in China. Tencent and Alibaba have been able to vertically integrate, innovate, and reach a scale that makes it difficult for others to compete.

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- **User curation** – platforms which create a personalised shopping experience based on the past shopping habits of the shopper or of other individuals in their community, which may include family, friends or anyone they choose to follow on the platform. Users are also able to create their own personalised brand.
- **Social reselling** – leverage the importance of peer influence within online communities. These platforms enable brands to enlist the services of resellers, popularly known as 'influencers', to market the product to their online followers.

Social commerce platforms in China cater to all demographics, although they principally target middle and low-income consumers in small cities and rural areas who are highly active on social media, but less familiar with traditional ecommerce. The most successful platforms follow the 'team-purchase model' – group buying platforms that allow buyers to unlock better prices by inviting their family and friends to buy products together. The model gamifies the shopping experience, lowers and mirrors the interpersonal nature of offline shopping. In addition, the retailer benefits from increased

¹ <https://www.grandviewresearch.com/press-release/global-social-commerce-market>

² <https://www.emarketer.com/content/us-social-commerce-following-chinas-footsteps>

customer goodwill and loyalty, while bulk orders lower delivery costs. The poster child for this model is Pinduoduo, a group-buying discount platform established in 2015, which sells low-cost household items, groceries and beauty products to price-sensitive and low-income households and had a \$49 billion market cap as of May 2022. Like many of its competitors, Pinduoduo has integrated the Tencent-owned WeChat instant messaging service into its platform, allowing its users to discuss and advise each other on their purchases.

The models that have had success in China are being replicated in countries such as India, Brazil, and Egypt

Pinduoduo is one of a number of platforms in China that have harnessed social commerce's potential to reach underserved consumers and given small brands and retailers a convenient and affordable way to create an online presence. The model has been tweaked by other platforms in order to reach poorer customers in more remote rural areas. For example, Songshu Pinpin is a group-buying platform which employs local representatives in rural neighbourhoods to take orders on behalf of members of their community, and distribute the products in their local neighbourhood. This model is gaining increasing popularity in China and has notably been replicated in markets with similar demographics, such as India.

A final social commerce trend in China worth visiting is the use of video streaming platforms, prominent examples of which include the Alibaba-owned Taobao Live. These platforms generally use celebrities or social media

influencers to market the products of their retailer-partners to their followers. The scale of China's population and social media penetration means that brands can cash in on the use of social media platforms in a way that most markets would struggle to conceive of. This point was articulated by the entrepreneur and author, Gary Vaynerchuk in 2020 – "When I say things to people like, 'An influencer sold \$60 million worth of this one product on one live stream,' an American businessperson's brain breaks...". Vaynerchuk's view is supported by data, with video streaming reportedly resulting in a 32% customer conversion rate vs 4% from traditional online display ads.

India – leading the chasing pack among emerging markets

The prevalence and success of social commerce in China has served as a blueprint for the developing world. In emerging markets, it represents a democratising force with the potential to improve the lives and livelihoods of large portions of society, particularly those in the informal economy, where most people make their living. The models that have had success in China are being replicated in countries such as India, Brazil, and Egypt, with platforms adapting their product offerings to suit the socioeconomic situation and consumer habits of their target markets. One of the most successful social commerce platforms in India is Meesho, a social reselling platform for groceries, apparel, and homeware. Meesho integrates community shopping onto its platform, allowing buyers to consult members of their online community on the quality of a product before purchasing it. This is a successful model in India because Indian consumers are accustomed to the interactive and interpersonal nature of offline retail, and have a broad mistrust of traditional ecommerce. Meesho also relies on user-generated content to market products, providing aspirational consumers with entrepreneurial opportunities and a platform to establish their own online

³ https://www.ey.com/en_in/ecommerce/how-social-commerce-is-helping-india-move-from-interaction-to-transaction

⁴ <https://medium.com/@mukulagarwal19/live-streaming-in-ecommerce-complete-information-bee8c9ffedc0>

⁵ <https://www.wordstream.com/blog/ws/2019/08/19/conversion-rate-benchmarks>

brand. Founded in 2015, Meesho has raised more than \$1 billion and is currently valued at \$4.9 billion.

The group-buying model pioneered by Pinduoduo has also been replicated with considerable success in India. Prominent examples include Dealshare, the \$1.7 billion-valued group-buying platform for basic goods which targets users in rural and non-metro urban areas. Dealshare also allows users to share and recommend products to their networks of family and friends, thereby increasing the product's reach and enabling consumers to accurately assess the quality of a product before purchasing it. Other platforms have achieved success in India by focusing on empowering and providing commercial opportunities for underserved sections of society. For example, Frontier Markets is a start-up that delivers basic goods to a network of female entrepreneurs throughout the country who, in turn, distribute these products among their local communities. The Chinese influence on Frontier Markets is self-evident, with the company's business model closely following those of Chinese social commerce platforms such as the aforementioned Songshu Pinpin.

Social commerce has met with greatest success in major developing economies with large, youthful and social-media savvy populations

Owing to the fast-rising levels of social media penetration and consumer habits among India's 1.4 billion population, social commerce's influence on the Indian retail industry looks set to grow

exponentially in the foreseeable future, with Research and Markets predicting the Indian social commerce industry to grow at 62% CAGR to reach \$144 billion by 2028.

Brazil– home of the unicorn Facily

Social commerce has met with greatest success in major developing economies with large, youthful and social-media savvy populations, such as Brazil, where 60% of the country's 213 million population is under the age of 29 and social media penetration stands at 74%. This is most clearly exemplified by the rapid growth and success of Facily, a group-buying discounter in the Pinduoduo mould. Established in 2018, Facily raised more than \$360 million in 2021 to reach a \$1 billion-valuation at the year end. Facily provides a gamified and interactive shopping experience which rewards group participation. The company's co-founder, Diego Dzodan, has stated in interviews that Facily's founders drew inspiration from the Chinese social commerce industry, and in particular from the interactive nature of Tencent's WeChat messaging platform. Facily's success has also been aided by the company making significant investments in logistics and delivery infrastructure, which enable the company to ensure timely product delivery and returns. The company's domestic competition includes the group buying grocery platform, Trela, while the use of resellers and entrepreneurs to market products is also widespread in the Brazilian social commerce industry.

The next frontier

The social commerce industry has so far been slow to develop in other emerging markets. While it is nascent and fast-growing in countries such as Pakistan, Bangladesh, and Egypt, all of which have large and youthful populations, these markets currently lack a number of the features that have served as the bedrock of the industry's growth in Brazil, India, and China.

⁶ <https://www.businesswire.com/news/home/20220506005321/en/India-Social-Commerce-Market-Intelligence-and-Future-Growth-Dynamics-Databook-2022-50-KPIs-by-End-Use-Sectors-Operational-KPIs-Retail-Product-Dynamics-and-Consumer-Demographics-2019-2028---ResearchAndMarkets.com>

⁷ <https://www.statista.com/statistics/244933/social-network-penetration-in-brazil/>



- China, India, and Brazil are more digitally advanced than the likes of Pakistan, Bangladesh, and Egypt, with significantly greater internet, smartphone and ecommerce penetration
- They are also catering to a much larger market – there are a combined total of 1.4 billion active social media users across China, India, and Brazil, compared with a combined 170 million in Pakistan, Bangladesh, and Egypt. Daily social media usage in these markets is also higher, and they have a greater culture of consumerism and celebrity which is closely tied to social media.
- China, India, and Brazil are broadly more developed economies, with greater transport and logistics infrastructure than the likes of Pakistan, Bangladesh, and Egypt.

The past 18 months has seen the emergence of a number of start-ups in Pakistan and Egypt looking to apply the existing social commerce models to their markets.

But the landscape is changing. Emerging markets are trending towards greater ecommerce and social media penetration at pace. With large populations and suitable demographic profiles, allied to increasing political support for tech innovation, Pakistan, Bangladesh, and Egypt are well-placed to capitalise on the social commerce opportunity. At present, the industry in these markets is mostly limited to large multinational ecommerce firms with social commerce functionality, such as TikTok and Instagram.

However, the past 18 months has seen the emergence of a number of start-ups in Pakistan and Egypt looking to apply the existing social commerce models to their markets. These include Bazaarghar, a video-based online marketplace established in Pakistan, which aims to recreate the familiar experience for its target market of shopping in a bazaar; and GoCrazy, Pakistan's first app-based social commerce platform that utilises community group-buying so customers can buy amazing products straight from manufacturers and producers. In Egypt, Brimore is a marketplace which uses secondary sellers (mostly female entrepreneurs and influencers) who double as sellers and word-of-mouth marketers.

Traditional ecommerce players such as Daraz and Amazon/Souq have struggled to build meaningful market share beyond the higher income parts of the population, with trust and accessibility being two of the factors that have held them back. We expect that as technology penetration increases in these markets, and the logistics and payments infrastructure expand, there will be significant opportunities for social commerce platforms to develop. Taking lessons learned from markets such as China, India, and Bangladesh and localising them to meet consumers needs will take time, but for those that succeed the rewards will be great.

appendices on the following page...



Appendices

Target markets data for social commerce piece 05.30.22

	Global	China	India	Brazil	Egypt	Pakistan	Uzbekistan	Bangladesh
Population	7.9 b	1.4b	1.4b	213m	106m	227m	34m	167m
GDP per capita	\$10.9k	\$9k	\$1.93k	\$6.8k	\$3.57k	\$1.19k	\$1.75k	\$2.5k
Internet penetration	63%	71%	47%	76%	57%	36.50%	55%	32%
Smartphone penetration	84%	64%	54%	55%	52%	51%	N/A	51%
Social media users	4.65b	930m	467m	159m	51m	71m	4.6m	49.5m
Social media penetration	59%	65%	55%	74%	49%	31.50%	13.60%	29.70%
ecommerce market GMV	\$13tn	\$2.5tn	\$99b	\$24b	\$5b	\$7.66b		\$2.3b
ecommerce (% of overall retail)	20%	24%	8%	3%	2.50%	1%	N/A	N/A
Social commerce market GMV	\$585b	\$363b	\$7b	\$2.2b	\$1.1b	N/A	N/A	N/A

Social commerce companies table 05.30.22

Company	Country	Year founded	Model	GMV	Capital raised	Notable investors	Valuation
Pinduodo	China	2015	Group-buying	\$2.38tn	>\$6bn	Tencent, Boyu Capital, Hillhouse Capital Group, Cathay Innovation	\$49bn
Tabao Live	China	2016	Live streaming, reselling	>\$60bn	N/A	Alibaba	N/A
Xiaohongshu	China	2013	Shop-and-share, referral	>\$1bn	\$917m	Tencent, GGV Capital, GSR Ventures	\$20bn
Meesho	India	2015	social reselling	\$5bn	>\$1bn	Y Combinator, Softbank, Fidelity, Meta	\$4.9bn
Dealshare	India	2018	Group buying	\$200m	\$625m	Tiger Global, Abu Dhabi investment Authority, DST Global	\$1.7bn
Facily	Brazil	2018	Group buying	N/A	>\$500m	Tiger Global, Quina Capital, DX Ventures	\$1bn
Trela	Brazil	2020	group buying	N/A	\$28m	Softbank, Y Combinator, Kazsek Ventures	N/A
Brimore	Egypt	2017	social reselling, female merchant networks	N/A	\$42m	IFC, Fawry, Endure Capital, Algebra Ventures	\$100-150m
Taager	Egypt	2019	Social reselling, online merchants	N/A	\$6.5m	4DX Ventures, Raed Ventures, Beco Capital	N/A
Super	Indonesia	2018	group buying, social reselling	N/A	>\$36m	Softbank, Y Combinator, DST Global, Amasia	N/A