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The rise of Social Commerce: A growth opportunity for brands

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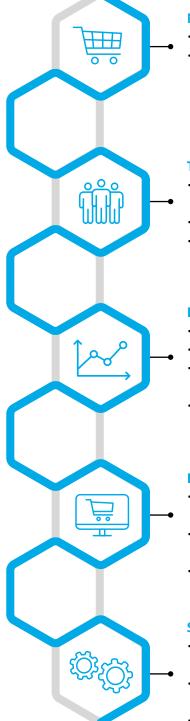
INTRODUCTION

Imagine: You are scrolling on your phone, and you see a post from your favorite influencer, wearing a t-shirt from an up-and-coming brand. You love the design and tap the photo to see the price and it takes just a couple of clicks to find yourself reading a product detail page on Instagram. A few seconds later you click the purchase link to approve the transaction with facial recognition inside the app. You've just made a socially driven, seamless and fast purchase.

In 2022, roughly 4.6 billion people (58% of the population) are active social media users, spending an average of 2:27 hours per day on these channels. Consumers, meanwhile, have more digital savviness than ever, passing an average of 6.58 hours on the internet a day, 3.43 of which are spent via mobile (Hootsuite, 2022). Furthermore, e-commerce has become mainstream and consumers are increasingly seeking instant gratification, presenting platforms with a significant opportunity to monetize time spent and social influence online in a digital ecosystem. Platforms expand and evolve their features in the race to be faster and more relevant in the consumers' own environment, enabling consumers to seamlessly connect, share, discover and purchase products. The growth of peer-to-peer platforms and influencers is another trigger for 'Social Commerce', along with some curiosity about the metaverse. Brands looking to meet shoppers in their own environments should determine how they want to use this emerging channel.

Social Commerce growth is driven by emerging changes in consumption patterns, particularly:

FIGURE 1: Social Commerce Drivers



New shopper journeys

- 64% of digital buyers discover brands and/or products via social media
- Platforms are evolving into one-stop-shops, reducing drop-offs in the commerce journey

Trend-influenced shoppers

- 1 in 3 consumers like to discover things categorized by what is trending in their social circle
- 43% of Gen Z are looking for trending topics on social media
- Trends grow on social platforms, impacting shopping preferences

Rise of influencers

- 67% of Social Media users would consider
- a brand/product if promoted by their favorite influencer
- 41% of the global shoppers (and 28% in Europe¹) wants to be able to purchase directly and easily from influencers
- Influencers diminish the distance to a brand and help validate consumer choices

Emerging new shopping formats

- 40% of the global shoppers (and 27% in Europe) want live streaming as a complement for an immersive shopping experience
- 60% of the global shoppers (and 50% in Europe) are interested in Augmented Reality driven shopping experiences
- New shopping formats enable interactive ways for product discovery and commerce

Shaping of the metaverse

- 69% of the global shoppers (and 53% in Europe) would appreciate a brand being present in the virtual world
- 41% of the global shoppers (and 50% in Europe) are interested in purchasing limitededition virtual products (e.g. NFTs)
- Virtual worlds interactively immerse consumers in the brand

 Notes: ¹Europe is average of UK, France and Germany
 Source: 1. Global Web Index 'Social' (2021); 2. Facebook IQ and GFK Survey (2020); 3. META Internal Market Research (2022), 4. Global Web Index 'The Age of Influence' (2020); 5. Deloitte Analysis

DEFINITION

Social Commerce sits at the center of the evolving convergence of features on a growing number of online retail and social interaction platforms. This is driven by social-first platforms launching commerce features (e.g. social media creating in-app product catalogues) and commerce-driven sites launching social shopping elements (e.g. marketplaces launching live streaming or group buying). The most common form of Social Commerce is commercedriven sites launching social shopping elements (e.g. marketplaces). At the same time, in some parts of the world - like in China, where brands more commonly use online retail platforms - social media is used to inspire and drive purchases, while e-commerce is seamlessly integrated into these experiences through popular formats such as group buying and live-streaming.

FIGURE 2: Social Commerce Definition



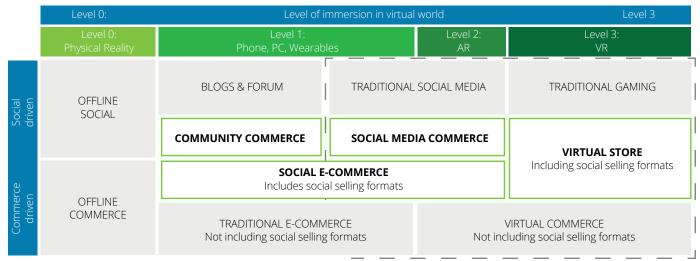
Source: Deloitte Analysis

Social Commerce can span across the entire shopper journey from driving awareness through to brand advocacy and loyalty. However, its potential for different industries will likely vary according to the level of social influence on purchasing within the category and the consideration time required in the buying process. So far beauty and apparel companies have been pioneering the space as consumers are often driven by trends and social cues commonly shared on social media platforms (e.g., #TikTok MadeMeBuyIt).

MARKET PLATFORMS

Social Commerce can happen across four platform types, which differ according to a platform's commerce/social nature and level of digital immersion: Social E-commerce, Social Media Commerce, Community Commerce, and Virtual Stores.

FIGURE 3: Social Commerce Platform Types



Source: Deloitte Analysis



Social e-Commerce:

Both Own.com and traditional e-Commerce platforms (marketplaces and retailer sites) that integrate social or interactive formats into the selling process. For example, <u>Amazon</u> launched Amazon Live to facilitate consumer interaction in the shopping journey through live streaming events.



Social Media Commerce:

Traditional Social Media platforms that integrate commerce formats into the selling process. For example, Instagram launched Instagram Shops and in-app check-outs to drive purchases. Fresh Beauty leveraged product tags to extend its Black Friday campaign to its Instagram product catalogue.



Community Commerce:

Interest-led platforms that enable product purchases within the community experience. For example, NFL Game Pass is a subscriptionbased platform for NFL enthusiasts to watch games and shows, additional interesting content and access to other parts of the NFL (e.g. Redzone and network), broader NFL community (incl. Fantasy Football).



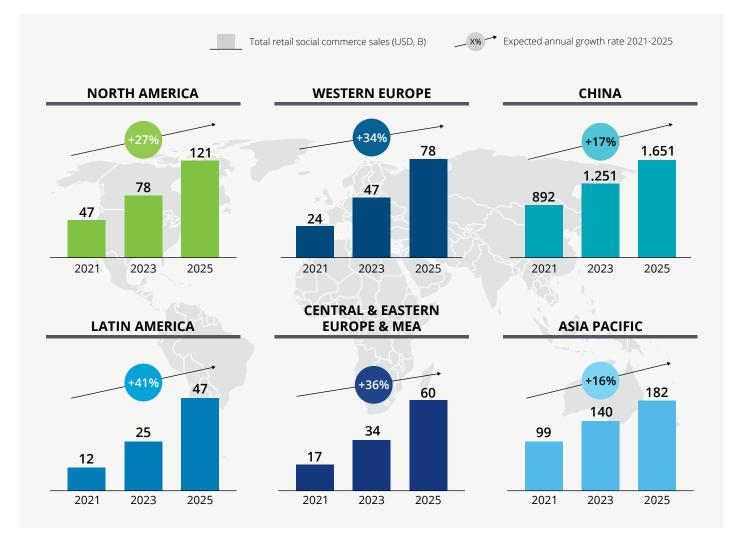
Virtual Store:

New virtual realities that enable the selling of digital and physical products. For example, Nike launched <u>'Nikeland'</u> on Roblox for users to play games and style their avatar with branded gear.

MARKET POTENTIAL

Social Commerce is estimated to reach approximately two trillion USD by 2025, growing by around 18% per anno between 2021 and 2025, the equivalent of roughly 28% (or 13% excluding China) of all online retail sales in 2025. With its well established live streaming and group buying on e-commerce platforms, China is expected to drive the lion's share, followed by Asia Pacific and North America, while Europe, Latin America, and Africa are growing substantially but from a relatively small base level.

FIGURE 4: Social Commerce Market Size



Notes: Market potential estimate excludes Community Commerce, since still nascent; for Social Media Commerce in-app and redirected purchases are included; Social e-Commerce includes livestreaming and group buying in China; Virtual Stores includes socially-led gaming platforms such as Roblox Source: Deloitte Analysis The rise of Social Commerce \mid A growth opportunity for brands

TYPES OF SOCIAL COMMERCE

Depending on their commercial aspirations and investments available, brands can tap into this opportunity in multiple ways. Having studied various brands, we have identified, a total of eight key Social Commerce features increasingly being implemented on both social media platforms and commerce sites:

Digital Store

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digital retail interfaces that enable consumers to explore and purchase a brand's products. Supporting features include product catalogues and in-app check-out. Clinique leverages Instagram check-out to allow users to shop items directly on the platform.

Conversational Commerce

conversational interfaces with the brand that enable consumers to find a product to purchase. Supporting features include direct messaging and voice support. The Lego Group launched the chatbot 'Ralph' on Messenger to help shoppers purchasing the right gift.

Livestream Commerce

live interfaces that enable brands and sellers to engage with consumers. Features include video-streaming, Q&A engagement, and direct check-out. Walmart launched its own Livestreaming platform to have influencers promote new products in an interactive setting.

Influencer Commerce

Influencers people that inspire consumers to purchase a brand's product. Features include creator check-out and storefronts. Haagen-Dazs, together with TAKUMI, partnered with influencers to create content on Instagram and TikTok to drive sales on Amazon Prime Now.

AR Commerce

Augmented Reality interfaces that enable consumers to explore and try-on items in a virtual setting. Features include AR filters. Puma partnered with Snapchat to launch AR lenses that allowed users to try-on branded sneakers and tracksuits with the possibility to purchase them.

Gaming Commerce

online gaming platforms that enable brands to create virtual worlds where consumers can interact and purchase products. Features include 3D showrooms. Forever21 launched Shop City on Roblox, where users can set up their stores and sell the brand's fashion products.

Group Buying

 an online retail model that requires consumers to come together to pool their purchases to receive a discount on a purchase. Pinduoduo in China offers discounts to consumers when they buy in groups.

Mini Programs

small brands' apps that operate within a larger app to enable shopping. WeChat mini-programs
can offer products catalogue to enable consumer to discover, learn about and purchase products.

THE OPPORTUNITY FOR BRANDS

Social Commerce is not a stand-alone sales channel but can serve multiple purposes by creating a powerful consumer engagement ecosystem, from driving brand engagement, funneling recruitment, to driving repeat purchase insights. Brands must determine why they want to use a critically assessing the key benefits they want to unlock:

FIGURE 6: Social Commerce Brand Opportunities:



by having new and existing shoppers spontaneously discover a brand's new and existing products as a means of recruitment or driving up purchase frequency

Improve shoppers' purchase journey

by seamlessly bridging social platforms with web commerce and physical stores or enabling 'in- app' transactions.

Strengthen brand awareness and credibility

by launching content that enhances the relevance or popularity of a brand, or by empowering users of the product/service to give opinions, thus increasing brand advocacy.

Target a specific audience in their shopping habitat

by reaching specific shopper generations, demographics or interest-led communities within their own social environments or through specific influencers.

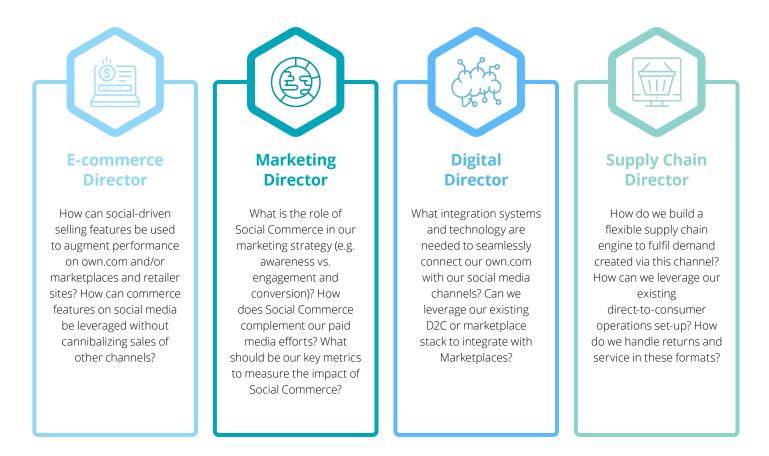
Enhance consumer / product insights

by collecting data, or opinions and feedback, companies can improve their products or experience and better target their proposition. Moreover, it can support product innovation by acting as a fake-launch mechanism to test product popularity prior to development.

"Social Commerce provides several opportunities to engage with consumers in the space where they spend time to get entertained, inspired and increasingly seek information. At the LEGO Group we see this as a chance to connect with our shoppers through more relevant, valuable, and engaging ways while also welcoming new audiences to the LEGO universe. That is why we are looking into enriching our consumer and shopper experiences with capabilities such as interactive shopping, conversational commerce, and product tagging across our owned channels."

Martin Wolf, Director e-Commerce Enablement, The LEGO Group

Exploring a channel will pose key questions for different stakeholders within an organization, as Social Commerce expands across different channels and necessitates a growing suite of e-commerce features to enable a seamless discovery and purchase.



FIVE STEPS FOR UNLOCKING SOCIAL COMMERCE POTENTIAL

Despite its potential, today only a few brands are mastering the Social Commerce opportunity. In part this is because it's still nascent in its development, but getting started typically requires the following:

Drive mission alignment

Social Commerce often spans both marketing and commerce teams (B2C and B2B) and locations, resulting in complex or unclear ownership for driving strategy and tests. It's key to align behind one or more Social Commerce missions and design for insight and best practice sharing across the organization

Accelerate digital capabilities

The right digital capabilities (e.g. tech integration with apps, livestreaming support, etc.) should be established to drive both a seamless and interactive Social Commerce experience and enable scale and viability internally.

Agree a shared definition

Confusion exists around Social Commerce's meaning and scope. Companies need to align on types of segments/ platforms included, such as point of purchase (in-app or also own.com), and shopping formats.

Establish clear channel role

Initiatives should be launched with clear channel objectives and assumptions to test. This drives interpretable pilot results that inform and refine the Social Commerce strategy.

Create continuity and scale

Local pilots need to be leveraged to test the potential in a specific region, but central coordination, best practice and global capability builds are required to drive scaling across a multi-national organization.

CONCLUSION

Social Commerce is creating exciting new ways to engage and convert consumers through inspiration, interaction, discovery and ease of purchase. It has shown rapid adoption in China, where Social Commerce has become a core part of online shopping, but the jury is still out with regards to its full potential in other regions. Brands need to decide whether they want to be a pioneer in the space or to monitor and potentially follow later.

The quickest way to gauge its impact for a brand is to run focused pilots. But before doing so, it's essential to nail down the specific reasons to play (addressing questions like "what do we want to achieve with Social Commerce - new abbreviation ?", "what pain points do we want to address with Social Commerce in the shoppers purchase journey?"). After this, any intended positioning and capabilities required can be tested with consumers and lead to an iterative learning journey.

Do you have any feedback on this article or wish to discuss exploring the Social Commerce opportunity fit with your brand, then do not hesitate to reach out for a conversation.

CONTACTS

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END NOTES

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- 3. META Internal Market Research (2022)
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- 4. Nikeland (2022): https://www.roblox.com/games/7462526249/NIKELAND-ZOOM-FREAK-4#!/about

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