

essence



# Social Commerce

Meeting customers where and how they shop



NOVEMBER  
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# Table of Contents

Introduction	3
Featured Insights	4
Social Commerce Opportunities	5
Social Shopper Insights	6
Category Preference	7
Spending Habits	9
Luxury	11
Payment Preferences	12
What Can Brands Do?	13
The Livestreaming Phenomenon	14
Conversational Commerce	16
Micro-Merchants & Small Businesses	17
Social Commerce in China	18
Next Steps	19

A man with a beard and a young girl are looking at a laptop screen together. The man is leaning over the girl, and they both appear to be engaged in a task. The background is a blurred indoor setting, possibly a home or office.

# Introduction

**More than half of the global population are active social media users. People everywhere are more and more connected and increasingly have the ability to make online commercial transactions worldwide. While social media platforms have always provided an environment for buyers and sellers to interact, a shift is taking place towards organized commerce on platforms.**

Social commerce means that discovery, browsing and purchasing can all take place on one platform without the need to interact with any external websites or applications.

This functionality tends to be newer platform-by-platform than the longstanding social marketing ecosystem, where brands use paid and organic posts on social sites and apps to drive traffic to their website. These ads typically showcase products or services alongside a call to action to direct people to their website.

When users have the ability to purchase items directly on platforms like Instagram, Pinterest and TikTok without changing apps or waiting for new windows or tabs to open, brands benefit from lower friction for purchases. This creates a more seamless experience with fewer clicks and higher potential revenue and conversion rates.

Read on to understand if your brand is equipped for the future of social commerce, and check out Essence's Ecommerce Activation Framework and [Free Assessment Tool](#) to measure your brand's ecommerce maturity level.

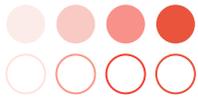
# Featured Insights



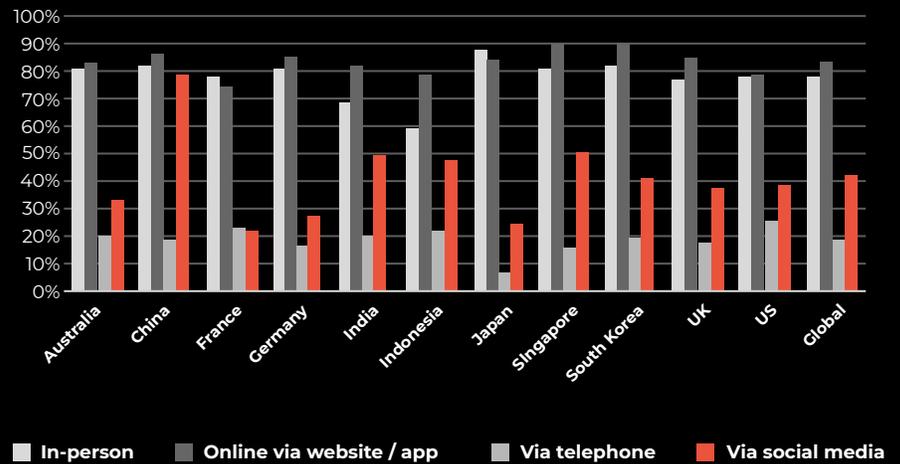
Essence recently conducted a survey of 2,200 individuals age 18-45 in 11 countries about their thoughts and opinions as consumers regarding social commerce. This survey took place in July 2021.

We specifically asked respondents about purchases made on or via social platforms in their respective markets - Facebook and Instagram were included everywhere outside China, where the examples were Pinduoduo, WeChat and Douyin. Examples in other markets included Line (Japan), Kakao (South Korea), Pinterest, and Tik Tok.

- 1) There has never been a better time for brands to leverage the social commerce opportunity. **Three out of four consumers want to purchase through social platforms.** As sellers expand distribution channels, respondents are increasingly interested in making purchases based on trusted recommendations.
- 2) In-person shopping still matters. Despite the pandemic, **77% of the consumers surveyed enjoy shopping in-person.** This indicates that social commerce will continue to exist alongside in-person shopping. Our view is that Asian markets, which have included social commerce in their mix longer than other regions, offer important indications of how social commerce will serve as part of the omnichannel experience elsewhere.
- 3) Customer experience is key for social commerce success. Brands and sellers must focus on providing a good customer experience through every phase, including delivery, shipping and addressing after-sales support. **More than 30% of the shoppers list delivery, shipping and after-sales support as their top barriers to social commerce.**
- 4) Shoppers are open to the idea of purchasing high-value products and services on social platforms because they do not view the process as significantly different from purchasing via app or website. Among survey respondents, **43% said they prefer digital payments in shopping transactions.**
- 5) While growth in luxury shopping on social platforms is primarily driven by Asian markets, consumers in Western markets including the U.S. and the U.K. are also considering luxury item purchases via social commerce. **The luxury shopping experience has spilled over to the social platforms through innovations & collaboration.**
- 6) Social innovations have propelled the growth of virtual shopping. Live shopping & conversational commerce experiences increase the propensity to buy on social media. **Four out of five respondents are likely to buy on social media if they have watched a livestream or participated in conversational commerce.**



Purchase Behavior by Geography - 2021



Source: Essence survey

# Social Commerce Opportunities

The social commerce market size, viewed at a larger scale, was valued at \$474.8 billion in 2020 and is projected to grow at a compound annual growth rate of [28.4% from 2021 to 2028](#).

Social commerce growth accelerated as a result of the pandemic due to global closures of retail stores and customers spending much more time at home. According to our survey, 41% of respondents worldwide made purchases or intend to make purchases involving social platforms. We expect this growth will accelerate and lead to increases in online spending.

Furthermore, we expect that the future of online shopping—and not just social commerce—will be discovery-driven.

Customers tend to be exposed to new and innovative products as they browse more on social media or encounter algorithmically mediated recommendations from friends and family on social platforms.

China, unsurprisingly, is the leader in social commerce, which is forecast to account for [13% of total e-commerce sales](#) in 2021. According to our survey, 79% of consumers in China purchased items on social media. Singapore, India and Indonesia followed with 50%, 49% and 48%, respectively. France, Germany and Japan showed the lowest purchasing intent via social platforms at 22%, 27% and 24%, respectively. Despite that low percentage, interest in social commerce is growing in Germany. Approximately 44% of Gen Z customers in Germany indicated that they purchased or intend to purchase using social platforms.



# Social Shopper Insights

## Motivations & Barriers

Today's online shoppers are open to discovering new brands, which they view as often providing authentic, innovative and sustainable products and services.

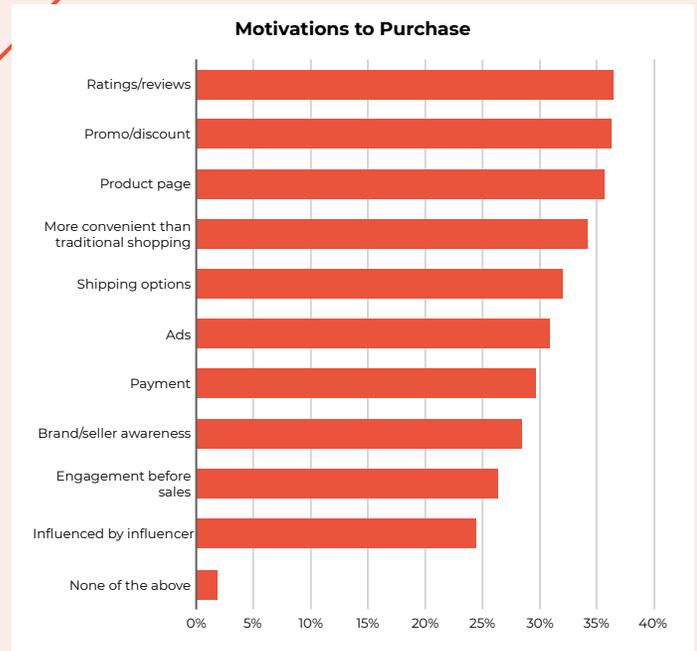
The top motivating factors influencing consumer decision-making in social commerce are: ratings & reviews (36%), promotions & discounts (36% of respondents enjoy promotions and attractive pricing, which many DTC firms offer) and product pages (35.5%).

However, the social commerce experience (just like any other shopping experience) needs to be seamless and complete. Across the purchase journey, other factors driving sales on social platforms include the convenience of social media, shipping options, ads, payment options, brand or seller awareness, engagement before sales and promotion by influencers.

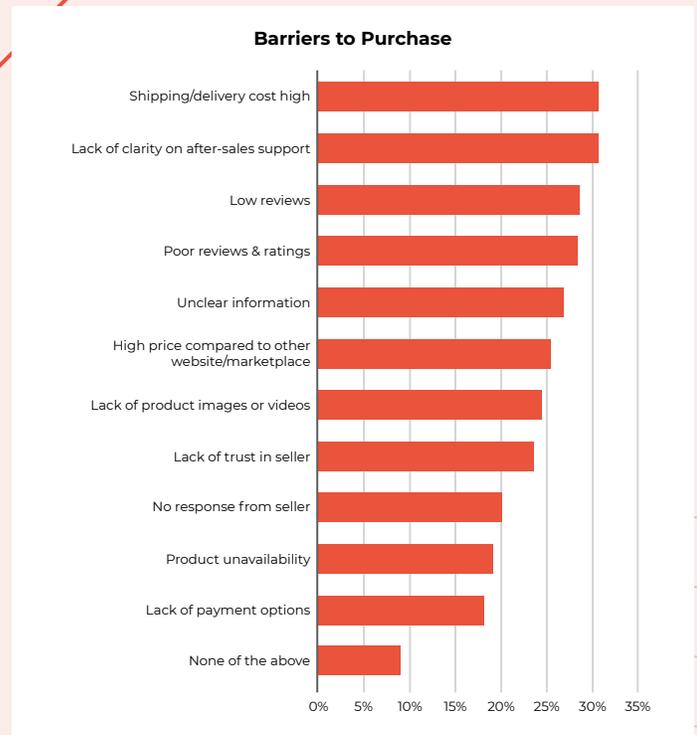
Merchants also need to be aware of barrier factors within social commerce. For instance, many shoppers are discouraged by the high shipping costs for products encountered via social commerce. Others may have expectations that may not be met by the actual product and may instead receive products that differ significantly from what they expect. Some also may have concerns about customer support. These factors all need to be addressed.

Most importantly, there is no place to hide on social media if the product or service provided is not authentic, safe and satisfactory. Merchants should consistently listen to and address bad reviews and ratings left by customers, for both in store and online purchases.

Source: Essence survey

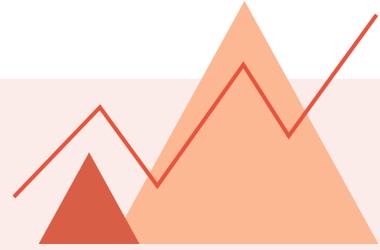


Source: Essence survey



# Category Preference

What did consumers purchase in the past 12 months or intend to purchase in the next 12 months via social media?



	Australia	China	France	Germany	India	Indonesia	Japan	Singapore	South Korea	U.K.	U.S.
<b>Auto or auto parts</b>	9%	14%	8%	6%	10%	14%	1%	7%	5%	8%	9%
<b>Beauty</b>	17%	50%	18%	11%	39%	32%	9%	22%	25%	20%	26%
<b>Grocery</b>	19%	64%	12%	8%	29%	28%	12%	27%	27%	17%	19%
<b>Food delivery /takeaway</b>	22%	61%	16%	11%	30%	33%	10%	31%	21%	19%	21%
<b>Apparel</b>	19%	64%	23%	22%	25%	49%	16%	28%	26%	23%	30%
<b>Home cleaning</b>	10%	38%	5%	7%	22%	8%	3%	13%	11%	14%	17%
<b>Hardware</b>	11%	43%	8%	10%	25%	16%	10%	15%	10%	7%	14%
<b>Home electronics</b>	16%	44%	11%	10%	25%	26%	11%	23%	13%	20%	21%
<b>Household items</b>	19%	54%	11%	9%	29%	26%	13%	28%	21%	18%	24%
<b>Furniture</b>	15%	20%	13%	10%	17%	6%	6%	10%	8%	12%	15%
<b>Luxury</b>	10%	21%	8%	5%	18%	3%	4%	11%	6%	12%	20%
<b>Others</b>	2%	0%	0%	1%	0%	2%	0%	1%	0%	1%	1%

Source: Essence survey

The pandemic forced many businesses to expedite ongoing digital transformation efforts. Retail stores were hugely affected by lockdown and shelter-in-place orders, which forced businesses to adapt to fully online experiences. Though initially challenging, the shift was an opportunity for companies to reach new customer bases and segments.

The apparel category saw the most purchases followed by food delivery, takeout and beauty. Brands in beauty and beyond were quick to leverage livestreaming on social platforms to engage and influence consumers. Purchase behavior, however, was observed to be different among different segments of the population.



## Top Three Purchase Categories by Demographic Cohort

### GenZ:

1. Apparel
2. Food delivery/takeaway
3. Beauty

### Millennials:

1. Household items
2. Furniture
3. Luxury

### Women:

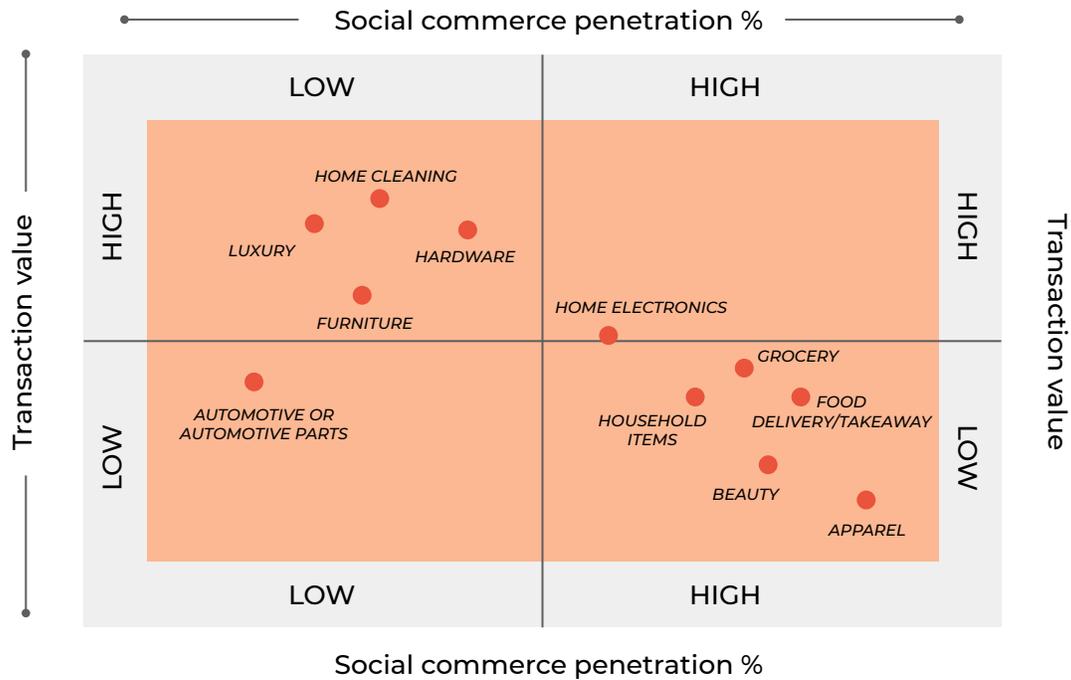
1. Apparel
2. Beauty
3. Food delivery/takeaway

### Men:

1. Grocery
2. Hardware
3. Home electronics

Source: Essence survey

## Purchase Category Penetration on Social Commerce



Source: Essence survey

# Spending Habits

## Category positioning on social commerce

In most countries, the average transaction value on social commerce is higher than the novelty of the method might have suggested. Respondents in Japan recorded the highest average transaction value, at ¥11001-55000 yen (\$96.74-\$483.67) for social commerce, followed by the U.S., which had an average transaction value between \$101 and \$200. China, by contrast, had a lower average transaction value between ¥201-500 yuan (\$31.48-\$78.30).

The higher-value transactions are driven primarily by men (35%) and by millennials in the 25-44 age segment (72%).

Both the male and the 25-44 age segments are skewed toward the purchase of higher-value categories such as hardware, home cleaning, luxury and furniture. As shown in the chart above, these categories are cash cows with relatively lower penetration but higher shopping cart value.

However we see the Gen Z (39%) and female (32%) audiences engaging and shopping in lower-value categories, such as beauty and apparel. These categories are popular on social media due to the high number of sellers, high-touch engagement and more innovative formats adopted by sellers.

Products in the beauty, apparel, food delivery and grocery categories have managed to penetrate the social commerce market largely due to promotion and discount strategies. The initial lower pricing offered by sellers minimizes risk for buyers and attracts consumers to try new products and services. While it's a successful approach for reaching as many customers as possible, retailers may face challenges in retaining these price-conscious customers.

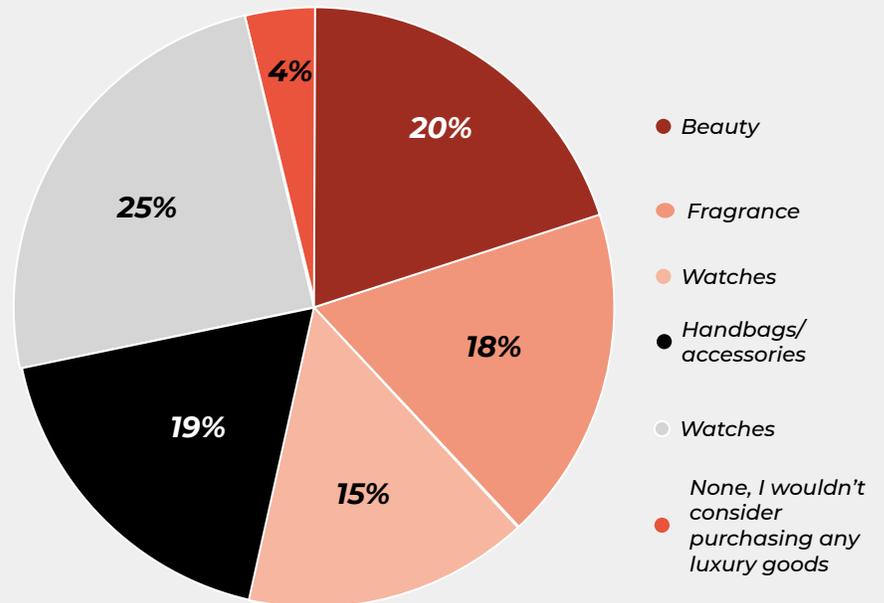
On the opposite quadrant (see the chart on the previous page), categories such as luxury, home cleaning, hardware and furniture skew toward high transaction values. As a result, brands and sellers are exploring new pricing strategies in categories such as furniture often setting a high initial price point which will largely stay put for a period until a major retail holiday such as Black Friday or Singles Day, when the manufacturer will provide discounts on that sofa.

Singles Day, traditionally falling on 11/11 in an unofficial holiday and shopping occasion inspired by China's Alibaba, although it has since expanded to other platforms. This year, the celebrations have been more muted as China's ruling party has called for companies like Alibaba to embrace the ideal of "common prosperity."





## Which of the following types of luxury goods would you consider purchasing from social media?



Source: Essence survey

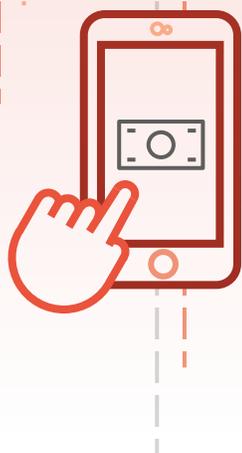
## Luxury

Luxury shopping is frequently intertwined with social and conversational experiences. Pre-pandemic, there was always a strong preference to steer customers toward physical stores to evaluate items and close the transaction. While the rise of both e-commerce and social platforms meant that luxury brands could embark on more sophisticated and intricate customer journeys for global consumers, this trend has been accelerated by the pandemic as consumers largely migrated online full-time.

Livestreaming has emerged as a major factor in luxury social ecommerce. While the use of livestreaming in e-commerce was primarily centered in the Asian market, it is now commonplace worldwide. Luxury brands including Hermès, Louis Vuitton and Burberry all launched their Fall or Winter 2021 shows by livestreaming worldwide.

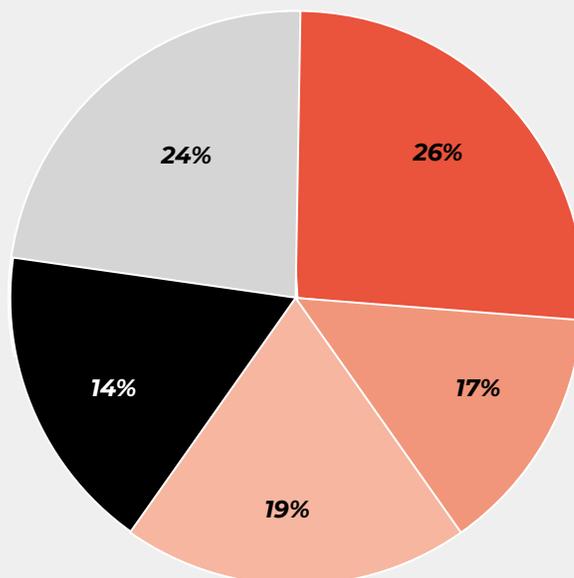
Across all luxury sales channels, there is a focus on owned and operated channels, which give luxury brands more control over the customer experience. Livestreaming fits into that experiential imperative.

There is also demand for luxury items on social media that has fueled growth in regional markets, including China, Indonesia and South Korea. Brands like L'Oréal are driving growth in the luxury beauty segment, partly because social media enables the brand to interact with consumers, influencers, beauty advisers and salespeople on the same platform. According to the [L'Oréal Annual Report 2020](#), Lancôme connected with more than 2,300 beauty advisors on its app within just 11 days. Such innovations and collaborations are driving sales of luxury items both online and offline.



## Which of the following payment options do you prefer while purchasing using social media?

- Credit/debit card
- Bank transfer
- Digital wallet (WeChat Pay, Grab Pay)
- Cash on delivery (COD)
- Mobile payment (Google Pay, Apple Pay, Alipay, PayPal)



Source: Essence survey

# Payment Preferences

Cashless payments are on the rise as digital wallets and mobile payment apps grow in popularity. About 43% of social media shoppers use either digital wallets or mobile payment applications. This trend is more prominent in Asian markets. For instance, 43% of Chinese respondents prefer mobile payments—and 22% prefer digital payments—to either credit card or cash on delivery. Similarly, 20% of those surveyed in India and 27% in Indonesia prefer paying via a digital wallet. In Australia, France, Japan, South Korea, the U.K. and the U.S., more than one-third of transactions are through credit or debit cards. Germany is an outlier with respondents preferring to conduct transactions via bank transfer 30% of the time.

Infrastructure improvements are also spurring the adoption of digital payments by consumers. Payment methods including Alipay, Apple Pay, Paytm, PayPal and others made online transactions easier and more seamless. As more users conduct mobile transactions, these online payment methods simplify the shopping experience even further. Some mobile payment methods also reduce the chance of fraud for retailers because buyers are vetted before they can use e-wallets or third-party gateways like PayPal.



# What Can Brands Do?

Social platforms have intensified competition among direct-to-consumer (DTC) brands, with DTC brands investing large amounts of money in organic and paid social marketing. Paradoxically, the saturation of DTC brands on social channels makes it harder for brands to capture consumer minds and wallets. In addition, social platform targeting capabilities make it easier to reach would-be customers. As a result, many are choosing to focus on lower-funnel conversion sales for short-term hypergrowth.

**But social commerce doesn't need to be limited to lower-funnel activity.** Many opportunities exist for sustainable growth by raising brand awareness on a more consistent basis for new consumers.

According to Kantar BrandZ's global ranking report, the world's most valuable brands have increased their overall value by 5.9% despite the global pandemic in 2020. Growth was not limited to the tech players; retailers such as Walmart (+24%) and Lululemon (+40%) also reported growth.

**The mantra on social commerce remains similar to traditional e-commerce—be available, be visible and be profitable.** All underpinned by creativity. Platforms like WeChat and Snap have created engaging formats to replicate the in-person experience virtually in a mobile-first world in most economies.



Two of the most common tactics large brands and small businesses are increasingly experimenting with are **livestreaming** and **conversational commerce**.

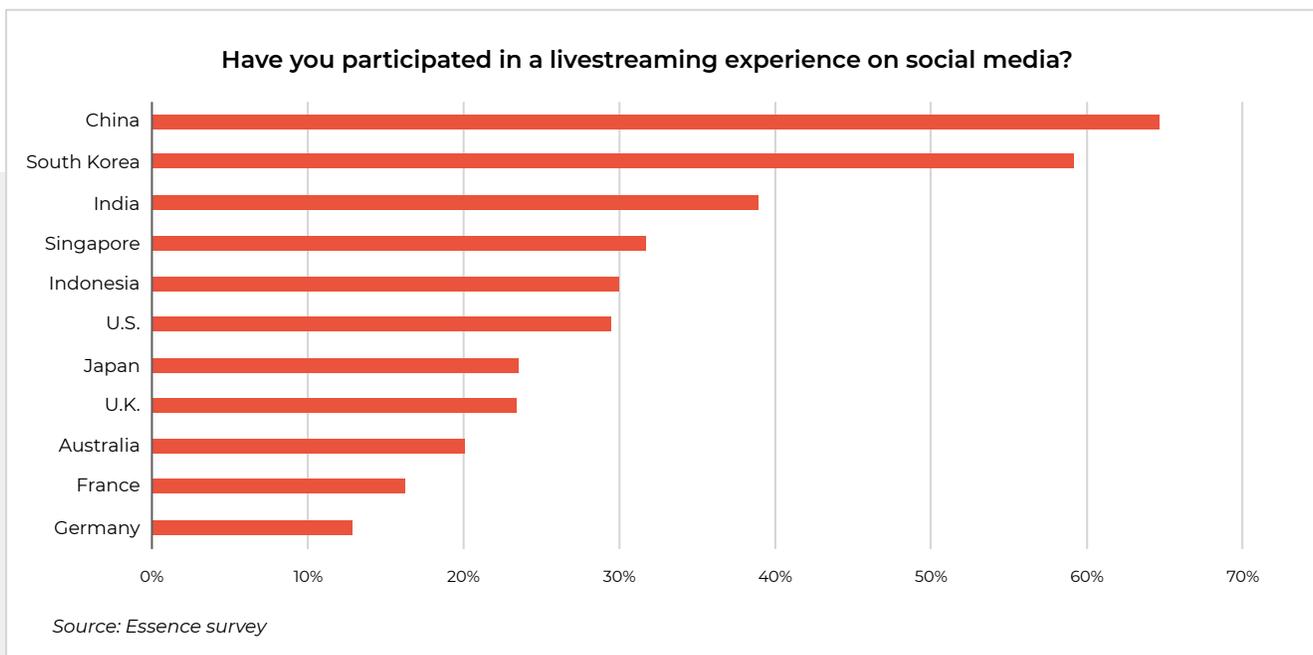
# The Livestreaming Phenomenon

Shopping livestreams are primarily associated with the Chinese market but are rapidly gaining popularity across different regions of the world. More than one-third of respondents across all markets have already viewed shopping livestreams. These livestreams are roughly similar to television shopping experiences such as HSN and QVC in the U.S., where hosts showcase items and give the opportunity to purchase those items online. However, livestreams are far more interactive and frequently include answers to viewer questions and real-time polling.

As this new norm sets in, people expect to see similar experiences in the virtual world as technologies advance.

Brands can recreate the physical experience through these engaging formats on social media. For example, YouTube is experimenting with [holiday shopping livestreams](#) with partners including Samsung, Walmart and Verizon.

Our research indicates that most consumers enjoy the livestream shopping experience: 43% of the respondents in our survey enjoyed it, and 39% of the respondents highly enjoyed it. These stats held up not just in China, but also in other markets where social commerce is still in its infancy. Globally, 85% of the respondents who watched shopping livestreams report that they are more likely to purchase via social media.



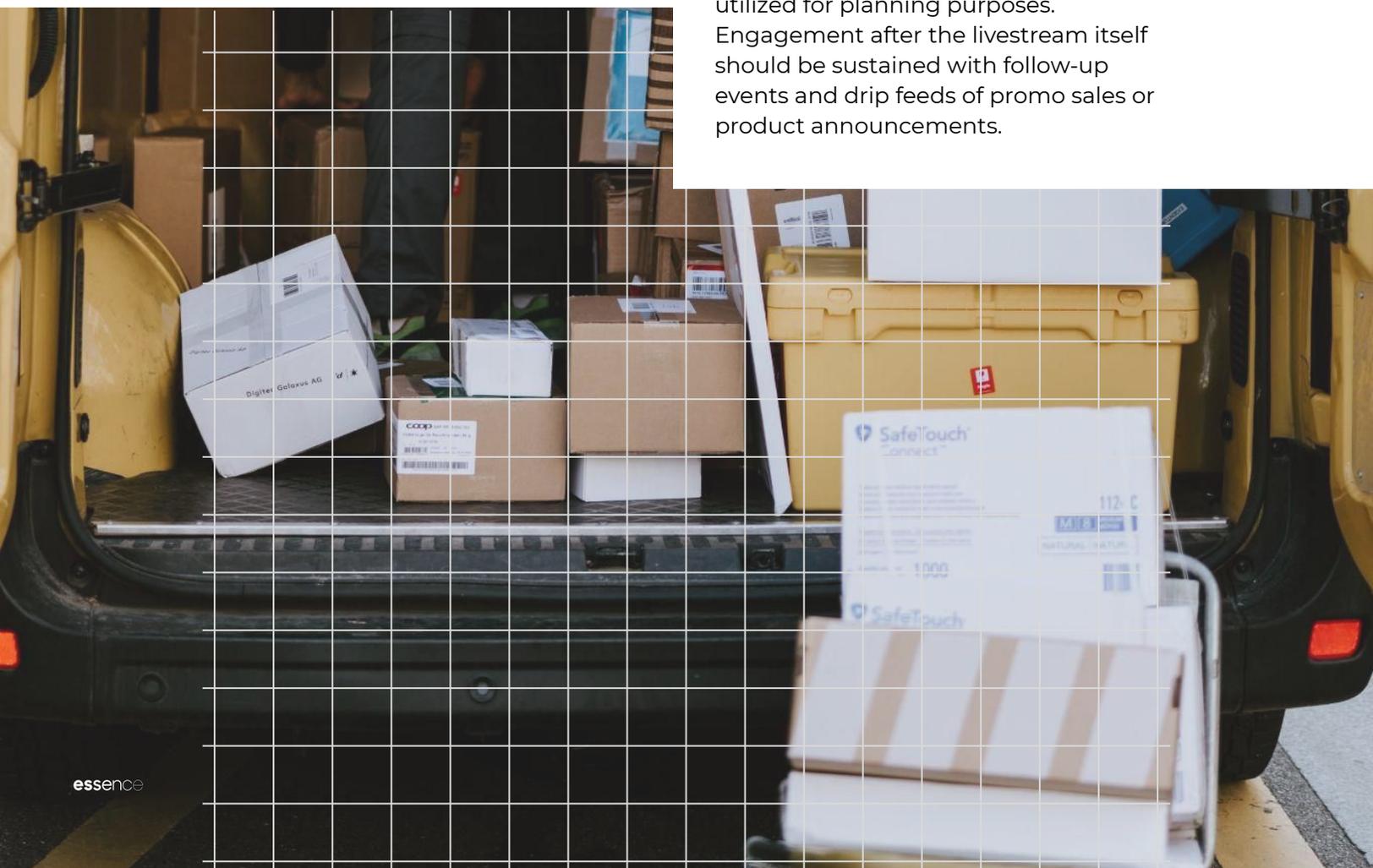


There are several ways brands are enhancing their livestreaming experience. One common way is by investing in production quality. Instead of creating more casual livestreams relying on a single camera on an impromptu set, brands often invest in custom-built sets, multiple cameras, DJs providing musical accompaniment and more. This is tied to investment in talent, with hosts who have extensive hosting experience and, in some cases, their own audiences to bring to the programming.

Livestream producers also boost sales and engagement through interactivity. In contrast to traditional television shopping formats, shopping livestreams allow for constant customer engagement through real-time commenting, chat rooms, polls and giveaways. By enhancing interactive opportunities for viewers, producers can increase both viewing time and sales.

Outside of hosting and production, brands have several ways of using partnerships or external marketing efforts to boost livestream success. For instance, livestreams can be used to highlight product launches alongside or in place of live events, and special promotional codes can be created for limited-time offers tied to the livestream itself. Brands can also enter into partnerships with influencers with existing audiences who can boost viewership numbers through cross-promotional opportunities.

Finally, brands need to place livestreams in the context of larger campaigns—driving awareness ahead of time, and promoting engagement after—to fully utilize them. Viewers watching livestreams should be encouraged to visit landing pages where they can sign up for mailing lists, and analytics for livestreams should be utilized for planning purposes. Engagement after the livestream itself should be sustained with follow-up events and drip feeds of promo sales or product announcements.



# Conversational Commerce

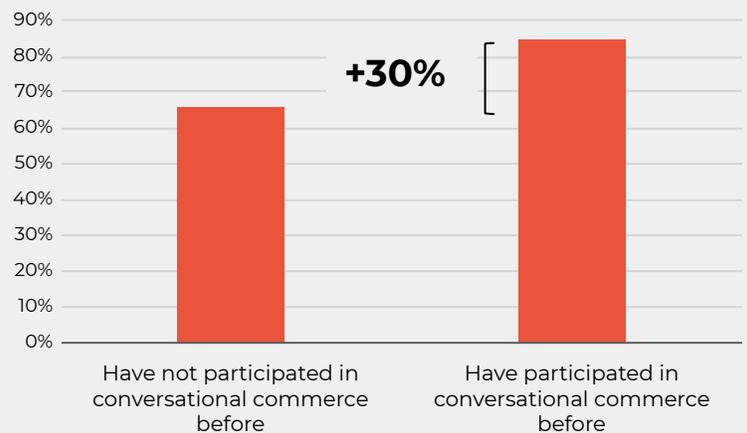
Conversational commerce refers to brands, or sellers leveraging messaging apps and services to communicate with their customers in a personal and direct environment. The opportunity here is clear, with over two billion people worldwide using messaging apps regularly.

While still in its early stages, conversational commerce lets users order products or services or learn more about them directly in chat environments. Customers can engage brands at any stage of the purchase journey for more information. To maximize benefits from conversational commerce, brands should identify pain points and expectations at each stage for targeted conversational commerce experiences.

Conversational commerce offers brands multiple opportunities for growth. For instance, brands can reduce their churn rate by using conversational AI tools to interact with customers inside messaging apps. These tools can steer users toward additional purchases or renewing subscriptions, and they are easy to set up and use. They can also be used in tandem with software tools that generate custom rewards and vouchers for hesitant or otherwise hard-to-engage users.

Speed is one of the biggest benefits of conversational commerce leading to faster customer conversion. Brands can answer questions for customers and address issues raised in product reviews. These experiences lead to higher customer satisfaction and conversion rates.

How likely are you to purchase from social media in the future?



Source: Essence survey

Many brands are already aware of the importance of messaging platforms for customer support, but it may not always be as simple as using the same vendors, some of which offer services for interacting with customers on chat platforms like WeChat and Facebook Messenger. The blurring of the lines between sales, marketing and customer service may require brands to break down internal silos and bring together every element of the customer journey. The good news is that a holistic approach to conversational commerce can lead to better and more cost-effective interactions for both brands and customers when compared to email or telephone interactions.

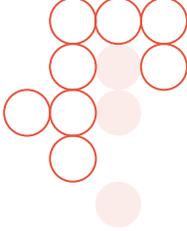
# Micro-Merchants and Small Businesses

Micro-merchants and small businesses have utilized social media for selling goods and services for a long time. Small businesses use platforms like Whatsapp, Line and Messenger to sell directly to consumers. In many cases, business proprietors were already using these platforms in their personal lives and adopted the same functionality for their businesses. At the same time, these platforms are actively making UI and UX improvements specifically targeted at small businesses. As a result, many small businesses primarily use these platforms rather than utilizing their own websites or external e-commerce apps.

Companies like Facebook don't currently break out revenues from social commerce in their reporting, but an advertising flywheel surely provides adequate incentive for the rollout of new features and commerce capabilities. GroupM analysis suggests that roughly three quarters of Facebook's ad revenue comes from small to medium-sized businesses, including retailers and dropshippers.

Transactions on these platforms typically rely on digital payments, whether in-platform or via external payment apps. Apple Pay, Alipay, Cash App and many other payment systems are commonly utilized by these businesses, which often appreciate ease of use over all other factors.

Both small businesses and micro-merchants benefit from the ease of selling on social platforms. In many cases, sellers only need photos of their product, a social media account and a bank account linked to a payment app to begin selling online. The barriers to entry for selling products and services on social platforms are typically much lower than on specifically commerce-oriented platforms, such as Shopify or Squarespace, which often require a cost or lengthy process to get set up.

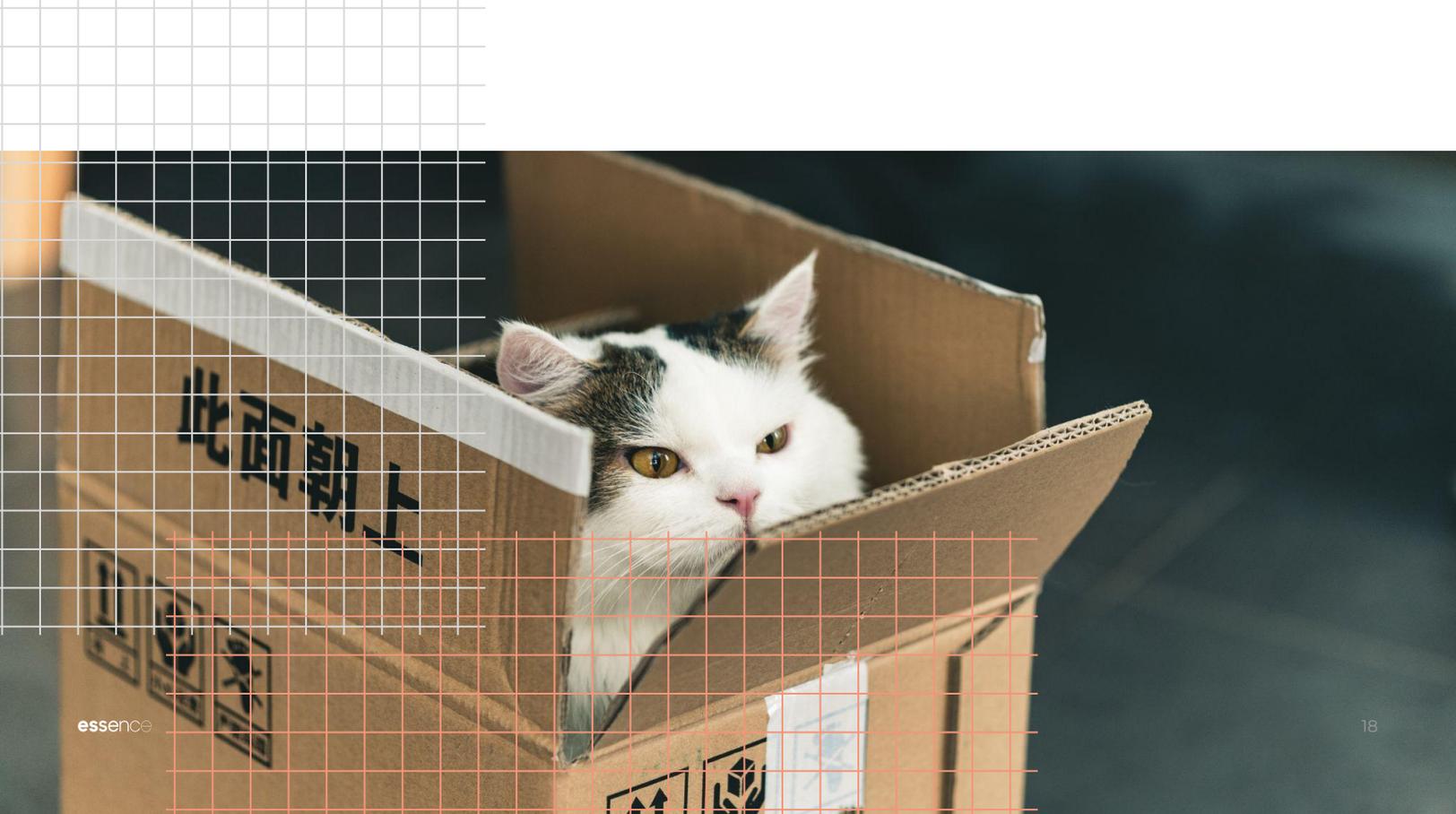


# Social Commerce in China

As in many other parts of the world, the aftereffects of COVID-19 encouraged social commerce adoption in the Chinese market. Services such as RED, Douyin/TikTok and Kuaishou all successfully utilized user-generated content to drive social commerce on their platforms. The pace and scale of growth on these platforms has been remarkable. Alibaba and Bytedance (the owner of Douyin and TikTok) ranked third and fourth, behind only Google and Facebook, among 2020's largest global media owners, according to GroupM. Both recorded revenue of \$28 billion dollars in 2020, versus \$9.5 billion for Alibaba in 2016 and just \$800 million for Bytedance.

Sales made via social commerce in China are expected to reach [\\$363 billion in 2021](#). On Singles' Day 2020 alone, approximately 709 million viewers in China [watched more than 65,000](#) different shopping livestreams. This is a massive shift in shopping habits that proves customers are as happy discovering products and shopping on social platforms as they are on conventional retail websites and apps.

The China market also benefits from several structural factors driving adoption of social commerce. Most importantly, regional internet giants Alibaba and Tencent have aggressively pursued mobile payment, product discovery functionality and social media integration into their products for years. Consumers in China are also more comfortable with social media-based product discovery than those in other regions.



# Next Steps

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Demand for social commerce is real: Three out of four people we surveyed mentioned they are likely or highly likely to buy through social media in the future. Even in markets with relatively low social commerce penetration, we have found high consumer intent. Online shopping is a regular part of the retail experience, and businesses worldwide have transformed quickly to provide access to authentic goods and services.

Platform services worldwide have also evolved to make the buying and selling experience seamless and convenient. Third-party businesses are constantly launching innovations that solve the challenges of online shopping and create optimal experiences for both consumers and retailers.

As brands and micro-merchants expand in the social commerce universe, consumers have made clear that they want seamless purchasing opportunities across platforms. As a result, businesses need to interact with consumers along the nonlinear purchase journey, empower them to access and purchase their products and strategize for multichannel presence. E-commerce is maturing as a field, with social media giving brands and retailers new ways to reach audiences and new growth opportunities. In this environment, social commerce serves as a key future-proofing method for the next five years and beyond.

To understand if your brand is equipped for the future of e-commerce and social commerce, check out Essence's E-commerce Activation Framework and [Free Assessment Tool](#).

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you.*

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