

MKTG 8604

New Frontiers in Retailing: Magic and Logic

Selling Through Social Media: Opportunities and Challenges

Rukky Ezi-Ashi

Alex Gallagher

Mitali Gupta

Tala Iskandarani

Xiaotian Sun

April 2023

Columbia Business School

Advised by: Prof. Oliver Chen and Prof. Kinshuk Jerath¹

¹ We would like to thank Steve Sadove for insightful discussions.

Executive Summary

This paper highlights the increasing importance of social media selling/commerce in an ever-changing retail world, how we see this as being the greatest growth channel for retailers shortly, why the adoption of social commerce has varied across the globe, specifically in China vs the US, and how the AI and tech revolution will continue to affect this space.

Thesis 1: Social media selling is poised to become the primary selling channel on the internet, presenting the largest growth opportunity for retailers to connect with consumers, expand their customer base and drive sales.

We expect to see social commerce as a retail channel grow 3 times faster than traditional retail, reaching 1.2 trillion in 2025. We expect this trend to largely be driven by millennials and Gen-Z who comprise about 65% of the market and whose comfortability with online interaction was only further fueled by the COVID-19 pandemic.

Thesis 2: China will retain its lead in social commerce over the US because of cultural factors, live selling, and technological advantages.

China, a country with around 71% of consumers indicating they are likely to shop on social media platforms, has seen incredible success and mass adoption of social commerce in large part due to the ubiquitous nature of a few key digital apps like Alibaba and Tencent, which currently dominate the e-commerce, social media, and e-wallet/digital payment markets. While the US has a large population of younger consumers who should be drawn to the personalized and authentic shopping experiences offered by social commerce, the presence of multiple apps all clamoring for attention, along with some key social and cultural differences, has led to a much slower adoption in the US vs China.

Thesis 3: The future of social commerce will be accelerated through AI and personalization, but brands will have to work harder to retain control over their DTC channel.

If done correctly, using new technologies like AI and enhanced chatbots, retailers of all sizes have an opportunity to substantially lower their CAC and increase conversion rates, while providing consumers with a better, more personalized, and authentic shopping experience. While technologies like AI-powered algorithms, predictive analytics, AI-powered chatbots, and enhanced fraud detection algorithms will provide a wide range of enhancements and money-saving opportunities, they will also present a new host of challenges for retailers in terms of data rights as they balance the costs and benefits of driving consumers to their own DTC channels vs larger social selling platforms.

Introduction and Problem Statement

Introduction: We see the future of retail moving towards an increasingly digital focus, with social commerce taking a lion's share of the addressable market over the next 5 to 10 years. In this paper, we will discuss 3 theses as they relate to social commerce and dive deep into supporting evidence for how we see these trends shaping the coming social selling revolution.

We define social commerce as the use of social media platforms for buying and selling products or services. It involves retailers integrating e-commerce functionalities into social media channels, such as Facebook, Instagram, or TikTok, allowing users to make purchases without leaving the platform. Social commerce takes advantage of the social nature of these platforms to create a more engaging and customer-centric approach to retail shopping through a personalized shopping experience for customers.

We will first explore the current social selling landscape and provide some context as to its global potential, **outlining why we think social commerce is poised to be the top growth industry for retail.** We will then discuss the success of social selling in China, and use that as a lens to examine how other markets, specifically the US, could utilize social commerce and highlight some of the key differences between the two markets.

We will then conclude by discussing the current digital revolution and how AI will play a part in shaping this potentially \$1.2 trillion market space.

Problem statement: In an ever-changing retail landscape, with both a globalization of trends and a digital revolution going on, retailers of all sizes need to figure out how to harness the powers of all their selling channels to reach consumers, with the largest growth area being in social selling and e-commerce. This underutilized and underdeveloped channel is seeing great success in markets like China, and we expect it to continue to evolve and grow as new digital AI tools enhance the selling experience globally, reaching consumers in increasingly more personalized, authentic, and engaging ways.

The evolution of social commerce by country

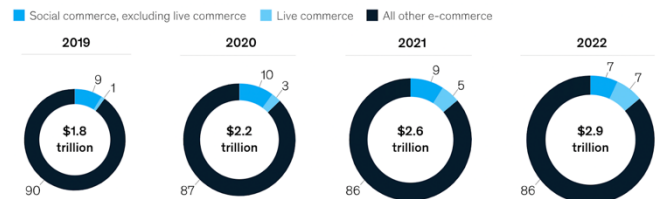
Type	Example	China	India	Brazil	US	UK	Adoption Factors
Content-driven	Shoppable Posts	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	<ul style="list-style-type: none"> Recommendations from influencers and peers Scrolling habits Brand / seller reputation & verification Scrolling habits Existence of 'super-apps' Prevalence of messenger apps Bargain hunting mindset Shopping as entertainment Access to smart phone technology Applicability to popular categories
	In-app store / catalogue	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	
	Mini-Programs	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	
Experience-driven	Gamification	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	<ul style="list-style-type: none"> Influencer recommendations Product demos Shopping as entertainment Bargain hunting mindset Access to traditional (e)commerce Low income consumers Unemployment & entrepreneurship Access to traditional (e)commerce
	AR Shopping	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	
	Livestreaming	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	
Network-driven	Group-Buying	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	<ul style="list-style-type: none"> Bargain hunting mindset Peer recommendation importance Access to traditional (e)commerce Availability of quality of goods Importance of sustainability
	Social Shopkeepers	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	
	Referrals	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	
Second-hand marketplaces	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●		

Source: Accenture Research Social Commerce Survey
Note: Potential adoption rate determined based on a combination of consumer preferences and case studies.
Copyright © 2022 Accenture. All rights reserved.

Exhibit 2

Social commerce is growing in China, driven by the rapid acceleration of live commerce.

Growth of China's retail e-commerce by type, 1%



*Data for 2021-22 are projected.
Source: eMarketer, May 2021

McKinsey & Company

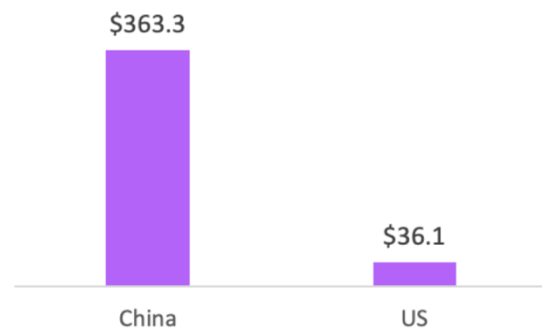
Thesis I : *Social media selling is poised to become the primary online selling channel, presenting the largest growth opportunity for retailers to connect with consumers, expand their customer base and drive sales.*

Globally, social commerce is projected to grow three times faster than traditional commerce, reaching \$1.2 trillion by 2025, with millennials and Gen-Z driving around 62% of this growth. The COVID-19 pandemic accelerated the adoption of social media marketplaces, coupled with growing consumer demand to support local businesses, which further boosted social commerce. *As of 2022, the social commerce share of online retail sales in the U.S. stands at 4.4%. While China remains at the forefront of this trend at 52%.*

Younger customers, who seek recommendations and inspiration from trusted sources, including family, friends, communities, and influencers, are drawn to social commerce for its personalized and authentic shopping experience. China has been a notable success story in social commerce, with around 71% of Chinese consumers surveyed indicating their likelihood to shop on social media platforms, compared to 42% of global respondents. In 2021, Chinese social commerce platforms like Taobao Live and Xiaohogshu (Little Red Book) generated over \$400 billion in sales.

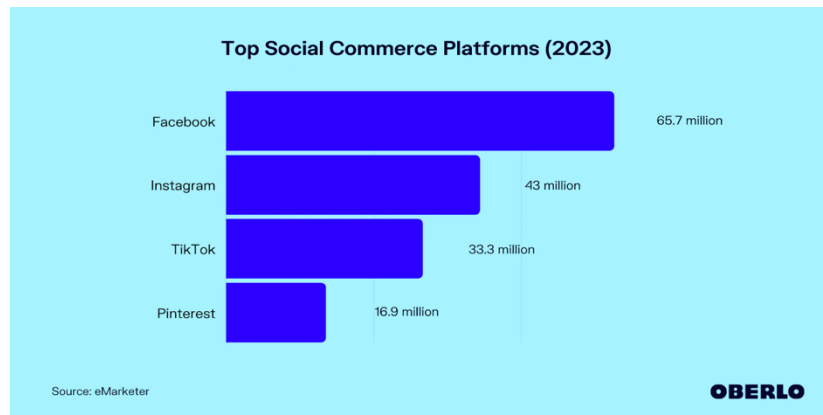
China is a leading force in social commerce, with projected sales of \$363 billion in 2021, marking a 36% year-on-year increase and more than triple the figures from 2018. Social commerce is expected to account for 13% of total e-commerce sales in China this year. The growth in social commerce is largely driven by two technology giants, Alibaba and Tencent, which have successfully integrated social media, digital payment infrastructure, and product discovery into their platforms. These two companies currently dominate the e-commerce, social media, and e-wallet/digital payment markets in China, accounting for 90% of e-commerce, 85% of social media, and 85% of the e-wallet/digital payment market in the country.

Social Commerce Sales in China vs. the US, 2021
(\$B USD)



The success of the social commerce model, initially seen in China, is now being replicated in other markets as users spend more time on digital media platforms. The average time spent with digital media per user has increased, and the growth of digital content consumption and creation has aligned with the rise of social influence. Brands are increasingly using influencers to promote their products, with users reporting that influencers impact their purchase decisions. The low barriers to producing content have resulted in significant rewards for creators and global spending on influencer marketing is expected to reach \$15 billion by 2022. Working with influencers can be more effective for brands compared to traditional online display ads, with livestream commerce translating a higher percentage of views to shopping cart additions. These trends have been compounded by factors such as ad blocking and reduced visibility into ad metrics, making it challenging for brands to target audiences and measure digital advertising returns.

Several digital platforms, such as Instagram, Facebook, and TikTok, have captured large user bases worldwide, making them attractive choices for brands to reach new consumers and explore new commerce models. Platforms like Amazon have launched programs to enable influencers to promote products through livestreams and earn commissions on sales, while also providing tools for creators to create and manage content. The strong relationship between creators and their audiences has increased their value to platforms, with exclusive deals and incentives being offered to attract creators.



Below we've included a brief analysis of some of the most popular social media channels and their potential for use by retailers in regard to social commerce:

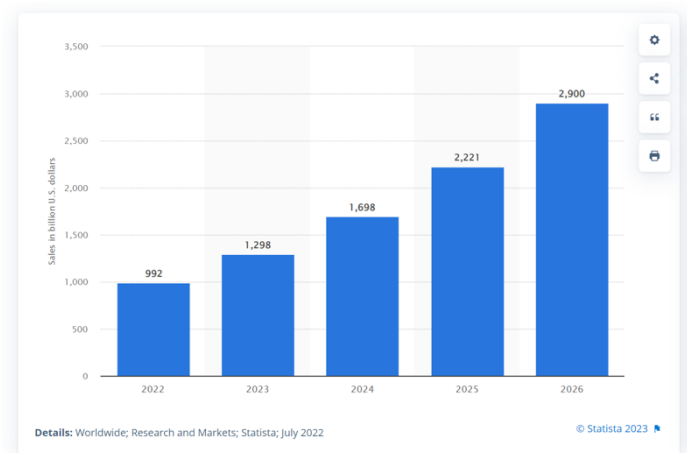
1. Facebook: Facebook has the largest user base of any social media platform, making it a potentially lucrative channel for retailers. The platform has also invested heavily in e-commerce features, such as Facebook Shops, which allows businesses to set up a storefront on their Facebook page. However, Facebook's declining organic reach and the recent data privacy concerns may make it less appealing to some retailers.
2. Instagram: Instagram's visual nature and high engagement make it an ideal platform for showcasing products and inspiring purchases. The platform's integration with Facebook's advertising tools also provides businesses with a powerful marketing platform. However, Instagram's algorithms can make it difficult for businesses to gain visibility, and the lack of direct links in captions makes it challenging to drive traffic to e-commerce sites.
3. Pinterest: Pinterest is a highly visual platform that's ideal for retailers selling visually appealing products, such as fashion, home decor, and food. The platform also has a large user base of people looking for inspiration and ideas, making it an excellent place to showcase products. However, Pinterest's algorithm favors organic content, which can make it difficult for businesses to gain visibility without a solid content strategy.
4. TikTok: TikTok's short-form videos and highly engaging content make it an ideal platform for retailers looking to reach a younger audience. The platform's hashtag challenges and influencer partnerships can also help drive engagement and sales. However, TikTok's e-commerce features are still relatively new and not yet widely available, which may limit its potential for social commerce.

While it's difficult to predict with certainty which platform will become the number one channel for social selling in the next 5 years, currently, Instagram seems to have the most potential. Instagram already has a large user base of over one billion monthly active users, and its parent company, Facebook, is heavily investing in e-commerce features for the platform. Additionally, Instagram's visual nature makes it ideal for showcasing products and inspiring purchases, and its integration with Facebook's advertising tools provides businesses with a powerful marketing platform. With the rise of social commerce and the increasing popularity of Instagram, the platform will likely continue to evolve and become even more dominant in the social selling space

Thesis II : China will retain its lead in social commerce over the US because of cultural factors, live selling, and technological advantages

Global social commerce sales are expected to reach \$2.9 trillion in 2026, up from 992 billion in 2022 (accounting to [Statista](#)), and social commerce is becoming an increasingly important channel for retailers and consumers. On the individual country level, China is currently the largest social commerce market in the world, with sales expected to reach \$363 billion in 2020, followed by the US at \$36.62 billion. Other countries with significant social commerce sales include the UK, Japan, and South Korea. By 2025, it's estimated that social commerce sales will account for 13.2% of all online retail sales globally. With the continued growth of social media and the increasing integration of e-commerce functions into social media platforms, social commerce is poised to become an even more important channel for retailers in the years to come.

One of the key drivers behind the growth of social commerce is live selling, a sales strategy that involves retailers and brands using live streaming to promote and sell their products to an audience virtually. Live selling took off in China in the 2010s, where it has become a dominant force within e-commerce. In fact, "eMarketer reports that live streaming commerce in China sold over \$514 billion in 2022 and is growing at 19%", according to [Forbes](#). Live selling involves the use of social media platforms such as TikTok, Facebook, Instagram and e-commerce platforms such as Amazon and Alibaba. Overall, the benefits of live shopping compared to traditional e-commerce include allowing the sellers to demonstrate the details/features of their products in real-time, providing customers with a more experiential/immersive shopping experience, and allowing sellers to engage better with their customers through real-time interaction, which can help build retention and loyalty.



Meanwhile, in the United States, live selling is still in its early stages but has seen significant growth in the past year, according to [Business Insider](#). Unsurprisingly, the COVID-19 pandemic has accelerated the shift towards e-commerce, with live selling being at the core of this shift. In 2020, live commerce sales in the US were estimated to be \$5 billion, a figure that is expected to reach \$25 billion in the US by the end of 2023. There are numerous retailers and brands in the US that have started experimenting with live selling. For example, Nordstrom has hosted several live shopping events on its social media platforms, while Walmart has launched a new live shopping experience called Walmart+ Live. In addition, social media platforms such as Facebook, Instagram, and TikTok have all launched live shopping features in recent months.

China's leading position in social commerce compared to the United States can be attributed to several factors, including a mobile-first culture that has made it easier for social media platforms to gain popularity and become the primary channels for social commerce, a

highly developed e-commerce infrastructure that facilitates the growth of social commerce by allowing social media platforms to integrate with e-commerce platforms, government support that recognizes the potential of social commerce to drive economic growth and create new jobs, and cultural acceptance of social commerce that has helped to drive its growth in China. Additionally, Chinese consumers have a high level of trust in social media platforms, using them to research products and make purchase decisions, which has helped to fuel the growth of social commerce.

In contrast, the United States has a more fragmented e-commerce market, with no dominant platforms like Taobao and WeChat in China. Additionally, social media platforms in the US have been slower to embrace social commerce, with many consumers still preferring to use dedicated e-commerce sites like Amazon for their online shopping needs. The difference between China and the US in terms of live shopping is that the China version is more transactional, as opposed to the US which is more focused on community-building and entertainment to drive customer retention and loyalty. In summary, China's leading position in social commerce is the result of a complex interplay of factors, including mobile internet penetration, integrated e-commerce platforms, high trust in social media, and favorable government policies, among others. While differences in regulatory environments and cultural attitudes may play a role, they are just one piece of a larger puzzle.

China's dominance in social commerce does not mean the US is falling behind in e-commerce, but it needs to address factors such as the lack of a dominant e-commerce platform and slower adoption of social commerce by major social media platforms to catch up. To compete, the US needs to focus on creating a seamless, mobile-first shopping experience that integrates social media and e-commerce, which requires a shift in consumer behavior and cultural attitudes towards social commerce, along with government and private sector support.

Thesis III: The future of social commerce will be accelerated through AI and personalization, but brands will have to work harder to retain control over their DTC channel.

AI is poised to have a significant impact on the future of social media selling in the retail industry, with the potential to significantly lower CAC if used correctly. AI advancements will revolutionize the retail industry by offering more personalized, efficient, and effective customer experiences. For instance, AI will make high-quality social media content generation and image generation more scalable. Even click-to-message ads or chatbots such as WhatsApp, which are high-converting channels, will be scaled and leveraged with more ease. More specifically, AI can help social commerce with the following:

Predictive analytics: AI-powered predictive analytics is growing and advancing rapidly, at a predicted CAGR of ~18%. This can help retailers more accurately identify the most effective marketing channels and campaigns, optimize pricing, and improve inventory management. Tools such as sentiment analysis and social listening add additional data points that brands had limited access to before social media. This, along with scoring customers based on their propensity to convert, can reduce wasteful spending on ineffective campaigns. Retailers can instead focus their resources on high-performing channels and strategies, leading to a lower CAC.

Personalization: AI-powered algorithms can analyze consumer data to provide personalized product recommendations and targeted advertising. Social commerce has the added benefit over e-commerce of having access to more detailed customer demographic and interest-based data. For eg. Social media also gives access to customers' product preferences, reviews, and what experiences they may be engaging in as well as their location. All these will help with more accurate recommendations, which can increase the relevance and effectiveness of marketing campaigns while resulting in higher conversion rates and lower CAC.

Chatbots: AI-powered chatbots can be leveraged to provide instant customer service and support, facilitating purchases and reducing customer churn. By providing a seamless customer experience, aiding in decision-making, and upselling products, chatbots can increase customer retention rates, reducing the need for costly customer acquisition campaigns.

Fraud detection: AI-powered fraud detection algorithms can help retailers identify and prevent fraudulent activity, which can save money by reducing chargebacks and refunds.

The successful implementation of AI technology in social media selling will depend on retailers' ability to embrace innovation, adapt to changing customer needs, and maintain ethical standards in data use and privacy. Social commerce is a double-edged sword for brands: While it is a new channel with a high conversion rate and low CAC, personalization has the potential to suffer as they are losing first-party data and a DTC relationship with customers. For example, while Facebook analytics provides brands with user demographics and ad performance data, that information is often shared at an aggregate level, making user targeting more difficult. Further, a user's identity is only shared if they convert. This means that if a user was about to convert, the brand may not be able to find out who the user is and link their social commerce behavior to e-commerce behavior, serving as a blow to their retargeting efforts. To retain control, brands must

promote interaction and provide unique experiences on their websites to encourage users to migrate there. Further, “brand pages” may have to take on increasing importance on social media as compared to “influencer pages”. In turn, this is a huge boon for social media channels, as they will gather significantly more behavioral and demographic data, which they can use to increase conversion rates. They can offer improved personalization and even have access to cross-selling information to increase the number of orders. Similar to the rise of retail media, social media will garner increased traffic and monetization.

With social media brands having increased access to consumers' buying activity, improved recommendations could lead to increased consumption. This is integral to grapple with as sustainability and "slower consumption" continue to gain popularity. A big development for social commerce may be reselling items within communities - e.g. an in-app Poshmark or scaled Facebook marketplace. Secondly, with the lower scaled costs of social media development, the conversations around fair trade will also rapidly evolve. As opposed to considering factory workers in the equation solely, developers will also become included in this conversation, as will content generators. There is potential for the intersection of a lot of compelling retail developments, and taking a future-led, responsible leadership stance is integral for brands to stay alive.

Key Assumptions

The following assumptions are made for our thesis points to be true. Firstly, social commerce is expected to continue growing globally, with increasing adoption and usage of social media platforms. This trend is driven by the effectiveness of influencer marketing in driving sales and brand awareness, and the continued importance of mobile devices as a primary means of accessing social media and making purchases. Consumers are also showing greater trust in influencers and user-generated content compared to traditional advertising methods, as reflected in the trend toward increased consumer trust.

Secondly, the role of data and analytics is crucial in understanding and optimizing social commerce campaigns. Companies are expected to continue investing in AI to improve conversational tools and social media content generation tools. Specialized media companies are anticipated to develop AI that creates content, and they may have access to users' personalization data, which can further enhance the personalized advertising experience.

Thirdly, although there may be concerns about privacy laws, assumptions are made that privacy laws will not change drastically and will not significantly impact the ability of brands to personalize ads. It is also assumed that social media companies will stay updated with AI advancements by investing in AI in-house or externally. Additionally, it is assumed that AI-generated content will not need to be disclosed in the same way as sponsored content and that people will not have a significant preference or be put off by AI-generated content and chatbots, even if disclosure requirements change.

In conclusion, the assumptions project the expected continued growth of social commerce, the increasing importance of AI and data analytics, and the role of influencers and user-generated content in shaping consumer trust. While privacy laws may not change drastically, and AI is expected to play a significant role in social commerce, it's important to approach assumptions with caution and consider multiple perspectives, as the actual outcomes may vary. Monitoring developments in social commerce and related technologies, along with compliance with applicable laws and regulations, will be essential for businesses operating in this space.

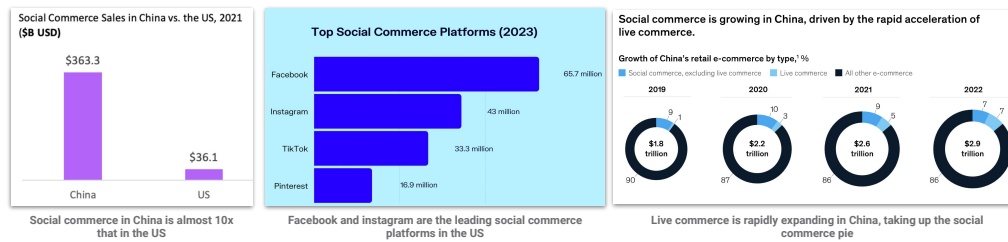
Appendix

Slides

Selling Through Social Media: Opportunities and Challenges

Prompt: How will retailers harness the powers of all their selling channels to reach consumers, with the largest growth area being in social selling and ecommerce?

Thesis: Our paper highlights the increasing importance of social media selling in an ever-changing retail world, how and why the adoption of social commerce has varied across the globe, specifically in China vs the US, and how the AI and tech revolution will continue to affect this space.



Industry Expert Mentor: Steve Sadove

New Frontiers of Retailing – Columbia

Thesis	Supporting Statistics and Arguments
1. Social media selling is poised to become the primary selling channel on the internet	As consumers lean towards influencer recommendations and supporting small businesses, social commerce is projected to grow 3 times faster than traditional commerce , reaching \$1.2 trillion by 2025. Currently, social commerce accounts for 4.4% of online sales in the US. Expected to reach ~5% in 2025. In China, it is currently 52% of online sales, expected to exceed 60.9% by 2025.
2. China will retain its lead in social commerce over US because of cultural factors, live selling, and technological advantages.	China , a country with around 71% of consumers indicating they are likely to shop on social media platforms, has seen incredible success and mass adoption of social commerce in large part due to the ubiquitous nature of a few key digital apps like Alibaba and Tencent, which currently dominate the e-commerce, social media, and e-wallet/digital payment markets. While the US has a large population of younger consumers who should be drawn to the personalized and authentic shopping experiences offered by social commerce, the presence of multiple apps all clamoring for attention , along with key social and cultural differences, has led to a much slower adoption in the US vs China.
3. The future of social commerce will be accelerated through AI and personalization, but brands will have to work harder to retain control over their DTC channel.	If done correctly, through the use of new technologies such as AI and enhanced chatbots , retailers have an opportunity to substantially lower their CAC and increase conversion rates , while providing consumers with more personalized, and authentic shopping experience . While technologies like AI-powered algorithms, predictive analytics, AI powered chatbots, and enhanced fraud detection algorithms will provide a wide range of enhancements and money saving opportunities , they will also present a new hosts of challenges for retailers in terms of data rights as they balance the costs and benefits of driving consumers to their own DTC channels vs larger social selling platforms.

New Frontiers of Retailing – Columbia