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EIC Research Series: Alibaba Kingdom

## Social Commerce: An e-Commerce trend to rival Lazada

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**Despite the high visibility and rapid growth of big e-Marketplace platforms like Alibaba's Lazada, more than 51% of online shoppers in Thailand also or instead make purchases through Facebook, Instagram and other social media platforms. This type of online shopping is a major form of e-Commerce referred to as "social commerce." It's especially important in Thailand, where social commerce claims a larger share of online commerce than in any country in the world, mirroring the very high rate of overall social media participation here. Thai entrepreneurs should therefore keep social commerce platforms in mind as they seek to launch or increase online sales. Lazada is more popular than social commerce platforms, however, and is used by 65% of Thai consumers buying online. Thai companies need to consider which online channel is best for expanding sales according to their specific goals and the characteristics of their products, customers and business operations.**

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# Social Commerce

## An e-Commerce trend to rival Lazada

### Social Commerce

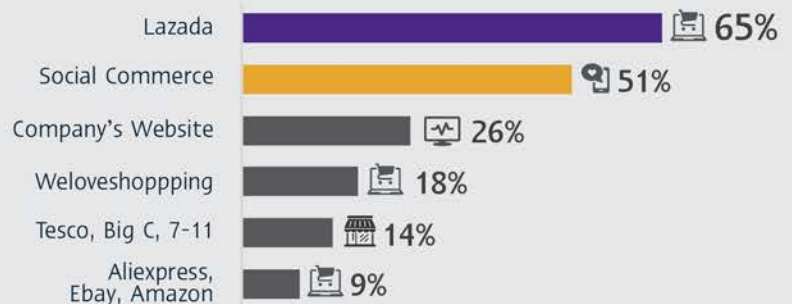
the use of social media in the context of e-commerce transactions such as Facebook Instagram Line

51%

of online shoppers in Thailand buy via social media

(far above the global average of 16%)

Thai consumers' preference to shop online through social media ranks second only to Lazada



### Goods that consumers prefer to buy through social commerce vs Lazada

#### Social Commerce

VS

#### Lazada

- Health and beauty
- Clothing and footwear

- Household appliances
- Furniture and home decoration
- Electronics and computer

- |   |                            |   |
|---|----------------------------|---|
| ✗ | High value                 | ✓ |
| ✗ | Planning before purchasing | ✓ |
| ✗ | After-sales service        | ✓ |

### What is the most suitable channel for you to expand your business?

Expand business through both Social commerce and e-Marketplace



Source: EIC analysis as of September 7, 2017 based on surveys conducted by EIC and PWC

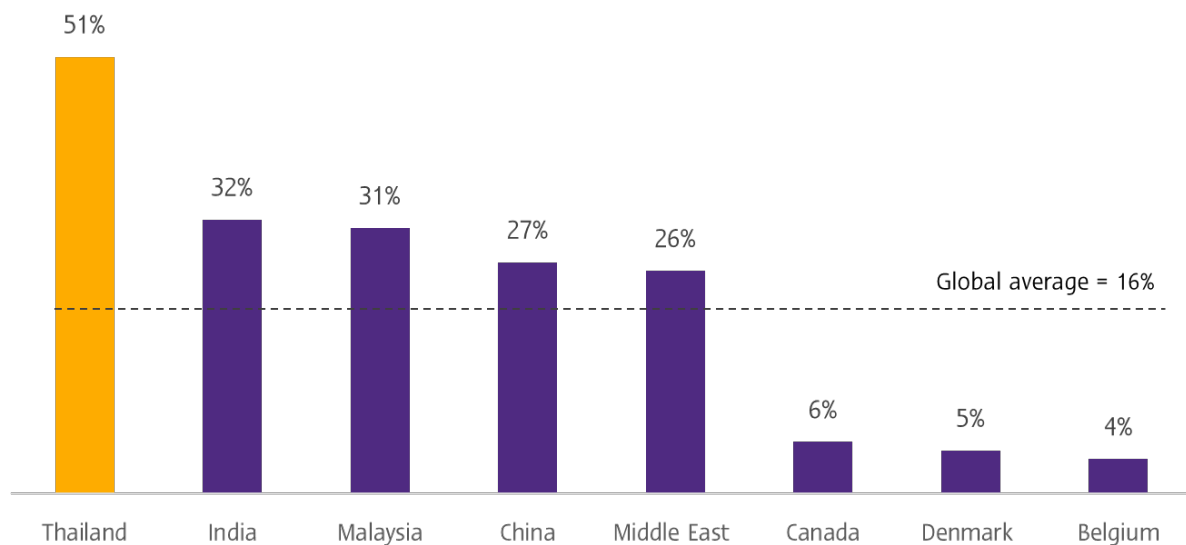


## More than half of Thai online shoppers buy via social media

A 2016 survey by PWC found that the proportion of Thai online consumers who purchase products via social media is 51%, far above the global average of 16%. This is not surprising, since Thailand has world-leading rates of usage of social media. Bangkok has more Facebook users than any other city on earth.<sup>1</sup>

### More than half of Thai online shoppers buy through social media

Unit: % of consumers who buy online, by country



Source: PWC Total Retail Survey (2016)

#### 1 Information from *We Are Social* and *Hootsuite*

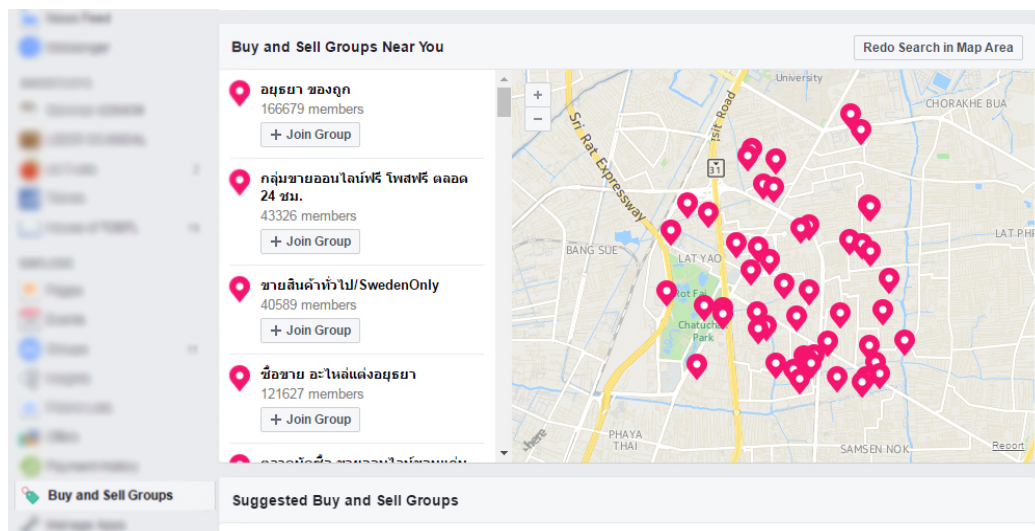
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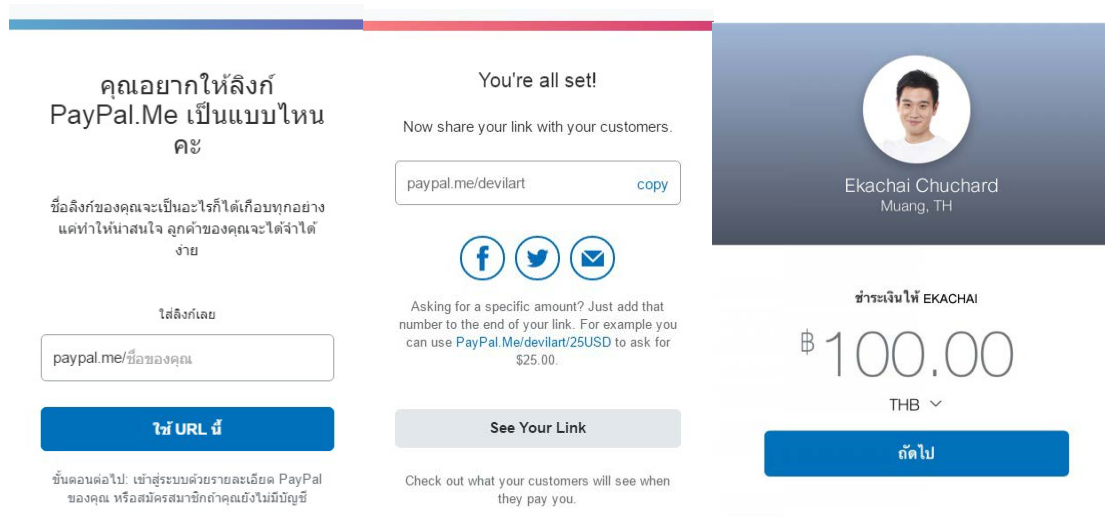
## Social media platforms keep adding e-commerce features

Social media began as platforms for individuals to network and share information, images and messages, but they have added a variety of functions that help users interact to buy and sell. For example, Line offers chatbots that connect merchants and shoppers. At Facebook, the e-commerce support functions include bots offered via Messenger and the "Buy & Sell" feature that facilitates transactions within Facebook Groups. Facebook has established a trading partnership with PayPal, the long-time global leader in digital payment, launching PayPal.Me to power fast, easy and secure online payments. A simple, single link allows the buyer to make a quick payment directly to the seller's PayPal account. This eliminates a significant bottleneck, since social commerce users otherwise tend to rely on payment via ATM or internet banking transfers. These external payment systems add hassles because they take more steps. They also represent a potentially dangerous security loophole, since they rely on trust between the buyer and seller to ensure that the money goes to the right place.

### Facebook's search feature recommends Buy and Sell groups near the user's location



### PayPal.Me : fast easy and secure online payments



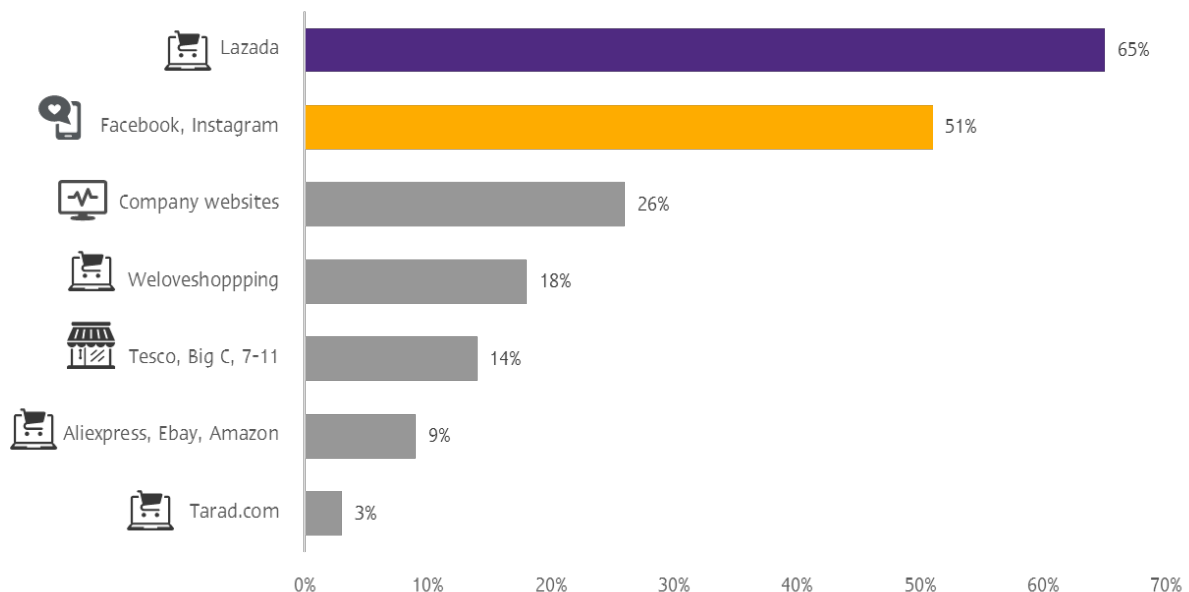


## Thai consumers' preference to shop online through social media ranks second only to Lazada

EIC conducted a survey this year which found that most Thai consumers enthusiastically embrace shopping online through social media, second in popularity only to e-marketplace platforms like Lazada. This reflects the fact that a very large number of Thai businesses sell online via social media. For the most part, these sellers are SMEs, and the goods traded are often inexpensive, with a focus on the domestic market. On the other hand, companies that sell via Lazada are often large operators that are able to manage inventory well and absorb losses from order cancellations and product returns. Lazada's attraction for sellers is its large user base, and most participating merchants sell in large quantities. But the benefits come at a cost. For example, the seller might need to discount the retail price of its goods offered via Lazada, in addition to paying the platform an annual fee as well as fees based on a percentage of sales. Lazada charges a margin as high as 10% for such products as clothing and footwear.

### Thai consumers prefer to shop online through social media, second only to Lazada

Unit: % of respondents who bought products via each online channel



Source: Survey conducted by EIC in February 2017

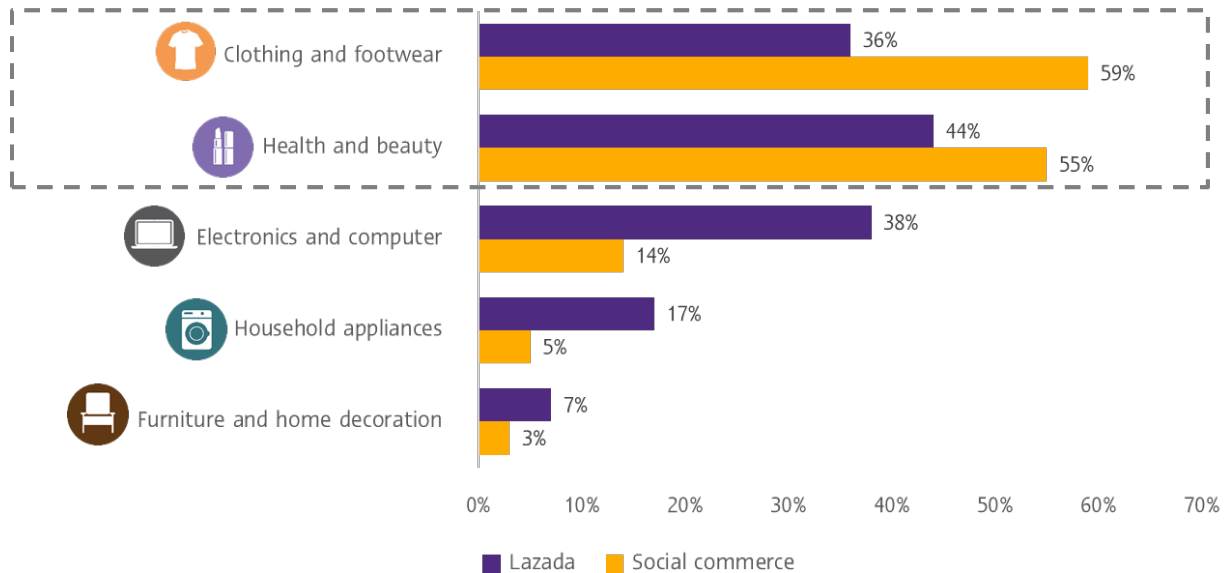


## The goods that consumers prefer to buy through social media include health and beauty products, clothing and footwear.

Goods sold via social commerce tend to be relatively low in price and do not require after-sales service or warranties. Consumers who buy via social media tend to behave differently from those shopping on e-Marketplace platforms. Social media shoppers are often influenced by social media ads that rely on recommendation systems that select the products most likely to appeal to each individual customer, based on online user data like past purchases, searches and browsing. On the other hand, shoppers on e-Marketplace platforms start out knowing which product they want to buy and so they directly seek out that product. Therefore, inexpensive products that consumers buy on impulse or without much research are the mainstays of social commerce. Purchases that require more information and comparison are the focus of e-Marketplaces. Examples are electronics and computers, home appliances, furniture and home decoration. Many e-Marketplace platforms feature shopping recommendation systems driven by online user data. For the most part, the recommended products are like those that the consumer has previously clicked on.

### Products sold directly via social media are mostly low-cost goods that don't need warranties or after-sales service: health and beauty products, clothing, footwear

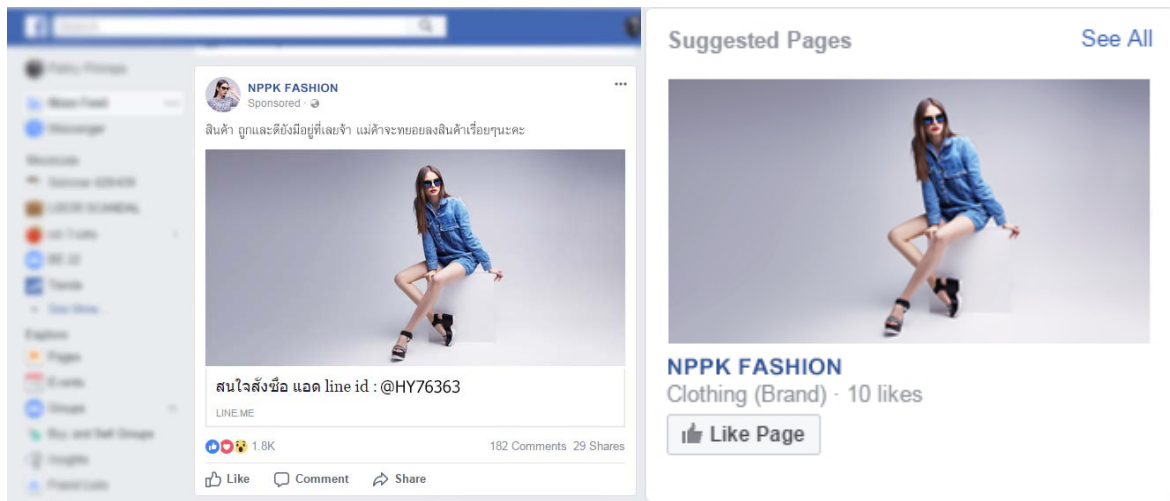
Unit: % of respondents who purchased products via online channels



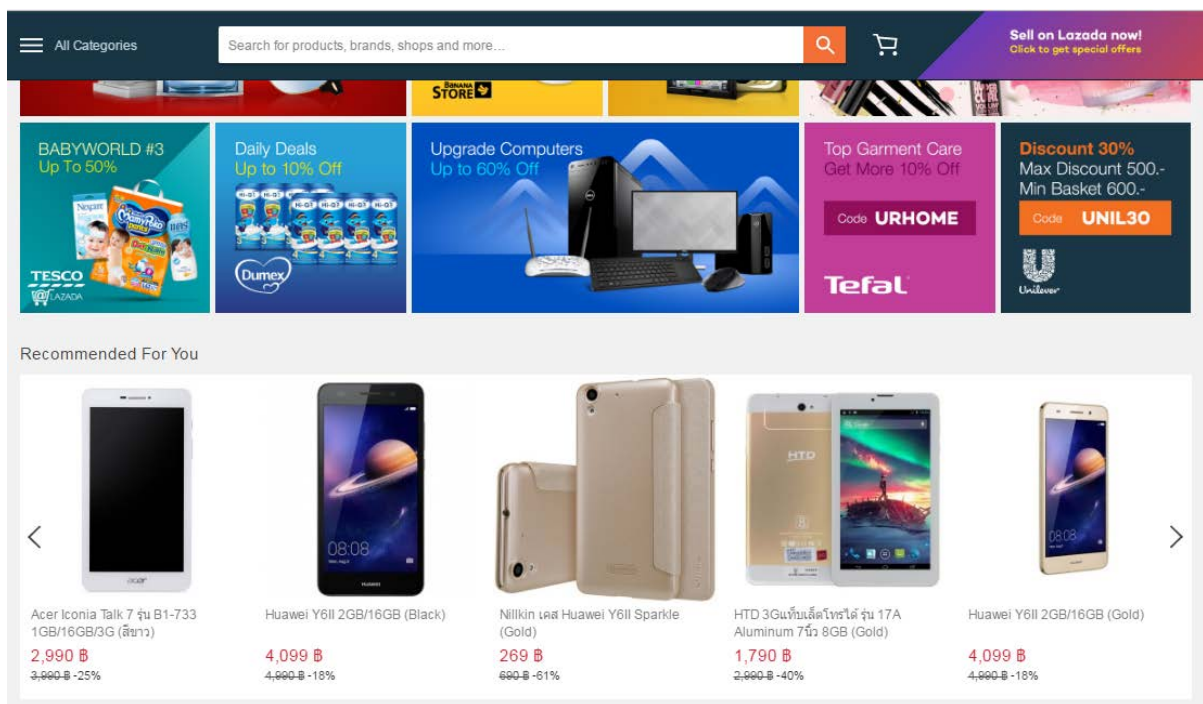
Source: Survey conducted by EIC in February 2017



## Recommendation system on Facebook













## Product recommendations on Lazada








International e-Marketplace companies are heading toward fierce competition as they vie to dominate nascent markets in Southeast Asia. China's top player Alibaba, for example, is working to permeate the ASEAN market via Lazada. Not far behind is China's JD.com, which has joined hands with Thailand's Central Group. Other contenders include America's Amazon, Korea's 11 street and Singapore's Shopee. Growth of these companies will create a robust e-Commerce presence that will service almost every online shopping need here, with huge variety, competitive prices and solid recommendations. This might disadvantage Thai SMEs that have imported goods from abroad to sell via social media. SMEs might lose out even when selling via the e-Marketplaces, since the foreign-owned platforms will be able to muscle in on popular niches themselves and sell directly to Thai customers.

## What is the most suitable channel for you to expand your business?

	If your answer is... "Yes"	And if your answer is... "No"
You have ample marketing budget, are able to manage inventory and can handle large orders		
Your brand is well-known		
You are ready to compete on price		
Consumer must research & plan prior to purchasing your product		
You want to expand to foreign markets		

### Suitable channel for your business

-  e-Marketplace
-  Social Commerce
-  Both Social Commerce and e-Market place





A company that is well-equipped in terms of capital, reputation and competitiveness can expand its business through many channels simultaneously, including e-marketplace platforms, social commerce and its own website. But a new entrepreneur, especially an SME that is not yet well known and does not have a large budget, should set its marketing strategy early on and build brand awareness through social media because this channel doesn't cost much. The idea is to leverage the existing popularity of social media, where Thais already spend much of their time every day. An SME might have to pay to advertise on social media in order to get its products displayed on users' newsfeeds more often. Later, when the brand has become more well known, the business will be ready to invest to expand and to compete on price against rivals. Then it should consider expanding via the e-marketplace platforms in order to reach a larger customer base and eventually sell overseas.

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