

E-commerce Global Initiative

# Social commerce: The future of how consumers interact with brands

Browsing and shopping directly on social media platforms is a core feature of e-commerce in China. Now, this dynamic new way of buying is poised for rapid growth in the United States.

*This article is a collaborative effort by Camilo Becdach, Marc Brodherson, Alex Gersovitz, Daniel Glaser, Zachary Kubetz, Max Magni, and James Nakajima, representing views from McKinsey's E-commerce Global Initiative, NeXT Commerce.*



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A two-hour live shopping event on TikTok brings in more than a week's worth of sales at a flagship store.<sup>1</sup> An interactive, shoppable Instagram live stream garners 40,000 comments. Augmented-reality (AR) lenses let Snapchat users "try on" makeup and send the images to friends.

Welcome to the dynamic world of social commerce, where consumers explore products and complete transactions through social media and content creation platforms, all in an app. This emerging form of shopping removes friction from the buying process, creates a more engaging journey for the consumer, and presents new opportunities for brands to generate consumer interest.

Already enormously popular in markets such as China, social commerce remains a small but rapidly growing segment in the United States (Exhibit 1). In 2021, \$37 billion in goods and services were purchased through social-commerce channels.<sup>2</sup>

By 2025, that figure is expected to swell to nearly \$80 billion, or 5 percent of total US e-commerce.<sup>3</sup> Globally, the social-commerce market is expected to grow to more than \$2 trillion by 2025.<sup>4</sup>

Social commerce is more than just a new shopping experience. It represents a paradigm shift in how consumers interact with brands: where, when, and how they shop. For consumer brands, this creates opportunities for a much more interactive, entertaining, and experiential journey (see sidebar, "Discover NeXT Commerce"). For example, leading brands are working with platforms such as TikTok to forge new relationships with consumers, shifting from traditional advertising strategies to fun, engaging content that is less overtly promotional. This content can be used to highlight unique product features or explain product complexities simply. For example, rather than watching an ad for a new skin-care formula, your favorite celebrity can invite you behind the scenes into their daily skin-care routine, showing

<sup>1</sup> Nikki Gilliland, "Seven examples of brands engaging in social commerce," Econsultancy, June 1, 2022.

<sup>2</sup> "Social commerce surpasses \$30 billion in the US," Insider Intelligence, July 6, 2021.

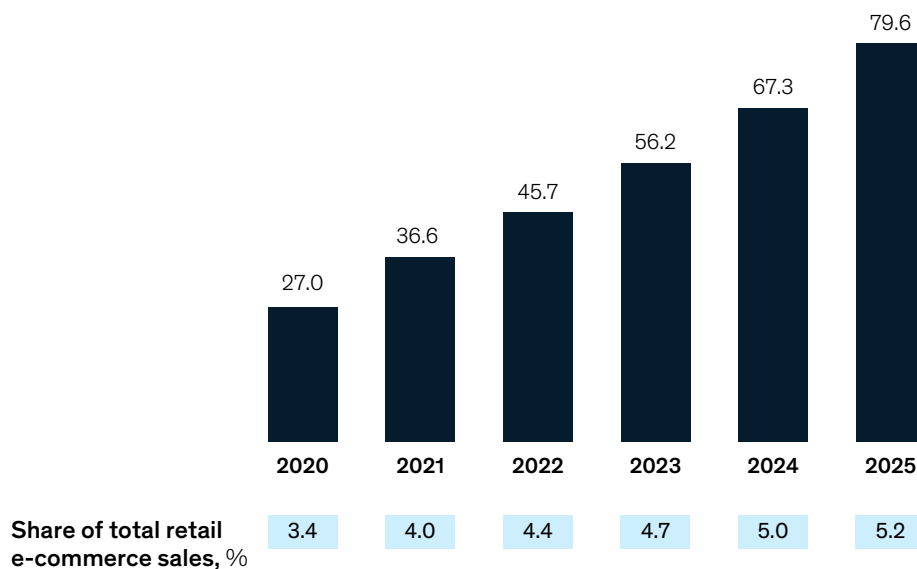
<sup>3</sup> Social commerce gross merchandise value (GMV) in the United States from 2022 to 2028, Statista, September 16, 2022.

<sup>4</sup> Value of social-commerce sales worldwide from 2022 to 2026, Statista, September 16, 2022.

Exhibit 1

**Social commerce is a small but rapidly growing segment in the United States.**

US retail social-commerce sales,<sup>1</sup> \$ billions



<sup>1</sup>Data for 2021–25 are projected. Source: eMarketer, May 2021

## Discover NeXT Commerce

Owning the next era of growth requires going beyond traditional e-commerce and online sales. It requires creating a personalized experience that's tailored yet consistent across all channels—all backed by flexible technology and an operating model that places digitally driven commerce at the center of business. Learn more about driving sustainable and profitable growth through next-generation e-commerce.<sup>1</sup>

<sup>1</sup> For more, see "NeXT Commerce," McKinsey.

you how they use the branded product and why they love it. Consumers can then buy the product directly within the platform, whether it's on Instagram or TikTok or through YouTube Shopping.

## The winning ingredients for social commerce in China

The evolution of social commerce in China offers a glimpse of the possibilities.<sup>5</sup> By forging partnerships with wildly popular social influencers and participating in live-stream shopping—an experience that combines instant purchasing of a featured product and audience participation through chat or reaction buttons—brands in China have achieved conversion rates of almost 30 percent on social platforms.<sup>6</sup> This is up to ten times higher than conversion in conventional e-commerce. Last year, goods and services purchased through live-stream shopping in China represented \$132 billion, or 5 percent of total e-commerce gross merchandise value (GMV)<sup>7</sup>. More broadly, Chinese consumers spent more than double that amount—\$352 billion (or 13 percent of total e-commerce)—on all social commerce.<sup>8</sup>

Innovation continues to drive social commerce in China, with challengers quickly gaining scale in particular categories. For example, TikTok (known as Douyin in China) has emerged as a social-commerce leader, particularly in the apparel category. Last year, Douyin's apparel sales amounted to more than half of what was sold on e-commerce exemplar Tmall, with most of those sales coming from social commerce, including live auctions, a successful innovation in the China market.<sup>9</sup> In this format, which involves both the gamification of product purchasing and a powerful social element with other live users, live-stream hosts often build a rapport with their high-volume customers, chatting with them during the auction. This builds loyalty and a sense of community, which are critical to Chinese consumers,<sup>10</sup> and helps bring VIP customers to auctions on a near-daily basis. However, because of the emotional nature of this format, return rates for purchases are higher than for traditional e-commerce. Thus, ensuring that featured products are of high quality and clear value to the customer is critical in this medium.

Another key ingredient in China's social-commerce success is the power of influencers and community leaders. Chinese "key opinion leaders" (KOLs) have gained massive followings by becoming subject matter experts in their respective categories. In certain sectors, such as beauty and fashion, these highly professional and marketing-savvy social celebrities can sell millions of dollars of products in minutes and make new products trendy overnight. Doudou Babe, for example, reaches more than 13 million followers on Douyin<sup>11</sup> and has forged brand partnerships with Chanel, Charlotte Tilbury, Lancôme, and YSL.<sup>12</sup>

Beyond celebrities, "key opinion consumers" (KOCs) also have a significant influence on product sales and brand reputations. These microinfluencers drive social commerce through organic, word-of-mouth recommendations to their personal networks. In many cases, they are not paid directly by brands

<sup>5</sup> "It's showtime! How live commerce is transforming the shopping experience," McKinsey, July 21, 2021.

<sup>6</sup> Ibid.

<sup>7</sup> Jasmine Enberg, "How important will livestreaming be for social commerce in 2021?," Insider Intelligence, July 1, 2021.

<sup>8</sup> "Social commerce surpasses \$30 billion in the US," Insider Intelligence, July 7, 2021.

<sup>9</sup> iResearch.cn.

<sup>10</sup> Jessica Rapp, "How to earn brand loyalty from Chinese Gen Z," *Jing Daily*, July 23, 2020.

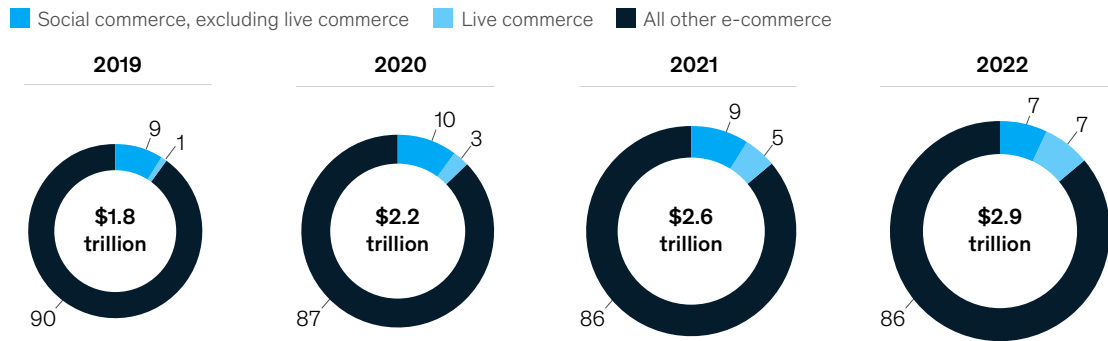
<sup>11</sup> Kate Chernavina, "Top 34 Chinese KOLs and influencers," HI-COM, August 12, 2021.

<sup>12</sup> *Influencer Marketing*, "#KnowyourMIV: The top 10 Chinese influencers for beauty you should know," blog entry by Paloma Ahlstrand Byrne, Launchmetrics, June 8, 2021.

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,<sup>1</sup>%**



<sup>1</sup>Data for 2021–22 are projected.  
Source: eMarketer, May 2021

but are given early access to new products or asked to provide input on product design. For example, Perfect Diary, a fast-growing Chinese-based beauty brand, built a network of KOCs through product giveaways and by engaging with thousands of people on product review sites.<sup>13</sup>

Both KOLs and KOCs have considerable clout in determining which platforms consumers gravitate toward. When Douyin launched its social-commerce features in 2018, live-streaming KOLs began to move away from commerce-centric platforms, taking many of their fan bases (and their purchasing power) with them to Douyin. Douyin’s social-commerce transactions grew from 10 billion renminbi in 2018 to 800 billion renminbi in 2021.<sup>14</sup>

Some of the factors spurring the rapid rise and popularity of social commerce in China are unique to the country’s particular circumstances. Thus, although China represents a useful market for learnings and inspiration, adoption in other countries is likely to follow a slower trajectory. For instance, China’s economic rise, which coincided with the global internet revolution, helped create a deeply

digital consumer base with more than one billion internet users (more than the United States and European Union combined) and a population with one of the highest amounts of e-commerce in the world.<sup>15</sup> Over the years, megaplatforms such as Alibaba and Tencent have used the trust they built among Chinese consumers to create a sprawling digital ecosystem and enable the rapid growth of social commerce (Exhibit 2).<sup>16</sup> Creator content, product discovery, community sharing, and digital-payment infrastructures are all integrated into a seamless one-stop-shop digital universe.

**How social commerce is growing in the United States**

Although the US market is likely to evolve differently than China’s—social commerce, for example, may not achieve the same levels of adoption—the current acceleration of social commerce has some parallels with the Chinese market half a decade ago. Just as the arrival of Alibaba’s Taobao Live in 2016 ushered in a new type of e-commerce, social-commerce adoption in the United States is being driven by social media and content creation platforms (such

<sup>13</sup> “The complete guide to KOC marketing in China,” AdChina.io, accessed August 5, 2022.

<sup>14</sup> Transaction value of livestream commerce on Chinese short video app Douyin (Tik Tok) in China from 2018 to 2020 with an estimate for 2021, Statista, November 22, 2021.

<sup>15</sup> “The future of digital innovation in China: Megatrends shaping one of the world’s fastest evolving digital ecosystems,” McKinsey, September 30, 2021; Countries with the highest percentage of retail sales taking place online in 2022, Statista, February 21, 2022.

<sup>16</sup> “The future of digital innovation in China,” September 30, 2021.

as Pinterest and TikTok) adding new shopping capabilities. These tech-enabled features allow platforms to process transactions and, in doing so, gain access to first-party customer data and expand their ability to offer value to advertisers. Instead of merely targeting consumers with top-of-the-funnel awareness campaigns, social media platforms can now draw a much more direct line between advertising impressions and verified sales.

Social commerce also represents an entirely new revenue stream for platforms. By collecting a share of each transaction, platforms can increase their average revenue per user.

Over the past few years, US social and creator platforms have rolled out a plethora of social-commerce capabilities:

- **Pinterest.** Launched in 2021, Pinterest's "Shopping List" feature automatically saves users' shoppable product pins (launched in 2019 and uploaded from verified retailers), shows product reviews, and notifies users when a pinned product has a price reduction.
- **Instagram Live Shopping.** Launched in 2020, influencers can live stream on Instagram with the objective of introducing and selling products to fans in real time. This builds on the ability of influencers to add shopping tags to their posts that consumers can use to purchase products. Brands can also create a digital, shareable catalog of their products on Instagram, with customers purchasing directly on the app or clicking through to finish the transaction on the brand's e-commerce site.
- **TikTok Shopping.** Launched last year in partnership with Shopify, these videos and live streams allow Shopify merchants to sync their product catalogs to TikTok and create mini storefronts.
- **YouTube Shopping.** In a deal between YouTube and Shopify, companies can sell on YouTube through live streaming, videos, or a storefront.
- **Twitter Shops.** Shops allows companies to showcase up to 50 products on their Twitter profile, making the platform a place where people buy products rather than just talk about them.
- **Twitch.** Brands can market on Twitch through traditional means (video and display ads) and through partnerships with creators and branded stations and events. Among Twitch's eight million active users, 84 percent believe showing support for creators is an important part of the Twitch experience, and three-quarters say they appreciate brands that help their favorite streamers achieve success.<sup>17</sup>
- **Amazon Live.** Launched in 2019, this live-streaming feature enables brands and creators to stream product demos and other innovative content. According to Amazon, tens of millions of customers viewed its Prime Day 2021 live streams.<sup>18</sup>
- **Snapchat.** Snapchat has introduced AR filters, or "catalog-powered shopping lenses," to make the purchasing process more experiential.

The growth of social commerce in the United States will not come without growing pains. Meta, which recently tested multiple social-commerce tools—including a native, end-to-end affiliate marketing program—shuttered that program in favor of its Creator Marketplace.<sup>19</sup> Additionally, tests of on-platform checkouts from companies such as YouTube and Pinterest have reportedly seen slow adoption, with Shopify continuing to be a preferred checkout tool.<sup>20</sup>

<sup>17</sup> "Where brands and communities intersect," Twitch Advertising, accessed August 22, 2022.

<sup>18</sup> Amazon staff, "Amazon's not-so-secret way to score top Prime Day deals," Amazon, June 28, 2022.

<sup>19</sup> Tim Peterson, "Instagram will shut down its affiliate commerce program on Aug. 31," *Digiday*, August 5, 2022.

<sup>20</sup> "Trying to get back on topic; Social shopping takes another hit," AdExchanger, August 8, 2022.

That said, with Americans spending more time on social and creator platforms than ever, consumer demand for these new shopping features is building, especially among younger generations. A 2021 retail survey by Forrester found that 61 percent of online adults younger than 25 in the United States said they had completed a purchase on a social and creator platform network without leaving the website or app, up from 53 percent in 2020.<sup>21</sup> And a 2022 McKinsey survey of US consumers who have previously live shopped found that 75 percent want to attend more live-shopping shows in the future.<sup>22</sup>

### **A paradigm shift for brands**

As a \$36 billion market, social commerce is already too big for US brands to ignore. In fact, it has the potential to become their best channel, given the possibilities for new levels of engagement with consumers and the opportunity to hyper-target customer segments. Because consumers are both discovering and buying products in one medium, social commerce merges marketing and retail channels into a single dynamic universe. As a result, brands can work with social and creator platforms to draw a more direct line between their marketing spend and actual sales by customers, enabling advertising that is far more effective and efficient. Certain brand categories, such as fashion and beauty, are already doing this. The specialty skincare brand Glossy recently sold out two product lines in a retail store by partnering with a TikTok influencer who offered a one-day-only discount code.<sup>23</sup>

At the same time, brands also face challenges when wading into this new paradigm. In traditional e-commerce, brands direct consumers toward their own channels where they can develop a direct relationship with customers, collect insights on customer behavior, and capture a higher share of customer spend. Social commerce is changing this purchase journey, creating an experience that, in some cases, circumvents brand-owned channels. For instance, a consumer may discover a brand on Instagram through a post from their favorite influencer, then go to the brand's Instagram page to follow and browse products, eventually checking

out through Instagram's shopping feature. Following this, the consumer continues to stay within Instagram's orbit, receiving personalized ads and relevant posts in their feeds that have been selected by Instagram's algorithm.

As consumers increasingly turn to social and creator platforms for product discovery and buying decisions, the customer journey will continue to shift outside of brand-owned channels, thus threatening the status quo of direct-to-consumer relationships.

### **How brands can retain control of the customer experience**

Brands have an opportunity to help shape the next chapter of e-commerce in the United States. Given how rapidly Chinese consumers migrated from traditional e-commerce to social commerce, brands that fail to accept this new normal or continue pursuing yesterday's strategies run the risk of missing out on the majority of digital spending over the next three years. To become a social-commerce leader and gain share in the digital marketplace, brands can consider several actions:

- ***Develop a holistic influencer marketing strategy.*** Influencer marketing has already become an increasingly important activity for brands—and one that will continually require optimization. In addition to thoughtfully selecting the creators to work with based on factors such as the influencer's interests, demographics, and reach, brands need to find the right mix of macro- and microinfluencers. US brands will want to take a page from their counterparts in China and work with a deeper set of KOLs and KOCs, measuring each of these partnerships regularly and evaluating them according to clear KPIs. Brands will benefit from measuring the impact of their influencer campaigns throughout the advertising funnel, including top-of-funnel metrics such as engagement rates and video views, which can help brands understand how content is performing. Although sales are the ultimate goal, social and creator platforms still offer a healthy dose of awareness building.

<sup>21</sup> Jessica Liu, *The state of US social commerce*, Forrester, January 2022.

<sup>22</sup> McKinsey US Live Commerce Survey, August 2022 (n = 482).

<sup>23</sup> Traackr, "How beauty brands are advancing social commerce strategies in 2022," Glossy, March 8, 2022.

- **Watch for platform winners.** Because Chinese consumers are used to interacting exclusively on their phones and more willing than US consumers to try new platforms and technology, healthy competition exists among China's platforms. Take, for instance, Douyin's leadership in the apparel category. The United States, however, is more likely to be a winner-takes-most market. Top creators will likely gravitate toward platforms with the strongest ecosystem and largest base of users, giving these platforms a key advantage.
- **Move the center of gravity to brand-led accounts.** Although much of the activity on social platforms centers on influencers and celebrity creators, brands can draw consumers to their own channels with engaging and innovative short videos and live streaming. By creating compelling content and drawing influencers onto their channel, brands have an opportunity to build enthusiasm, provide an interactive forum for feedback and questions, and develop a new sales channel. Nike is one of the most followed brands on social media and has a staggering 234 million followers, thanks in large part to Nike's engaging content featuring star athletes. Nike has also built considerable followings on channels specific to certain audiences; the Nike Football account, targeted at soccer fans, has more than 45 million followers. Nike has been a true brand leader, going a step beyond with an ecosystem of its own apps (Nike Shopping, Nike SNKRS, and Nike Training Club), which has contributed to 18 percent of Nike's annual revenue growth in its digital business.<sup>24</sup>
- **Add a brick-and-mortar element.** Many brands in China have developed distinct accounts for specific cities, such as one account for its Shanghai store and others for the Beijing and Shenzhen stores. In each account, content is targeted to the profile of local customers and tailored with special offers and events. US brands could borrow this approach to personalize their social-commerce marketing. Imagine, for example, a sports apparel brand that conducts a live sale for sports bras and yoga pants in a city with a disproportionate number of female followers, or a footwear company's live sale for a limited-edition shoe drop in a city with a disproportionate "sneakerhead" followership.
- **Building for a new customer journey.** Social commerce will revolutionize the consumer journey, and brands must adapt their e-commerce offering accordingly. For example, search in e-commerce has historically oriented around text- or picture-based shopping. Social commerce will feature a different approach. In China, platforms such as Douyin and Tmall use short videos for content seeding and live streaming for conversion, and transactions are finished in a platform-based webstore. Actions such as making shopping-tag-enabled posts, optimizing strategy for marketplaces such as Meta's Creator Marketplace,<sup>25</sup> and developing content and promotions for live-shopping formats are just a start.

**By creating compelling content and drawing influencers onto their channel, brands have an opportunity to build enthusiasm, provide an interactive forum for feedback and questions, and develop a new sales channel.**

<sup>24</sup> Robert Williams, "Nike attributes digital revenue growth to demand across mobile apps," *Retail Dive*, July 5, 2022.

<sup>25</sup> Instagram, August 5, 2022.

— *Anticipate and partner with new creator brands.* Mega-influencers and other celebrities are increasingly interested in using their large audience of fans to become entrepreneurs with their own product lines. Rather than compete with these creators, brands can partner with them, setting up spin-offs in which creators take a stake and retain major creative control, while brands bring strengths in areas such as manufacturing and omnichannel distribution. Numerous brands have pursued this route, including fashion company Revolve, which partnered with influencer Aimee Song to launch Song of Style, a clothing and accessories line.<sup>26</sup>

Social media and content creation platforms can be the new secret weapon that lets brand marketers deliver significant growth for their products. As social and creator platforms move rapidly to incorporate innovative buying options, consumers will follow with their wallets. Brands that fail to understand this transformation of the customer journey or acknowledge the reduced relevance of their traditional, website-based channel could be devastated by both competitors and smaller brands taking share. To adapt, brands will need a holistic strategy for influencer partnerships and for social-first content. The time for brands to act on social commerce is now.

— *Build global capabilities by experimenting in the Chinese market.* Brands will need new capabilities to deliver successful social-commerce offerings in the United States. With a large and dynamic social-commerce ecosystem, China offers an ideal test market. Multinational brands have an opportunity to test and scale new capabilities with Chinese consumers. However, brands need to ensure they have the talent and expertise to execute these initiatives in the United States, which thus far has been a major stumbling block for brands trying to import social commerce from China.

<sup>26</sup> Rachel Strugatz, "How Revolve plans to turn a mega-influencer into a fashion mogul," *Business of Fashion*, April 30, 2019.

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