

What Singles Day can tell us about how retail is changing in China

Singles Day is the largest single-day sales event globally, but new trends are changing what it means inside and outside of China.

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This year's Singles Day (China's shopping event on November 11, or "Double 11") clocked in as the biggest shopping spree the world has ever seen. Consumers purchased \$45 billion (314 billion renminbi) worth of goods and services in a 24-hour period. To put it in perspective, this is three times this year's Black Friday and Cyber Monday online sales combined, and more than 90 percent of it happened on mobile devices, compared with 34 percent mobile purchases on Cyber Monday.

Started by the Chinese e-commerce giant Alibaba, which took a celebration for single people and began promoting it as a major shopping day ten years ago, this year's Singles Day featured at least four other retail platforms or ecosystems of companies, with Alibaba capturing 68 percent of total sales.

McKinsey took a hard look behind the eye-popping sales numbers to understand this year's business implications: where Singles Day is headed, who the winners were and why, and where the growth came from.¹

Singles Day's growth is slowing and will need to further evolve

Over the past five years, Singles Day sales have been on a tear, leaping an average of almost 50 percent year over year and significantly outpacing the overall growth of online retail in China. This has made it relatively easy for brands to post large sales numbers on Singles Day.

But the rate of growth of Singles Day sales is declining (Exhibit 1). This year's 24 percent increase, as compared with 44 percent in each of the past two years, is more in line with the growth of online retail in China. What this suggests is that both retail platforms and brands will have to look at new avenues of growth for Singles Day. That could include more aggressively tapping new markets outside of China (more on this following) or more creatively leveraging complementary events. This

year, for example, online games and interactive shows, including a "See Now, Buy Now" fashion show that let consumers buy items featured on models, helped stoke excitement leading up to Singles Day. The actual day kicked off with a four-hour, star-studded gala of performances in Shanghai's Mercedes-Benz Arena, watched by 240 million viewers.

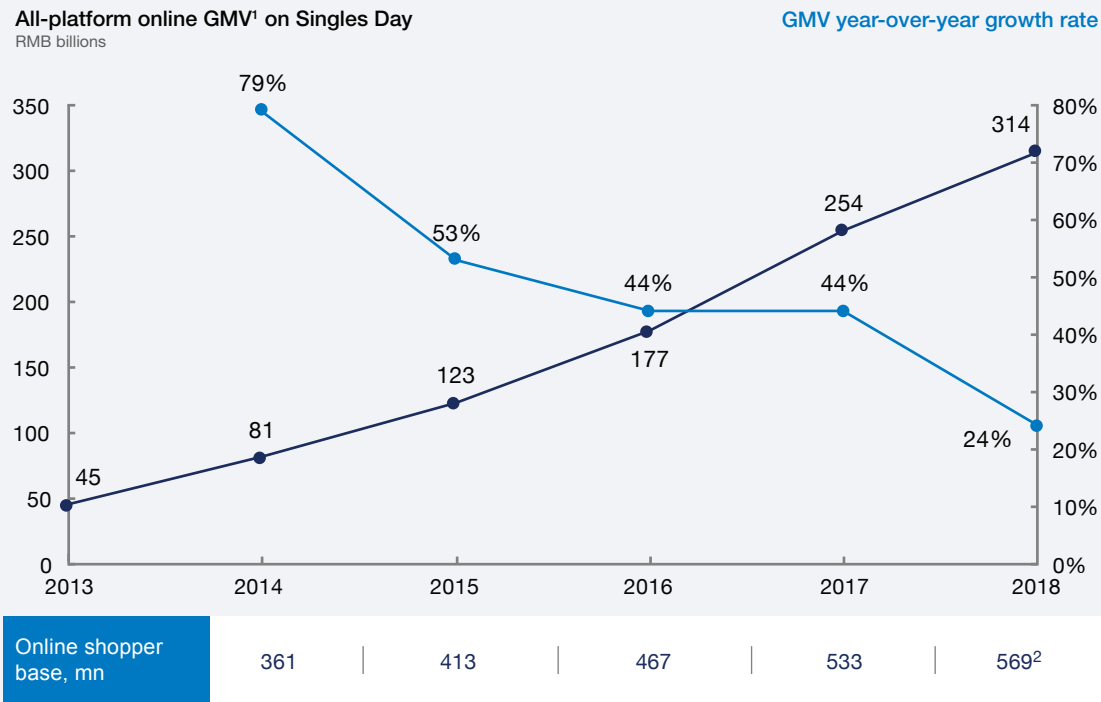
Whatever the approach, it is clear that brands and retailers will need to be more disciplined and realistic in setting forecasting goals, tapering their promotional spending accordingly and rationalizing their online sales across the whole year, including other holiday peaks as well as "super category days" and "super brand days."

Discounts play a big role in Singles Day sales

On Singles Day, getting big sales lifts meant offering consumers big discounts on products. The categories with the biggest price cuts were not only among the best sellers, but they also succeeded in driving additional market share. Parent and baby products, with an average discount of 33 percent, captured 18 to 19 percent of category sales in China, versus 6 to 7 percent on a normal day. Skin-care and cosmetics brands, with an average price cut of 30 percent, boosted their share to 12 to 15 percent, up from the usual 3 to 5 percent (Exhibit 2).

Discounts took several forms: direct online price cuts, coupons that could be used both online and at brick-and-mortar stores, promotions offered during presale events, and platform discounts offered by Alibaba's main e-commerce site, Tmall. One interesting development this year was that Alibaba also offered discount coupons to incentivize shopping back and forth across its ecosystem. Users of at least 20 Alibaba subsidiaries (such

Exhibit 1 Singles Day absolute GMV growth and year-over-year growth rate



¹ Gross merchandise volume.

² As of June 2018.

Source: Syntun, CNNIC

as Ele.me, social media, music streaming, and travel apps) were able to participate in on-platform games to get coupons they could redeem on Tmall.

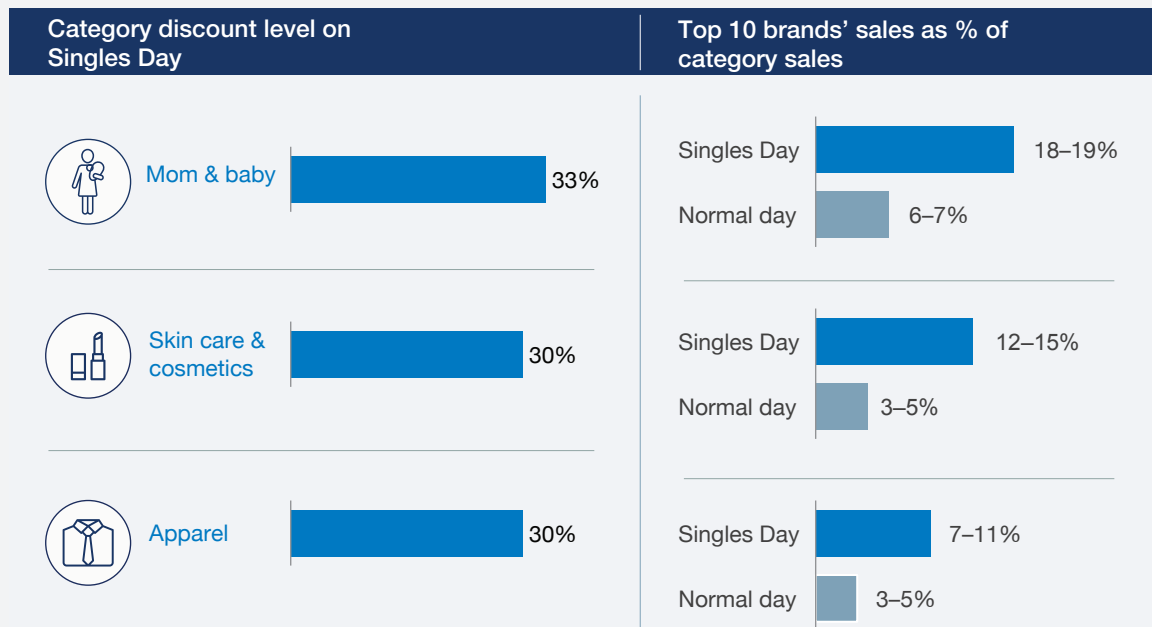
Yet even though heavy price reductions are essential for Singles Day success, brands need to be careful to avoid participating in a race to the bottom. This is particularly true for smaller brands, which don't have the deep cash reserves to compete through discounts. One way to avoid unprofitable sales is to pair more modest discounts with free gifts or shift the emphasis toward product launches. This year, for example, Dyson used social media to promote its new Airwrap

hair-curling product that was launched exclusively on Singles Day. In the first three minutes, the company sold 1,500 units on Tmall. Similarly, Budweiser created special-edition packaging of its beer and sold all of the 30,000 packs it produced, and Johnson & Johnson introduced new fruity and floral flavors of Listerine.

Singles Day is spilling over to physical stores

This year for Singles Day, e-commerce giant Alibaba made a concerted push to connect its online operations with its stores throughout China. Alibaba made sure consumers could find the Singles Day promotions and offers offline as

Exhibit 2 Brands can hardly escape from the discount battle, leaving very little room for small brands.



Source: VENNDATA Double 11 report, aggregated expert interviews

well—in 62 Intime department stores, around 100 Hema supermarkets, and 222 Easyhome furniture and home-improvement stores.

Individual brands also used discounts and tactics such as click and collect to drive additional sales in stores. Luckin Coffee, a Chinese startup that’s competing with Starbucks, featured a “Buy 1, get 2 free” discount that could be claimed online and used in any offline store. The promotion drove additional store traffic and fueled a total of 18 million cups (including coupons) sold in a seven-day period, which is equivalent to a 62 times bump in the number of cups sold per normal day. Similarly, consumer electronics brand Xiaomi grew its sales by 110 percent on Singles Day, from \$353 million in 2017 to \$754 million in 2018, by giving store

shoppers the same discounts available online and by featuring smart home products that are best experienced in person.

While offline store purchases are still a relatively small percentage of Singles Day sales—less than 2 percent of Alibaba’s sales came from its Hema and Intime stores²—omnichannel sales on Singles Day can have outsized importance. Retail platforms and brands should seek to drive omnichannel promotions because they give consumers the seamless integration of online and offline they desire. Omnichannel tactics also motivate people to visit stores where brands can create the kind of meaningful experiences and helpful interactions typically not found online.

Rooted in China, Singles Day is an increasingly global event

This year, a record number of multinational brands (more than 19,000) participated in Singles Day, which resulted in a major spike in sales from imports. While overall Singles Day sales grew by 24 percent, the growth of products imported into China was much higher, at 63 percent on Tmall.³ Among the top-selling multinational brands on Tmall were Spanish beauty company MartiDerm, Japanese diaper brand Moony, Dyson appliances, and the US supplement brand Schiff. For international brands, this means that Singles Day can be an important opportunity to drive product sales growth in China. Alibaba's Tmall offers access to a large consumer base and has architected a wide range of supporting capabilities, such as data analytics, logistics, and product innovation, that allows companies to easily sell on its platforms.

At the same time, Singles Day fanned out across the globe, with multinational e-commerce sites offering big discounts and doing heavy promotion for the shopping event. Most of these sites saw major increases in their customer sales and orders on Singles Day. Lazada, which is approximately 91 percent owned by Alibaba,⁴ featured Singles Day in Singapore, Malaysia, Thailand, Indonesia, the Philippines, and Vietnam, and saw its initial sales during the first hour of Singles Day grow sevenfold over last year. Shopee, the leading online shopping platform in Southeast Asia and Taiwan, grew its total customer orders on Singles Day by 4.5 times.

Farther afield, US apparel seller Shopbop offered discounts on Singles Day. Alibaba, which has said its long-term goal is to get half of its total sales from overseas, brought Singles Day to the United Kingdom, France, Spain, Poland, Russia, and Turkey through AliExpress, an online site that exports Chinese products to international buyers. In Europe, AliExpress partnered with El Corte Inglés department store to create more than 2,000

click-and-collect pickup locations, including pop-up stores. This year, AliExpress's total sales on Singles Day were up 40 percent.

As Alibaba and other Chinese retail platforms continue their expansion abroad, we can expect to see significant growth in Singles Day sales in Southeast Asia and other markets, potentially through partnering with companies like Lazada or Shopee.



Although Singles Day year-over-year growth is slowing, the event is still a behemoth for Chinese retail and represents a significant opportunity for brands to grow in China. Participating is no longer optional but a requirement for any international brand that sees itself with a future in Asia and wants to build brand engagement and craft unique experiences with consumers. ■

¹ For this analysis, McKinsey relied upon multiple sources: Syntun and VennData reports, expert interviews, and press searches.

² Sales from brick-and-mortar stores were not actually counted in this year's Singles Day total.

³ From Syntun.

⁴ As of March 31, 2018.

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