

RETAIL PHENOMENON: WHAT SHOULD BUSINESSES KNOW AHEAD OF SINGLES' DAY 2019?



With digital advances offering even more ways to reach customers, Singles' Day remains one of the most important events in China's retail calendar. But with the US-China trade war leaving ripples, and broader economic disruption taking effect, what can businesses expect to accomplish by taking part in China's largest online sale event this year?

Singles' Day, Double 11 or 11.11 is the largest and loudest online retail event in China. What began as an 'anti-Valentine's' celebration for single people has since been adopted by e-commerce businesses as an event of huge discounts and sales, cashing in on consumers' enthusiasm to treat themselves.

As we did in 2018, AlixPartners has surveyed Chinese consumers to find out their attitudes and buying preferences regarding this important event. Here, we preview the consumer perceptions and behaviours which will shape this enormous sales extravaganza.

1. Participation: still growing strong

As it celebrates its 11th year, the 2019 Singles' Day 11.11 sale is expected to continue its growth trajectory, even as increasing numbers of consumers plan to give this event a miss.

Singles' Day has seen extraordinary year-on-year growth since it began in 2009. Last year, Alibaba (Taobao and Tmall) made record sales of \$30.8bn (£24.1bn) within 24 hours – and is looking to do even better in 2019. JD also achieved strong growth with GMV of \$23.2bn (£17.8bn) from 1 – 11 November, a 25.7% increase compared to 2017.

According to our survey results – defying both weak economic conditions and the effects of the US-China trade war – tier 1 and tier 2 city consumers are estimating to spend 54% more

this year compared to last year. Additionally, 57% of surveyed consumers, mostly from tier 1 and 2 cities, plan to spend more than RMB5,000 during this year's Singles' Day compared with only 28% last year.

Generally, respondents intend to spend more in this year's Singles' Day sale. While there are fewer respondents planning to spend between RMB300 and RMB5,000 this year (32% vs 53% of respondents last year), larger spenders of between RMB5,000 and 10,000 have increased by 1.7. The event's highest spenders – those predicting to spend over RMB10,000 – have tripled in numbers compared to last year.

Women predicted that they would spend 15% more than men, while consumers aged 50-59 emerged as the largest spending age group, despite having the lowest reported income among the age groups.

However, despite consumers indicating that they intend to spend more, 8% of respondents said they will not participate in Singles' Day 2019 – compared to only 1% in 2018 – with 48% saying that they are put off by the event's longer wait for deliveries. This suggests that logistical challenges and consumers' expectation of fast deliveries have impacted people's desire to take part.

Others simply dislike having to stay up for the midnight opening of 11-11 to capitalise on discounts (42%) or find that the discounts aren't big enough to warrant the effort (29%). After all, there are now numerous sales events throughout the year offering discounts on a wide array of categories.

WHAT THIS MEANS FOR RETAILERS

The results show that Singles' Day is a truly mainstream event. Consumers are no longer looking for last season's discounted goods, but instead expect new, relevant and quality products at a low price, with good service, and to be entertained. Businesses need to get in on the action if they're not already selling during this event, as Singles' Day participation has become a barometer of a brand's presence in the market.

Meanwhile, firms who are already participating need to put out new and exciting items for sale; this is no longer a channel for clearing out your old inventory.

WHAT IS SINGLES' DAY?

- Started in the 1990s by students at Nanjing University as an 'anti-Valentine's' celebration for single people in China
- Also known in China as 'Double 11', the name reflects the single digits of the date it's held on – 11 November (11.11)
- In 2009, it was adopted by e-commerce giant Alibaba – which owns Taobao and Tmall, two of China's biggest online marketplaces – as a day where single people could lavish gifts on themselves
- In the first year, consumers spent RMB50m (around £5m) and 27 companies offered discounts
- In 2011, a special 'Singles' Day of the Century' was held, when the date – 11.11.11 – featured six ones

BY THE NUMBERS

2,022

Chinese consumers
were asked about their
Singles' Day predictions

88%

were from tier-1
or tier-2 cities

Consumers say they
are planning to spend

54%

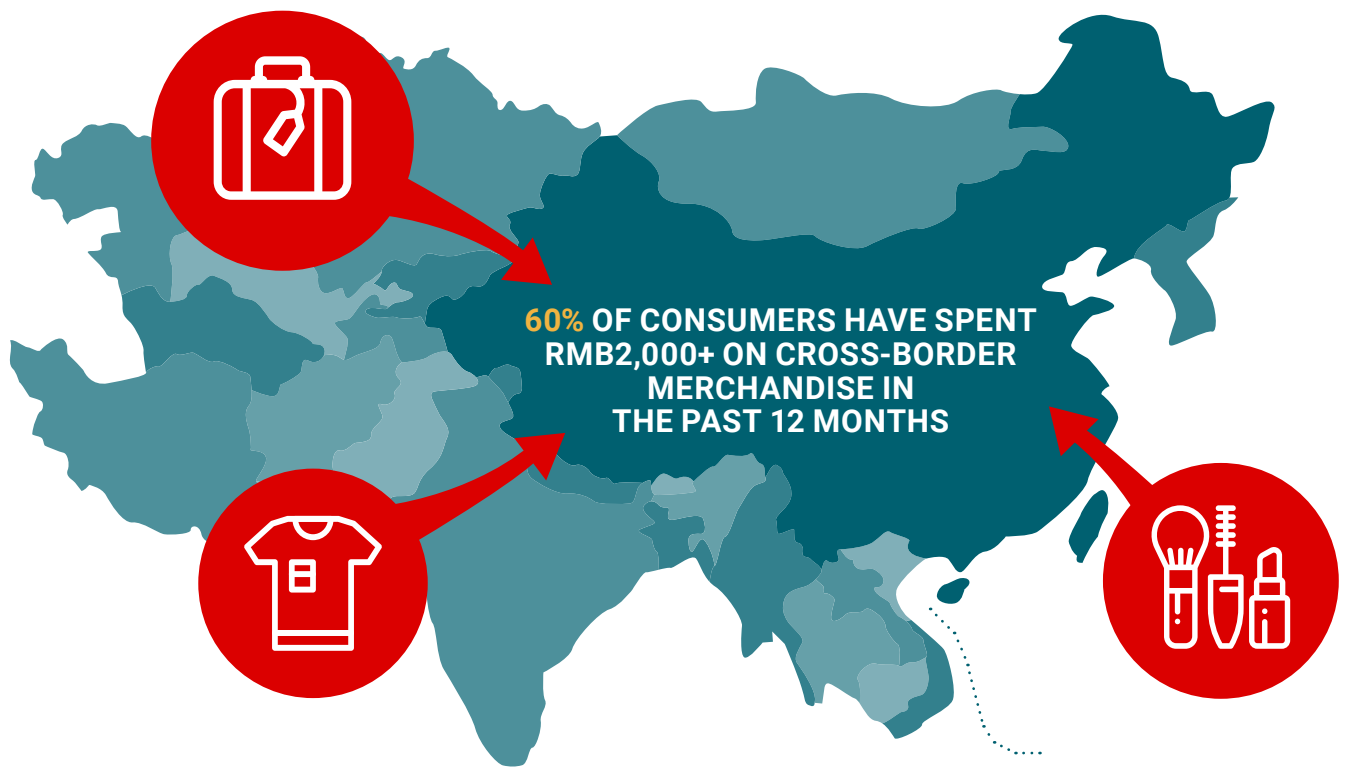
more in 2019 vs 2018

50-59

year-olds say they will spend the
most, despite having the lowest
reported income

plan to spend
RMB5,000+

57%



2. Preferences: trade war causes conflict

Sales of foreign, non-US brands are expected to grow, but the trade war will impact on US brands' sales.

One of the major trends when it comes to consumer purchasing decisions is, as predicted, the ongoing trade war between the US and China. Our survey shows that 78% of respondents think their consumption of American brands will be impacted, and 70% said the trade war will impact their overall purchasing. More than half of respondents (51%) cited national loyalty as the main reason for not buying American brands, over quality (27%), price (16%) and speed of delivery or customs (6%).

Most Chinese consumers seem to prefer local brands in general (61%), with no change to this preference over foreign brands (30%), though foreign brand purchases are predicted to rise 3% compared to last year.

Chinese consumers continue to associate foreign products

or cross-border platforms with higher quality products (57%), safer or more trustworthy manufacturing (47%) and better product design (43%), despite only 22% admitting a general preference for foreign brands.

WHAT THIS MEANS FOR RETAILERS

Chinese consumers are sensitive to product quality, product safety and – increasingly – sustainable and responsible manufacturing. In general, they also prefer local brands, and the recent rise in pro-China feeling has only pushed this further. But Chinese consumers are pragmatic; they will not sacrifice quality simply to buy Chinese products – they are increasingly sophisticated buyers.

Though there are a lot of opportunities for local firms, they need to work hard to prove their products are equal to the perceived 'better' foreign competitors' products. Therefore, it is critical for local businesses to communicate their product advantages through high quality design and marketing.

3. Products: some familiar favourites

Consumer categories favour apparel, beauty and electronics – but demographics change this.

Apparel, footwear and sporting goods are predicted to be the top purchases during this year's sale, followed by beauty products and lifestyle electronics. Further down the list, predictions of spend on media and digital products has gone up (+2%), as has fresh food (+1%), while luggage and bags have gone fractionally down (-1%).

But these categories are not constant across all demographics. While both women and men predict they will purchase mostly clothes and fashion, men then prefer footwear and sports goods (37%) and lifestyle electronics (35%). More women than men predict their top category will be clothes and fashion (46%), closely followed by cosmetics and beauty (41%).

The over-60s buck the trends with 29% predicting that they will buy groceries. All other age groups follow the main trends, with 19 to 29-year-olds topping the three most popular categories (apparel, footwear and cosmetics). Media and digital product spending is polarized by age, with 19% of the youngest (19 to 29) planning to buy from this category and only 10% of the eldest age bracket. More of the over-60s and 40 to 49-year-olds plan to buy white goods than other age

groups, and restaurant takeaway predictions are higher than average for the three eldest age groups.

In terms of income brackets, higher earners (with incomes between RMB420k and RMB720k per year) predict their top three categories will be cosmetics (35%), jewelry (19%) and fresh food (18%). More of the highest earners intend to buy luggage (21%) than others, making it their fifth most popular category. Meanwhile, 14% of those earning less than RMB48k per year, predict they will buy takeaway food on Singles' Day, which is higher than most other income brackets.

WHAT THIS MEANS FOR RETAILERS

Digital technology has made it easier for businesses to know their customers. But, with such diversity in category choice across consumer demographic groups, it is more important than ever that they use the tools available on their digital platforms to target these groups. Unfortunately, the proliferation of platforms, each with their pockets of loyal and unique customer groups, is stretching investment budgets.

Moreover, Chinese platforms all tend to quickly implement the same 'best practices', which means over time they all start to look alike. For brands, choosing where to invest becomes a test of how well they know who their core customers are, and where and what they are buying, in order to maximize traffic and increase conversions.

THE TOP CATEGORIES CONSUMERS EXPECT TO SPEND ON ARE:



**Clothes and
fashion**

45%



**Footwear
and sporting
goods**

33%



**Cosmetics and
beauty products**

32%



**Lifestyle
electronics**

26%



4. Promotion: a growing stage for social and live streaming

Targeted e-coupons and banners still work, but new product launches and live streaming will heavily influence traffic and sales.

When it comes to reaching consumers, online e-commerce businesses can relax somewhat, as in-platform banner ads (24%) and targeted discount e-coupons (21%) remain consumers' preferred methods for finding deals. More traditional engagement through SMS messages, offline adverts and email blasts were seen as the least effective channels.

However, it is worth noting that 67% of respondents cited 'new product launches' as one of their top three important criteria when selecting which brand or product to buy, so it is clear that new product launches could improve traffic and performance during the event. Others cite discounts, (54%), online to offline integration (50%), collaboration with other platforms, other brands and channels (49%) and availability of demo videos (42%) as key selection criteria.

Social media is also having a strong impact on e-commerce sales, with only 16% of respondents not planning to make part of their purchase through live streaming in this year's sale.

However, only 13% of respondents say they would purchase a new product via live streaming, instead 30% would rather head to a designated new product page for all brands.

WHAT THIS MEANS FOR RETAILERS

Consumers in China easily embrace innovative and fun methods of shopping. However, data shows that methods such as live streaming work for impulse purchases or for products that are familiar to the consumer. A new product requires more research and careful price comparison. Firms need to understand the nuances of promoting different products, given the increasing array of sales tools being pushed on them by platforms.

Investing blindly in new-fangled trends without understanding consumer needs could result in low returns and weak sales. More importantly, it could mean a lost opportunity to maximize brand impact on this all-important national, and increasingly globalized, event.

What is clear is that this Singles' Day, online retailers taking part will have many opportunities to reach consumers, particularly in innovative ways. Whether via new product launches or live streaming, consumers of all ages and incomes are ready to get involved with the excitement and fun of the event, and, most importantly, treat themselves!

SINGLES' DAY PARTICIPATION LOOKS SET TO DECREASE:



1%

did not participate in 2018

8%

will not participate in 2019

Conclusion: a sale not to be missed but some caution is needed

Our survey results indicate that Singles' Day will continue to grow and be even bigger than last year. Brands are frequently assessed by their success in this event, so they can't afford to miss out on a substantial sales drive, but there are some things to bear in mind:

- Customers have been conditioned to expect promotions and discount offers. Though overall sales are often high, event margins can be low, and pricing needs to be managed carefully
- Launching new products during Singles' Day can be a good way to increase margins, as there isn't a 'standard' price by which a customer can judge the size of a discount. But there are substantial logistical challenges to launching a new product, with large volumes available for sale in a narrow and unmovable time window
- US brands can expect some disruption because of the consequences of the US-China trade war on consumer sentiment
- The level of returns can be high and final GMV figures will be lower than orders. The cost of reverse logistics added to product re-work or disposal costs could actually mean some will lose money on the event – so tread carefully.

FURTHER INSIGHTS

- Tmall, Taobao and JD are the biggest e-commerce platforms in China
- In terms of choosing who to shop with, trustworthiness, level of discount and new product launches are considered the most important shopping criteria, while consumers appear to care least about promotions via videos and games
- Lower prices are the biggest reason for 48% of consumers who participate in social or group buying platforms
- The majority of consumers place most of their purchase orders or pre-orders on Singles' Day itself or between one and five days in advance
- Two-thirds receive their Singles' Day orders four to six days or more after being placed – only 4% received the packages within two days
- 40% say they are more likely to return products purchased during Singles' Day sales, compared to their regular purchases
- 40% returned products purchased during last year's Singles' Day for reasons like defective items, damaged packaging and misrepresented items

AUTHORS:

Jason Ong

Director, Shanghai
+86 21 6171 7583
liong@alixpartners.com

Michael McCool

Lead Managing Director – Greater China Retail & Consumer Goods
+852 2236 3568
mmccool@alixpartners.com

FOR MORE INFORMATION CONTACT:

David Bassuk

Managing Director – Global Co-Lead, Retail
+1 (212) 845-4040
dbassuk@alixpartners.com

Sanjay Bailur

Managing Director – Global Co-Lead, Consumer Products
+44 20 7098 7451
sbailur@alixpartners.com

Kenzo Nagaoka

Managing Director – Japan Retail & Consumer Goods Lead
+81 3 5533 4875
knagaoka@alixpartners.com

ABOUT US

For nearly 40 years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly-qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

The opinions expressed are those of the author and do not necessarily reflect the views of AlixPartners, LLP, its affiliates, or any of its or their respective professionals or clients. This article regarding Retail Phenomenon: What should businesses know ahead of Singles' Day 2019? ("Article") was prepared by AlixPartners, LLP ("AlixPartners") for general information and distribution on a strictly confidential and non-reliance basis. No one in possession of this Article may rely on any portion of this Article. This Article may be based, in whole or in part, on projections or forecasts of future events. A forecast, by its nature, is speculative and includes estimates and assumptions which may prove to be wrong. Actual results may, and frequently do, differ from those projected or forecast. The information in this Article reflects conditions and our views as of this date, all of which are subject to change. We undertake no obligation to update or provide any revisions to the Article. This article is the property of AlixPartners, and neither the article nor any of its contents may be copied, used, or distributed to any third party without the prior written consent of AlixPartners.