

# Innovation & Singles Day 2017

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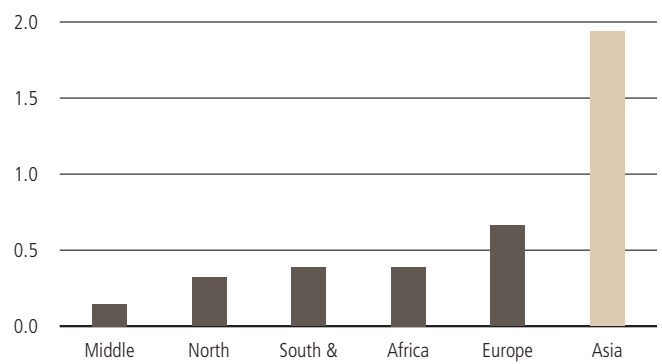
This year's Singles Day event showed how internet companies in Asia are innovating to engage consumers and capitalize on increasing internet penetration and the ongoing shift to online retail.

Estimated at 1.94 billion users,<sup>1</sup> Asia has the world's largest internet user base, and leading internet services companies in the region are competing for market share by creating innovative experiences to engage consumers and drive user traffic.

User traffic is one of many lucrative sources of revenue for internet companies because they generate commissions on completed trades and leverage user behavior data to sell targeted advertising products to the retailers on their platforms.

The Singles Day event on November 11, 2017 was the most active online sales festival globally so far this year. One leading China-based online platform<sup>2</sup> reported a 42.1% y-o-y increase in sales to RMB 168.2 billion (USD 25.4 billion) that dwarfed recorded sales for all companies during Cyber Monday and Black Friday,<sup>3</sup> the two largest retail events in the US.

**Exhibit 1: Total Internet Users by Region (Billions), 2016**



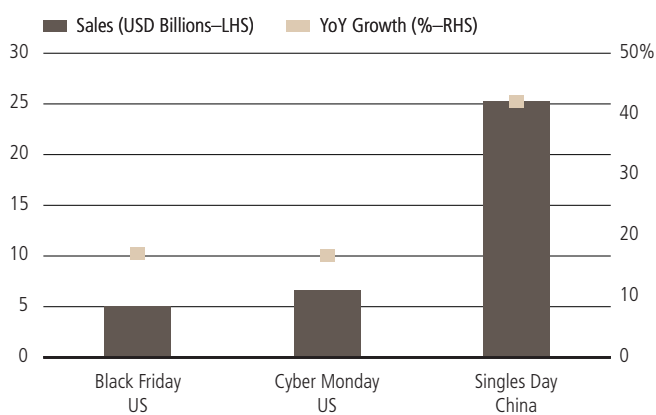
Source: Internet World Stats, December 2017

<sup>1</sup> Source: Internet User Stats: Asia.

<sup>2</sup> Source: Bloomberg: Alibaba Singles' Day Posts Record 168 Billion Yuan in Sales.

<sup>3</sup> Source: CNBC: Online sales hit another record on Cyber Monday, as shoppers continue gobbling up deals.

**Exhibit 2: Online Sales Events Compared 2017, Sales (USD Billions–LHS) & YoY Growth (%–RHS)**



Source: Internet World Stats, December 2017

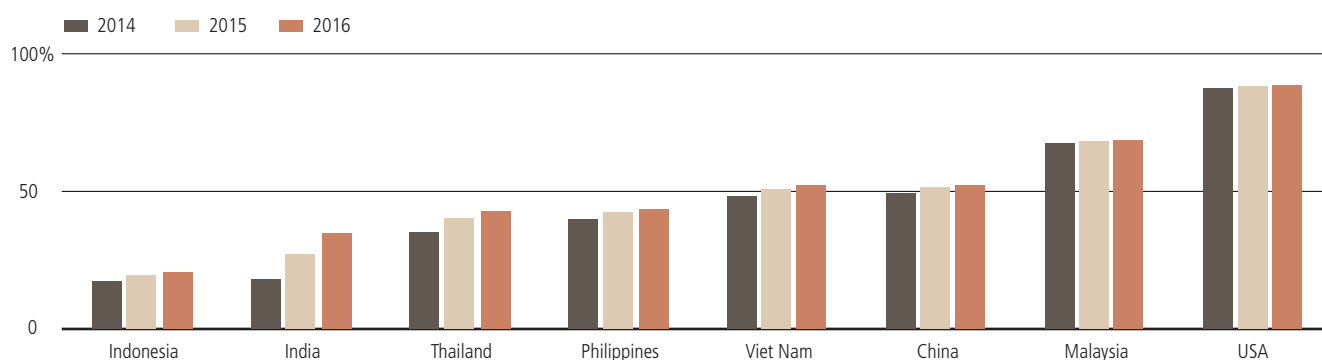
While Singles Day 2017 wasn't limited to China, a Southeast Asia-focused platform saw sales grow 171% y-o-y to USD 123 million,<sup>4</sup> China-based platforms demonstrated a series of innovations to create unique customer experiences and drive user traffic during the festival, and here are six examples:

- **Integrated online content and ordering:** Online video shows broadcast during the festival offered products that could be ordered through online 'click-and-buy' features or through smartphone linked apps.<sup>5</sup> For example, smartphone viewers could shake their phone when they saw a product they wanted and the app would automatically present product and ordering information.

- **Online games and discounts:** Customer engagement through social media ramped up a notch, with TMall running a 'Catch the Cat' Pokemon-style game where players could earn virtual discount coupons when they find a TMall cat mascot in designated shopping locations.<sup>6</sup>
- **Automated warehousing:** Mainland China operators announced new robot-driven warehouses in time for the festival.<sup>7</sup> Applying automation can provide significant efficiencies, with a recent study of Amazon's US operations showing that automation cut click-to-shipping times from between 60 to 75 minutes to 15 minutes.<sup>8</sup>
- **Virtual reality and face recognition payments:** By applying new technology, a China-based platform gave shoppers the opportunity to visit offline stores, scan QR codes for product information, use virtual reality programs to try on clothes, pay via facial recognition software, and have their orders automatically delivered.
- **AI-powered customer service functions:** Chatbots made an entry this year, with one leading operator introducing an online, AI-powered program that it said could understand approximately 90% of customer enquiries and serve almost 3.5 million users per day.<sup>9</sup>
- **Drone deliveries:** Two major online retailers in China trialed drone delivery services during this year's Singles Day festival, marking a new approach to logistics intended to reduce delivery times and cut delivery costs.<sup>10</sup>

This year's innovations followed on from 2016, when one platform launched a virtual-reality powered program that put users in Macy's physical department store and allowed them to try on clothes and buy using a linked-in payment system.<sup>11</sup>

**Exhibit 3: Internet Penetration Rates (%), 2014-2016**



Source: Internet Live Statistics, 2014, 2015, 2016

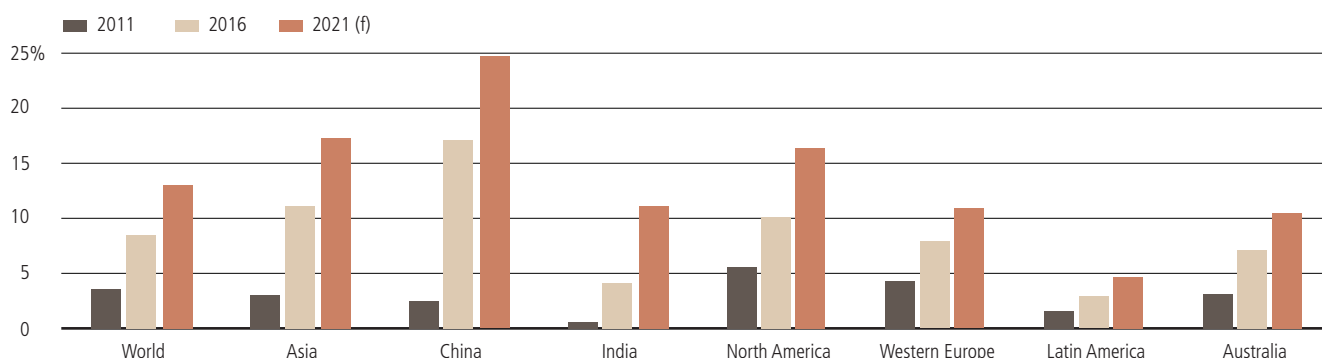
<sup>4</sup> Source: Economic Times: Flipkart again beats Amazon in festive season sale.  
<sup>5</sup> Source: Techwire: E-tailers up their game as Singles' Day nears.  
<sup>6</sup> Source: Alizila: China Shoppers Tap Away to Catch That Darned Cat.  
<sup>7</sup> Source: Techwire: China's e-commerce giants employ advanced tech for Double Eleven festival.  
<sup>8</sup> Source: Quartz: Amazon is just beginning to use robots in its warehouses and they're already making a huge difference.  
<sup>9</sup> Source: SCMP: Alibaba lets AI, robots and drones do the heavy lifting on Singles' Day.  
<sup>10</sup> Source: The Economic Times: Alibaba's drones deliver packages to islands.  
<sup>11</sup> Source: Quartz: Virtual reality lets Chinese customers shop Macy's New York store on the world's biggest shopping day.

Innovative features not only positions internet firms to compete for business during major shopping events like Singles Day, but also to benefit from what we expect will be continued growth of online retail in both China and the rest of Asia.

Online sales as a share of total retail sales is estimated to grow to 17.3% on average in Asia in 2021, compared with a global average of 13.0%, with online sales in China and India forecast to account for 24.7% and 11.1% of total retail sales by 2021, respectively, according to Euromonitor estimates.

So the innovations on show during Singles Day demonstrated how internet firms, particularly those in China, are positioning themselves to benefit from the underlying trends driving strong consumer demand in the region. Given the long-term nature of the trends driving internet companies in both China and Asia, we're expecting these innovations to continue to drive further growth in the region in the future.

**Exhibit 4: Online Retail as % of Total Retail Sales, 2011, 2016 & 2021 (f)**



Source: Euromonitor: Hong Kong's E-commerce Ecology: Exporting to the World.

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