

## Industry Trend Analysis - Investors Bank On Asian e-Commerce Prospects

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**BMI View:** The rapid growth of Asia's electronic commerce (e-commerce) market is driving investment in the region's online retail, digital advertising and media, real estate and transportation and logistics industries. As broadband access is extended to more people across the region and as consumers increasingly turn to connected devices to purchase digital and physical goods and services that traditional bricks-and-mortar outlets cannot easily procure or distribute, so will numbers of both specialised and general online-only sales platforms proliferate. Increased usage of e-commerce will therefore be both a direct and indirect driver of economic growth across the region.

Utilising proprietary demographics, telecommunications and retail industry data, combined with local government and independent consultants' assessments of the number of online shoppers, **BMI** believes that e-commerce sales in 11 key South East Asian markets - excluding China - reached USD344bn in 2014.

The region's most affluent markets - Japan, Hong Kong, South Korea and Taiwan - lead the field with USD326bn in combined sales. This is not surprising, given the advanced state of technology in these countries and consumers' deep familiarity with buying goods and services remotely and/or using credit cards rather than cash. Established transportation and logistics infrastructure provide extra security, ensuring that goods are delivered on time and in good condition at low cost.

However, as recent developments highlight, emerging markets such as India, Indonesia, the Philippines and Vietnam have attracted the attentions of private equity investment in e-commerce. As a result, we expect the value of e-commerce in the countries to grow rapidly, providing there is accompanying investment elsewhere in the online retailing ecosystem.

KEY ASIAN E-COMMERCE MARKETS, 2014											
	HK	IN	ID	JP	MY	PH	SG	SG	TW	TH	VN
<b>Market Size (mn)</b>											
Population	7.3	1,267.4	252.8	127.0	30.2	100.1	5.5	49.5	23.4	67.2	92.5
Internet Users	6.5	148.4	51.0	104.4	20.9	27.3	3.9	41.1	20.8	15.6	33.7
Internet Penetration (%)	89.9	11.7	20.2	82.2	69.4	27.3	70.9	83.0	88.9	23.2	36.4
3G/4G Subscriptions	13.9	99.2	37.8	143.5	20.7	18.3	7.8	55.2	26.1	81.2	28.7
3G/4G as % of Mobile Market	79.8	10.5	11.7	92.6	46.1	16.0	96.3	95.2	84.5	83.1	21.1
No. of Online Shoppers	4.8	35.0	31.7	77.0	19.4	22.4	3.2	27.2	14.0	10.1	31.2
Online Shoppers as % of Internet Users	73.8	23.6	62.2	73.8	92.7	82.0	81.8	66.2	67.2	64.7	92.6
<b>Market Value (USDbn)</b>											
Retail Sales (USDbn)	191.2	1,250.3	508.1	2,735.7	181.1	207.2	118.9	582.8	198.9	222.2	95.0
e-commerce as % of retail (e)	6.4	1.0	0.3	9.2	0.5	0.6	1.5	6.5	11.9	0.2	0.1
e-commerce Sales, USDbn (e)	12.2	12.5	1.5	251.7	0.9	1.2	1.8	37.9	23.7	0.4	0.1
Opportunity at 5% of Retail Sales, USDbn (e)	32.0	5.0	1.5	46.0	2.5	3.0	7.5	32.5	59.5	1.0	0.5
Opportunity at 8% of Retail Sales, USDbn (e)	51.2	8.0	2.4	73.6	4.0	4.8	12.0	52.0	95.2	1.6	0.8

e = BMI estimate. Source: BMI, UBS, Statista, national statistics offices

In late May 2015, Indian online marketplace operator **Snapdeal** agreed to acquire mobile commerce (m-commerce) specialist **Martmobi** for an undisclosed sum. Significantly, Martmobi will enable Snapdeal to accelerate the development of a mobile-optimised platform and help the company expand its appeal beyond its current 40mn users. Around 75% of those users already locate, buy and sell goods on the Snapdeal platform via mobile devices, but Martmobi will provide comprehensive toolkits to Smartmobi's partners in the retail space and help them develop innovative new customer relationship and data analytics products.

Martmobi is Snapdeal's 10<sup>th</sup> strategic acquisition to date and the privately-owned company expects to make at least 10 more acquisitions over the next 12 months as it strives to compete for custom with business-to-consumer (B2C) platforms such as **Flipkart** and global player **Amazon**. The company raised approximately USD1bn in finance from key investors such as US-based **eBay** and Japan-based **Softbank** in 2014; besides financial support, the company benefits from its partners' considerable experience in the global e-commerce market.

Snapdeal claims to have recorded gross merchandise value (GMV) of USD3.5bn in May 2015, a four-fold increase over the GMV recorded for May 2014. By comparison, Flipkart is believed to have reached GMV of USD4.5mn in May 2015, boosted by its purchase of online fashion retailer **Mynta** in 2014 and the development of a specialised mobile app platform for the business. Amazon India, meanwhile, is said to be close to achieving GMV of USD2bn.

In December 2014, Flipkart announced USD700mn investment from new investors **Baillie Gifford**, **Greenoaks Capital**, **Steadview Capital** and **Qatar Investment Authority**, joining existing backers **DST Global**, **Iconiq**, **Naspers** and **Tiger Global**. A further USD550mn was raised from investors in May 2015, implying a total valuation of USD15bn. Having started out as an online seller of books, Flipkart has diversified into consumer electronics, fashion, footwear and jewellery; it has begun designing and selling its own-brand laptops and tablet computers and briefly ventures into the music download market.

Flipkart's strategic acquisitions include **Letsbuy.com** (consumer electronics), **Adiquity** (mobile-optimised digital advertising specialist) and mobile marketing and data analytics company **Appiterate**, as well as Myntra.

#### Indonesia

There is a large and growing mobile userbase in Indonesia, one that already supports a large and multi-faceted e-commerce industry thanks to the popularity of **BlackBerry** smartphones and secure messaging platform. BlackBerry phones also provide access to social media platforms such as **Facebook** as well as popular blogs, though which canny retailers have been able to advertise and sell products for several years.

Consumers are becoming more confident with regards to more generic online retailing experiences, allowing a large number of browser-based sites to emerge and attract large numbers of users on a regular basis. Founded in 2009, **Tokopedia** has become the largest and most well-known online shopping brand in Indonesia and attracted investments from **Sequoia Capital** and **SoftBank** in October 2014. It is similar to Snapdeal, in that it aggregates online sellers' 'virtual' shops on a single platform and supports standard payment solutions.

**BMI** believes Indonesia recorded approximately USD1.5bn in B2C e-commerce sales in 2014, representing just 0.3% of overall retail sales that year. Lifted by rapid expansion of Tokopedia and the proliferation of scores of independent retailers, we believe Indonesia has the potential to become one of the leading mid-tier e-commerce markets within five years.

#### Malaysia And Philippines

**Rocket Internet** has been investing heavily in Malaysia and the Philippines over the last 18 months and backs some of the most popular B2C e-commerce players in these countries, including **Lazada** (an online marketplace) and **Zalora** (an online fashion retailer), among many others. In Malaysia, auction-, classified-, deals- and coupon-based platforms remain more popular than B2C retailing services, but through the expansion of Lazada, in particular, and the launch of Japan-based **Rakuten**, this emphasis is changing.

**BMI** believes the Malaysian e-commerce market generated sales of USD0.9bn in 2014, representing just 0.5% of total retail sales. Accompanied by advances in broadband infrastructure roll-out and the growing ubiquity of affordable mid-tier connected devices, growth in the number of online retailing sites will help e-commerce sales triple over the next two to three years.

#### South Korea

In May 2015, SoftBank agreed to invest USD1bn in **Coupang**, claimed to be South Korea's leading e-commerce company. Coupang is a daily deals, flash sales and social e-commerce platform and reports suggest it has a market valuation of USD5bn. Coupang expects to use the finance to break into the US and Chinese markets as well as acquiring technology firms that will deepen its reach into South Korea's vast connected devices market.

Although global players like **eBay** and Groupon are attracted to South Korea's high household spending levels, they face stiff competition from local companies that emulate their core business models. Such players include **Auction**, **11st** and **Gmarket** (the latter having been acquired by eBay). Coupang's model is slightly different in that it is focused more on the C2C market, where it competes with social e-commerce players such as **Ticket Monster** (Tmon), **WeMakePrice**, **HelloMarket** and **Yellow Mobile**-owned **Coocha**, a dedicated m-commerce platform.

South Korea's e-commerce market was valued at approximately USD37.9bn in 2014, representing 6.5% of retail spending. The high proportion of e-commerce within retail sales is explained by the fact that the majority of transactions are made by the large youth segment of the market, the vast majority of whom own smartphones and tablets and own credit cards accepted by online retailers.

#### Thailand & Vietnam

At just 0.2% of total retail spending in 2014, Thailand's e-commerce market was valued at USD0.4bn. Although dedicated online retail platforms exist and are widely frequented, limited credit card use and consumers' preference for low-value or heavily discounted deals that can be paid for through their mobile account or as cash on demand means that it will be several years before B2C e-commerce begins to fulfil its potential in Thailand. Social networking platforms such as Facebook and **Line** are popular, while BlackBerry Messenger is also a leading facilitator of online sales.

Rakuten has a strong presence within the fledgling B2C market, while Lazada and Zalora are also making inroads. Reports suggest that the majority of online shoppers are young females and, unsurprisingly, it is cosmetics and other beauty products that account for the bulk of e-commerce sales.

The smallest Asian e-commerce market surveyed by **BMI** is Vietnam. At 0.1% of total retail sales, the country's e-commerce market was valued at less than USD0.1bn in 2014. Although the country has one of the highest online shopping penetration rates in Asia, the lack of a reliable integrated payment platform, poor logistics and delivery services conspire to keep confidence in B2C platforms in check. As in Thailand, consumers prefer to pay very small sums for goods purchased on line, most often through deals and flash sellers hosted on social media platforms such as Facebook and **ZingMe**.

#### Summary

There are considerable opportunities for established and start-up players alike in Asia's diverse and fast-growing e-commerce market. With m-commerce expected to come to the fore as more consumers acquire access to high-powered mobile broadband services, retailers will need to invest heavily in mobile-optimising both their legacy and e-commerce businesses, engage with more specialised players in the retail ecosystem and facilitate improvements in the logistics and electronic payments industries, too.