E-commerce in Southeast Asia set to boom!

Economically, Southeast Asia has long been overshadowed by the fast-developing giant China. Blinded by the e-commerce explosion in China, e-commerce players have been neglecting Southeast Asia which has been showing a promising growth in e-commerce as its internet and mobile penetration are growing rapidly. With a collective population of about 620 million that is almost half of China, Southeast Asia is fast becoming a hotbed for e-commerce providing tremendous opportunities for businesses while that of China is already saturated.  

**The e-commerce scenario in China**

China has one of the largest and most developed e-commerce and mobile commerce markets in the world.  Its biggest e-commerce portal Alibaba provides C2C (consumer-to-commerce), B2C (business-to-consumer) and B2B (business-to-business) sales services and has the distinction of coming out with the biggest IPO in global history at US$25 billion. Its online payment service Alipay akin to Paypal lays claim to being the world’s largest mobile payments platform.

Tencent is another large internet service portal in China which also owns the popular social messaging app WeChat (aka Weixin, its Chinese name) and the online payment service TenPay. WeChat/Weixin also offers facility for e-shopping and e-commerce payments to the users.

The B2C market in China has long been dominated by Tmall of Alibaba and JD.com which have a market share of 51% and 23% respectively. E-commerce sites such as China’s DangDang and Amazon who had 16% and 15% shares respectively in the Chinese B2C market in 2008 have been overshadowed by these two giants and their market shares have gone down to about 2%. Taobao, a C2C and e-commerce marketplace owned by the Alibaba group owns a whopping 95% share of the C2C space in China.

There are of course other smaller players but they have no chance against the sheer advantage of economies of scale that these major players have. Only the companies having a long-term vision and ability to make huge investments can hope to outcompete them.

**China’s B2C e-commerce market has become saturated**

The large B2C e-commerce companies in China have had the first-mover advantage in the highly populous country and the scale and volume of their business has grown huge. This gives them great bargaining power for better logistics, lower sourcing, warehousing and distribution costs as well as more low-cost and efficient marketing system.

Tmall and JD together own almost three fourths of the B2C e-commerce business in China. As a result, the smaller local and international players such as Amazon, Yihaodian, Vipshop and Suning, Rakuten and Neiman Marcus have had to struggle in order to compete with them. Foreign companies such as Neiman Marcus and Macy’s have been forced to rethink their online marketing plans in China and Amazon has resorted to opening a store in the hugely popular B2C marketplace Tmall of Alibaba.

**Domestic saturation has led to cross-border e-commerce but its share is insignificant**

A new trend of cross-border e-commerce is seen to be growing currently in China. Chinese e-consumers, who have been disillusioned by the contaminated food products and fake beauty products being sold in China are turning overseas for buying genuine products.

Smaller businesses that face dominance of bigger players look towards cross-border e-commerce to grow their business by providing a seamless online shopping experience to the users on the overseas websites and also offering much better pricing compared to the traditional imports.

“Cross-border is the last blue ocean for Chinese e-commerce,” said Yang Shenling, senior manager at Yihaodian at the recently held Asia Cross-Border Conference in Shanghai. Yihaodian is a leading B2C e-commerce website in China which is now fully owned by Walmart.

According to the China e-Business Research Center, the inbound cross-border e-commerce is currently about 155 billion RMB or US $25 billion which is expected to jump to 1 trillion RMB or US $164 billion by 2018 year-end. However, in terms of percentage, the cross-border e-commerce business is negligible compared to the total sales. Its share is not expected to grow much because due to stringent government regulations, the quality of domestic products is bound to increase over the coming years and the Chinese consumers will not have to look overseas to get good quality products.

In short, cross-border e-commerce business in China is an attempt to cope with the saturation in Chinese domestic markets but its percentage share is still very insignificant.

**Southeast Asia is the destination for the next e-commerce gold rush**

Similar to China is the e-commerce market in India. Indian e-commerce market is also saturated as some major companies like Amazon, Flipkart and Snapdeal are already deeply entrenched making it difficult for new players to compete with them. In contrast, Southeast Asia is a rising star. The e-commerce landscape of Southeast Asian countries is beckoning, offering great opportunities for those who are ready to face some challenges.

In 2013, the share of e-commerce in total retail sales was 7.8% in China, 7.2% in Europe and 5.7% in the US. In comparison, it was only about 0.2% in the ‘Big 6’ Southeast Asian countries – Indonesia, Malaysia, Singapore, Thailand, Philippines and Vietnam. The gap implies that there is tremendous growth potential for e-commerce these countries.

Powerful trends such as rapid economic growth as well as growing spending power, internet penetration and mobile adoption are transforming the Southeast Asian region and its people, providing significant momentum to the e-commerce and m-commerce markets. More and more consumers are now visiting online retailers. Internet penetration in the region which is currently at 32% is estimated to rise to 48% by the end of 2017. Southeast Asia has about 199 million people online which are projected to rise to 294 million in the next three years.

However, the problem with Southeast Asia is that it doesn’t have online payment platforms like China’s Alibaba or Tencent’s WeChat yet. With their size and reach, these two giants dominate China’s e-commerce market and it has been seen that COD payments which were over 70% in 2008 declined to less than 21% during Singles’ Day or Double 11 (Nov. 11or 11/11) mega sales last year (like Cyber Monday / Black Friday elsewhere).

In comparison, Southeast Asia has no robust payment platforms and the e-commerce market is nascent and fragmented. COD is still the major method for payment accounting for more than 80% of total payments. The situation will only improve when some of the e-commerce players or financial institutions offer a suitable payment platform to the consumers.

**Southeast Asian e-commerce market is still undeveloped and fragmented**

The current e-commerce market in Southeast Asian countries is similar to what it was in China some 5-6 years ago. There are some players like Lazada of Germany’s Rocket Internet which has an almost 20% share of the market but if we look at China’s example, it doesn’t mean anything. Because in China, DangDang had a 16% share in its B2C market in 2008 while Amazon had a 15% share. However in 2014, both the companies are nowhere near the top. The shares of Tmall and JD have surged to 51% and 23% of China’s B2C market respectively while those of DangDang and Amazon have slipped down to about 2% each.

Since e-commerce in Southeast Asia is still a developing market, it is too early to predict who will emerge as the winner. Recently in Indonesia, the Lippo Group has invested US$500 million to start the largest e-commerce venture MatahariMall in the country. Chinese giant Alibaba has entered the market with an investment of US$249 million in SingPost while another Chinese online retailer Vipshop has invested US$5million in Ensogo.

The C2C e-commerce market in Southeast Asia is also in its early stage but it seems unlikely that it will be dominated by a single player like Taobao in China who has managed to capture a 95 % C2C market share by taking advantage of the manufacturing and export boom in the country.

Current C2C players in the region are Lazada, Japan’s Rakuten, Tokopedia, Kaskus, OLX and others. Lazada and Tokopedia fall in the higher end of the spectrum like China’s T-mall, dedicated to major brands like Samsung P&G, L’Oreal and such. At the lower end of the C2C market space are companies like Rakuten, OLX and Kaskus who follow a model similar to Taobao. They are like the flea markets, only online. Line, the popular Japanese messaging app is a new entrant trying to establish itself in the m-commerce marketplace through Line Mall.

Lazada has invested half a billion dollars in the market and owns about 20% of its share but since the Southeast Asian market is still raw and evolving, it cannot be said for certain whether it will maintain its leadership position or go the way of Amazon and DangDang in China.

**Late entrant Southeast Asia has moved on directly to Web 2.0 leading to a rapid growth in e-commerce**

Unlike the US where demand-side platforms (DSPs) are flourishing, China has no such well developed online advertising system except some online media portals like Sohu and Sina. There are no long-tail publishers in the market like in the US. Due to this, internet companies had to find other avenues for making money such as value added services and e-commerce.

Social media giants like Facebook, Google and Instagram thrive on advertising but if we take the case of China’s Tencent, almost 80% of its revenues are earned through value added services and e-commerce. Thus, most of China’s e-commerce growth has been from the supplier side.

Similar is the case with Southeast Asia. When Internet started evolving in the region (except Singapore), the market was already at the fag-end of Web 2.0 wave. When people there began getting online, Facebook and Instagram had already left behind Web 1.0. Users in the Southeast Asian markets never got to experience the Web 1.0 or for that matter most of the Web 2.0 too.

Since online advertising didn’t take off, publishers had to look for other alternative means to earn revenues through the internet. For instance, the popular messaging app Line having about 60 million users resorted to selling digital stickers and brand pages in Thailand becoming its major source of income there. Line has also entered mobile e-commerce through products such as Line Hot Deal, Line Flash Sale and Line Shop.

Since many local companies have adopted e-commerce as a means of revenue generation, the market is fast gaining momentum in Southeast Asia.

**Adoption of mobile commerce in Southeast Asia tipped to be even faster than that in China**

WeChat, with its fast expanding user base and a growing list of mobile commerce features has become a leading m-commerce platform in China. It allows users to ‘shop’ for numerous products and services directly from companies through the app. It has become a one-stop-shop   allowing consumers to pay bills, transfer money, book a taxi, order food and buy and sell products.

Southeast Asia is also poised to offer great opportunities for mobile commerce because many consumers use their smartphones for internet and e-commerce. When e-commerce first started in China it was done mainly through desktops and laptops. Smartphones came later. But now in Southeast Asia people live in a mobile-first world and smartphone penetration is huge, offering great scope for mobile commerce. [Google’s Consumer Barometer study](http://googleasiapacific.blogspot.in/2014/10/asias-mobile-first-world.html" \t "_blank) says that “Asia has leapfrogged the desktop internet”, while just 8% users in China use only their smartphones to go online, a whopping 35% users in Malaysia access the internet only via their smartphones.

The success achieved by messaging app Line in their mobile e-commerce ventures such as Line Flash Sale, Line Shop and Line Groceries, as also the volume of shadow e-commerce transactions happening on Facebook and Instagram show how much potential mobile commerce has in Southeast Asia.

**Open system in Southeast Asia makes it easy for foreign players to enter the market**

It is a well known fact that the Great Firewall of China or stringent internet regulations of the country prevent any outside internet and e-commerce companies from entering China. Giants like Google, Amazon, eBay etc. have all faced problems there. In contrast, Southeast Asian countries have an open system. It is very easy for foreign companies to get entry there and this will lead to cut-throat competition.

Social media platforms such as Facebook, Instagram and Line are banned in China but are very popular in Southeast Asia. These platforms are being used for e-commerce business by ingenuous local entrepreneurs.

Thailand’s Page365 is one such e-commerce venture that helps companies engage customers and sell their products on Facebook. The GMV (Gross Merchandise Value) earned on social media sites in 2014 in Thailand was around US$500 million which is about one third of the total e-commerce GMV for the country.

Social and informal e-commerce is also expected to grow rapidly in Southeast Asia. Social networks are quite popular here and when people see their friends buying from a shop, they trust it and want to buy from there. E-commerce, particularly mobile commerce is set to grow faster here compared to China where it took at least 5-6 years to develop.

The US which has about 12% of the global population accounts for 32% of the world’s retail e-commerce whereas Southeast Asia with a 20% of the total global population has less than 1% share in global retail e-commerce market. It is obvious that the region has huge untapped potential for e-commerce business and companies that invest strategically in Southeast Asia will be minting Gold in the coming years.

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