

SHOPEE: HITTING THE PAUSE BUTTON ON INTERNATIONAL EXPANSION?¹

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Version: 2022-12-16

In May 2022, Shopee Pte. Ltd. (Shopee), the e-commerce arm of Singapore-based Sea Limited (Sea), was at a critical juncture in its evolution. The last few months had been tumultuous for Shopee as it exited India and France in an apparent reversal of its ambitious expansion into countries spanning Asia, Europe, and South America over the past few years.² The environment, in general, had grown skeptical of the financial sustainability of the aggressive and unprofitable international expansions many tech companies—particularly e-commerce companies—had undertaken.³ Shopee was also losing money, and its parent company's stock price had plummeted, raising doubts about the availability of continued financial support for an aggressive international expansion (see Exhibit 1 for Sea's income statement and balance sheet for the 2018–2021 period).⁴ Thus, Shopee needed to think carefully about its future strategy. Would the company be better off focusing on Southeast Asian countries and Brazil, where it had a good record of success, and supplementing this with a selective focus on other markets such as Taiwan? On the other hand, Shopee held cash and cash equivalents of more than US\$9 billion as of January 2022. Perhaps its setbacks in India and France were temporary and the company could resume its aggressively paced international expansion after a pause. The decisions would have long-term implications for Shopee's competitive position and performance, especially its growth.

INCORPORATION AND EARLY SUCCESS

Forrest Li founded Garena, a game development and publishing company, in 2009 with Gang Ye and David Chen.⁵ Li, who was born in Tianjin, China, had worked for Motorola Inc. in China before pursuing a master of business administration (MBA) degree at the Stanford Graduate School of Business. After receiving his MBA, he worked for MTV Networks Inc. on digital media development.⁶ In founding Garena, Li was inspired by the idea of “connecting world gamers.”⁷ He believed that interactive games went beyond entertainment and that people across countries, religions, languages, and races understood and enjoyed them.⁸ Garena launched its e-commerce arm, Shopee, in 2015.⁹ In 2017, the company rebranded itself as Sea Limited. Li said, “Our new name draws inspiration from the acronym for our region, symbolizing our strong ‘home court advantage.’ . . . The sea connects every one of our markets, symbolizing our corporate motto of ‘connecting the dots.’ . . . Sea is a humble, authentic word that evokes the pioneering spirit of exploration—a wonderful symbol of our corporate values.”¹⁰

Chinese tech giant Tencent Holdings Ltd. was an early backer of Sea, and even after selling 14.5 million shares of Sea at US\$3 billion in January 2022, it continued to own an 18.7 per cent stake in the company.¹¹

Sea's mission was "to better the lives of the consumers and small businesses with technology." Its three core beliefs were: "Our people define us," "Our products and services differentiate us," and "Our institution will outlast us." Five core values served as Sea's foundation: "We serve," "We adapt," "We run," "We commit," and "We stay humble."¹²

Sea made its debut on the New York Stock Exchange in 2017 by offering 58.96 million shares at US\$15 apiece and thus raised US\$884 million.¹³ In the process, it became the first Southeast Asian company to be listed on the exchange. By November 2021, despite its continued losses, Sea's shares were trading at around US\$360, representing an eightfold increase in less than two years.¹⁴

BUSINESS AREAS AND FOCUS

In 2022, Sea operated in three segments: digital entertainment, e-commerce, and digital payments and financial services. It had enjoyed success in its various operations (see Exhibit 2 for the revenue and profit contributions of different business lines); for instance, Garena was a global leader in developing and publishing online games. Garena's *Free Fire* was the most-downloaded mobile game globally between 2019 and 2021 and was also named the Esports Mobile Game of the Year in 2020 and 2021.¹⁵ It was also the highest grossing game in Latin America, Southeast Asia, and India in 2020 and 2021.

Shopee sold products across several different categories, including fashion, electronic appliances, cosmetics, automobile accessories, grocery, and sports-related items, and it was the largest pan-regional e-commerce platform in Southeast Asia and Taiwan.¹⁶ As the Lazada platform, backed by Alibaba Group Holding Limited (Alibaba), was launched in Singapore in 2012, Shopee had overcome the disadvantage of a later start to achieve a leading position in Southeast Asia.¹⁷ It was also present outside Southeast Asia, in countries such as Brazil, Colombia, France, and Spain.¹⁸ The company described its strategy as follows:

Our Shopee e-commerce platform is a mobile-centric, social-focused marketplace with integrated payment and logistics infrastructure and comprehensive services we offer to sellers. It is a highly scalable marketplace platform that provides users with a convenient, safe, and trusted shopping environment. . . . Shopee provides users with a convenient, safe, and trusted shopping environment that is supported by integrated payment, logistics, fulfilment, and other value-added services. We monetize Shopee mainly by offering sellers paid advertising services, charging transaction-based fees, and charging for certain value-added services, including logistics.

Shopee's marketplace model allows it to scale rapidly. In addition, we introduce many social and gamification elements into Shopee which we believe enables us to increase organic user acquisition, user retention and user time spent on our platform.¹⁹

Four key aspects of strategy helped Shopee gain traction in Southeast Asia and beyond. First, it recognized that many consumers used mobile phones to access the Internet and shop. It facilitated this by developing a mobile app and, by 2020, a vast majority of its e-commerce transactions were done on the mobile platform. Second, recognizing that there were important differences across countries, it adopted a hyper-local approach. By deploying local offices and teams in each of its markets, it localized its product categories and marketing campaigns. Third, from the beginning, Shopee integrated social and commercial aspects by building a strong community that enabled its users to connect and interact with one another. Fourth, it prioritized providing value for its sellers by continually updating its app with new functions that made it easier for sellers to track and manage their sales performance, payments, inventories, and deliveries.²⁰

Shopee's revenues exceeded the gaming revenues for Sea in 2020 (see Exhibit 2). However, the gaming business had been the only profitable division of the company, and had served as a "cash cow" to fund the growth of other businesses.²¹

Sea also had other businesses. SeaMoney was a leading digital payments and financial services provider in Southeast Asia.²² Sea also owned the Singapore Premier League football club Lion City Sailors FC.²³

Sea considered itself a technology company. It had plans to build an artificial intelligence laboratory to develop "insights and technologies related to its existing businesses and new opportunities beyond."²⁴ In 2020, Shopee partnered with Google to launch a version of Google Ads for Shopee sellers, a marketing solution that aimed to help brands drive online sales. This strategic thrust also served to support local businesses. Peggy Zhu, head of brand and growth marketing at Shopee, said, "Brands in our region are expanding their online presence as e-commerce becomes a vital part of the retail ecosystem. Shopee is committed to provide the best environment for every brand to succeed online."²⁵ During the COVID-19 pandemic, Shopee continued to work closely with government organizations and partners to support economic recovery for small and medium-sized enterprises (SMEs) in the region.²⁶ Chris Feng, chief executive officer of Shopee, said, "SMEs are the beating heart of our region's economy, and it is vital that we support them through these trying times. Shopee has launched various support packages in each of its markets to help SMEs accelerate digitalisation and set them up for long-term sustainability. We are committed to working closely with SMEs to unlock further growth opportunities."²⁷

SHOPEE'S INTERNATIONAL EXPANSION BEYOND SOUTHEAST ASIA AND TAIWAN

Shopee expanded to Latin America in 2019, when it launched a localized site in Brazil. The pace of its international expansion gathered speed in 2021, when it entered Mexico, Argentina, Chile, and Colombia. In September 2021, it introduced a marketplace in Poland, which was followed by marketplaces in Spain and France in the next two months (see Exhibit 3 for a breakdown of Shopee's revenues across different geographic regions). It entered India in November 2021 and started operations in South Korea to help local merchants reach customers.²⁸ Xiaofeng Wang, an analyst at Forrester, said, "Shopee is making the right move. Latin America and India have great potential, so they are the obvious choice for Shopee. Within Europe, Shopee is also pushing in the right order: Poland first, then Spain, and France the last because it is the most difficult market in the region."²⁹

Beyond e-commerce, Shopee also ventured into the competitive food delivery services market in Indonesia, Malaysia, and Thailand, which brought it into head-to-head competition with Grab, another Southeast Asian giant. Terence Pang, chief operating officer of Shopee, said, "It's not just the food delivery business that we're interested in, but how do I engage and find more ways to feature in and be a part of my consumer's lifestyle? That's what we're going after."³⁰

Shopee enjoyed considerable success in Brazil. Within two years of launching there, Shopee had become the country's most-downloaded shopping app. It adopted a novel approach to e-commerce by providing in-app mini-games offering coupons to winning users. Garena's *Free Fire* game also gained significant traction, becoming Brazil's most-downloaded title for eight consecutive quarters in 2020 and 2021 and generating "sales estimated at almost a third of local leader Magazine Luiza SA."³¹ Shopee's timing in Brazil was fortuitous, as "the COVID-19 pandemic drove consumers away from physical stores, pushing up 2020 e-commerce sales by 44 per cent to \$42 billion," according to data from Brazilian payments company EBANX.³² Shopee also adopted a strategy to attract small business owners by offering free shipping and charging very low commission compared to local players. In August 2021, Jianggan Li of

advisory firm Momentum Works said he “‘wouldn’t be surprised’ if they reached number one. . . . ‘Given what they have done in Singapore, Indonesia and Malaysia, Thailand.’”³³ Drawing on its AlphaWise survey, Morgan Stanley identified Shopee as a top-three e-commerce purchase destination in Latin America, where it had gained 37 per cent of consumers in 2021, up from 6 per cent in 2020.³⁴ Leila Carcagnoli, business development manager at Shopee, emphasized Shopee’s goal “to increasingly bolster its local business arm through a platform that connects millions of consumers” and its intention to feature local products.³⁵

THE INDIAN E-COMMERCE INDUSTRY AND SHOPEE’S SUCCESS IN INDIA

Consumers’ use of smartphones and the Internet had boomed in India over the last few years, boosting sectors such as e-commerce. According to the Economic Survey of India 2021–22, India’s Internet user base exceeded 830 million in 2021, up from 200 million in 2015.³⁶ The growth in online sales was impressive as well, at \$9.2 billion during the 2021 festive season compared to \$7.4 billion the previous year.³⁷

Many sources were predicting continued healthy growth for the e-commerce sector. A report released by EY-IVCA in 2021 said “the e-commerce sector in India is predicted to grow at a 27 per cent CAGR [compound annual growth rate] over 2019–24 and is expected to reach \$99 billion by 2024.”³⁸ Analysts at Bernstein were even more optimistic about the growth prospects and expected the sector to have sales of \$130 billion by 2025.³⁹ According to Karthik Reddy, vice-chairperson of the IVC Association, “In the next phase of ecomm [ecommerce], we expect a surge of demand from Tier 2 and Tier 3 cities and towns in India, bringing in the next 100s of millions of consumers. A new wave of investments in this sector in both B2B [business to business] and B2C [business to consumers] commerce are creating a huge gig economy; several sub sectors have emerged; and innovation is going to storefronts, local commerce, e-commerce infra and payments.”⁴⁰

Several firms jostled for market share in the Indian e-commerce arena. Founded in 2007 in Bangalore by engineering graduates, Flipkart Group (Flipkart) was one of the early entrants in the Indian e-commerce arena. In August 2018, US-based retail chain Walmart Inc. acquired a 77 per cent controlling stake in Flipkart for US\$16 billion.⁴¹ Amazon.com, Inc. (Amazon) launched in India in June 2013. Supported by massive investments in promotion from its global parent, Amazon (India) built infrastructure and logistics and tried to overcome Flipkart’s early lead.⁴²

COVID-19 proved to be a blessing for the e-commerce sector, in general. As per the Tofler platform, revenues of Amazon Seller Services grew to ₹163.79 billion⁴³ in its 2021 financial year, a 49 per cent increase over the previous year.⁴⁴ Flipkart India saw revenue jump by 25 per cent in 2021 compared to 2020.⁴⁵

Several other players, including members of India’s biggest business houses, competed vigorously for a share of the e-commerce pie. AJIO (a unit of Reliance Retail affiliated with India’s largest conglomerate), TataCliQ (part of the Tata Group), and Paytm Mall (part of Paytm, a leading payments company) were all trying to woo online customers.⁴⁶ Meesho, an Indian social e-commerce start-up, had enjoyed some success by adopting an aggressive strategy of offering cut-rate prices to price-conscious Indian consumers on low-ticket products ranging from apparel to electronics and jewellery. It primarily sold through two million resellers and more than 20,000 manufacturers from more than 500 towns.⁴⁷

Shopee focused on the long-tail categories in Indian markets, and 35 per cent of its gross merchandising value was accounted for by fashion items, followed by mobiles and accessories (19 per cent) and housewares and furniture (14 per cent).⁴⁸ It also sold electronics, consumer appliances, groceries, and health and beauty products. Shopee offered free delivery to consumers and did not charge sellers a commission. Its monetization model was similar to that of Meesho, which depended primarily on advertising. Since

Shopee did not have its own logistics, it tied up with independent logistics platforms like Delhivery. As a result, its delivery time was longer than those of its competitors. However, the pricing and discounts it offered were comparable to those of its competitors, especially Meesho.⁴⁹

Despite the intense competition, Shopee rapidly gained users and market share in India. By January 2022, its app had been downloaded over twenty million times, and by February, it had over 21 million monthly active users and was processing ten million orders a day in India.⁵⁰ A study by J.P. Morgan Asia Pacific Research ranked Shopee ahead of Amazon, JioMart, Myntra, and Ajio and just behind Meesho and Flipkart in terms of daily and monthly active users.⁵¹

EXIT FROM TWO KEY INTERNATIONAL MARKETS

At the time Shopee entered France, in October 2021, it considered the country to be one of the most significant new markets to drive growth beyond Southeast Asia.⁵² But on March 6, 2022, Shopee announced its retreat from France.⁵³ Although France was a big market in terms of size, it seemed to be a crowded market, with 120,000 active e-commerce sites according to one estimate, including multinational firms such as Amazon and Alibaba as well as a number of local players. As the leader in sales, Amazon held around 2 per cent of the overall market share.⁵⁴ In a statement, Shopee said that entering France had been “a short-term, preliminary pilot” and that it had decided not to continue the service. The company also explained, “Other markets are unaffected. We continue to adopt an open-minded and disciplined approach to exploring new markets.”⁵⁵

Despite success in achieving growth and market share, Shopee found that its operations in India were buffeted by several adverse developments. In February 2022, the Ministry of Electronics and Information Technology of the Government of India announced a list of fifty-four or more apps that either had originated in China or had some Chinese connection, and banned these apps because they were deemed to be a threat to national security.⁵⁶ Responding to the ban, Sea highlighted that it was a Singaporean company that complied with Indian law. It told Reuters, “We do not transfer to, or store any data of our Indian users in, China.”⁵⁷ Reports in the media also said that Singapore’s Ministry of Trade and Industry had approached the Central Government of India to understand the reasons for imposing the bans, given that Sea was headquartered in Singapore.⁵⁸ The stock market reacted strongly to this ban and wiped out over US\$16 billion of Sea’s market capitalization, possibly because investors saw this ban as the beginning of troubles for the company.⁵⁹

Shopee also faced several other challenges besides the ban on *Free Fire*. The Confederation of All India Traders (CAIT) called for a ban of the platform and also wrote to Nirmala Sitharaman, the finance minister of India, alleging that the company had violated India’s foreign direct investment rules. Praveen Khandelwal, the chair of CAIT, said, “The entry of the likes of Shopee means compromising data and security of Indian citizens, flooding of the market with Chinese goods, anti-competitive tie-ups with large manufacturers with exclusive access—all of which will strike at the belly of our small trader who is already suffering from the impact of COVID on their businesses.”⁶⁰

Earlier, a first information report (FIR) had been filed against the company in the Indian city of Lucknow, alleging that Shopee’s platform was delivering fake products. CAIT had urged India’s commerce and finance ministers to ban Shopee, arguing that it was in violation of Indian laws. CAIT further alleged that the complex structuring of Shopee’s Indian entity was aimed at deceiving the Indian government and that the company was adopting predatory tactics.⁶¹

The Competition Commission of India rejected the plea for action over predatory pricing, however.⁶² On March 28, 2022, Shopee announced that it was shutting down its operations in India.⁶³ A Shopee spokesperson said,

In view of global market uncertainties, we have decided to close our early-stage Shopee India initiative. During this period of transition, we will focus on supporting our local sellers and buyer communities and our local team to make the process as smooth as possible. We will continue to focus on our efforts to deliver a positive impact to our global communities, in line with our mission to better the lives of the underserved through technology.⁶⁴

The company clarified that transition measures would be in place, explaining that “seller services related to payments, refunds, returns, and disputes, among others, will continue to be operational until May 30. Existing orders by customers will also be shipped and delivered as per process.”⁶⁵ In a statement, CAIT welcomed the decision of Shopee to exit India and said that any company that violated the sovereign law of the country and breached the data collected from India would meet the same fate.⁶⁶

THE ROAD AHEAD

After a couple of high-profile exits, top management of Shopee needed to take stock of its strategy and make critical decisions about the future pace and locations of international expansion. Could Shopee’s troubles in France and India be attributed to the political systems of the two countries—thriving democracies with factions skeptical of foreign investment, especially when the investment threatened local businesses or employment? Did this imply that Shopee should stay away from countries with similar characteristics? Were the troubles in India and France aberrations or precursors of issues the company might face in other countries? Should Shopee simply stick to its existing portfolio of international operations, which mostly consisted of Southeast Asian and select Latin American countries supplemented by markets such as Poland? If Shopee were to expand into other countries at a measured pace, what countries should it target? Another complicating factor was the plummeting share price of its parent, Sea. Though Sea had a healthy cash position that would sustain several years of operations even at the current rate of losses, Shopee’s parent could demand quicker and/or better profit performance from Shopee in the future.⁶⁷

EXHIBIT 1: SEA LTD. INCOME STATEMENT AND BALANCE SHEET (IN US\$ THOUSANDS)**Income Statement (Consolidated)**

Breakdown	12/30/2018	12/30/2019	12/30/2020	12/30/2021
Total Revenue	826, 968	2,175,378	4,375,664	9,955,190
Cost of Revenue	812,210	1,570,478	3,027,759	6,059,455
Gross Profit	14,758	604,920	1,348,905	3,895,735
Operating Expense	1,003,526	1,496,152	2,652,230	5,47,795
Operating Income	-988,768	-891,232	-1,303,325	-1,583,060
Pre-Tax Income	-953,880	-1,368,619	-1,483,238	-1,715,184
EBIT	-922,585	-1,320,411	-1,334,995	-1,576,239

Balance Sheet

Total Current Assets	1,710,713	4,410,139	8,939,004	15,135,397
Total Non-Current Assets	481,956	814,030	1,516,667	3,620,628
Total Assets	2,192,669	5,224,169	10,455,671	18,756,025
Total Current Liabilities	1,186,493	2,362,366	4,636,067	7,176,436
Total Non-Current Liabilities	1,245,631	1,689,151	2,399,365	4,155,180
Total Liabilities	2,432,124	4,051,517	7,035,432	11,331,616
Total Shareholders' Equity	-239,455	1,172,652	3,420,239	7,424,409
Total Liabilities and Shareholders' Equity	2,192,669	5,224,169	10,455,671	18,756,025

Note: EBIT = earnings before interest and taxes. Income statement figures rounded off for consistency across tables.

Source: Excerpted from "Sea Limited (SE)," Yahoo Finance, accessed August 11, 2022, <https://finance.yahoo.com/quote/SE/financials?p=SE>.

**EXHIBIT 2: SEA LTD. REVENUES AND PROFITS ACCORDING TO BUSINESS LINES
(IN US\$ MILLIONS)**

Business Area	Revenues (Profits)		
	2019	2020	2021
Digital Entertainment	1,136.0 (529.5)	2,016.0 1,016.8	4,320.0 2,500.1
E-commerce	834.3 (-1,131.8)	2,167.1 (-1,442.6)	5,123.0 (-2,766.6)
Digital Financial Services	9.2 (-116.3)	60.8 (-520.1)	469.8 (-640.4)
Other Services	195.8 (-39.9)	131.8 (-49.0)	42.4 (-177.6)
Unallocated Expenses	- (-132.8)	- (-308.4)	- (-498.5)
Consolidated	2,175.4 (-891.2)	4,375.7 (-1,303.3)	9,955.2 (-1,583.1)

Note: All figures rounded.

Source: Compiled by the authors from Sea Limited, *Form 20-F: Annual Report Pursuant to Section 13 or 15(d) for the Fiscal Year Ended December 31, 2021*, 98–99, April 22, 2022, accessed May 12, 2022, <https://cdn.sea.com/webmain/static/resource/seagroup/pressrelease/2021AR/9OnCqBAnsNMu6SWhHzoP/2022-04-22%20-%20Form%2020-F.pdf>.

EXHIBIT 3: SEA LTD. REVENUES ACCORDING TO GEOGRAPHIC REGIONS (IN US\$ THOUSANDS)

	2019	2020	2021
Southeast Asia	1,378.1	2,791.9	6,316.8
Asia (excluding Southeast Asia)	489.3	655.0	1,394.3
Latin America	282.6	790.3	1,850.9
Rest of the World	25.3	138.5	393.2

Note: All figures rounded.

Source: Excerpted from Sea Limited, *Form 20-F: Annual Report Pursuant to Section 13 or 15(d) for the Fiscal Year Ended December 31, 2021*, 90, April 22, 2022, accessed May 12, 2022, <https://cdn.sea.com/webmain/static/resource/seagroup/pressrelease/2021AR/9OnCqBAnsNMu6SWhHzoP/2022-04-22%20-%20Form%2020-F.pdf>.

ENDNOTES

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