BUSINESS SWEDEN

RAISING THE E-COMMERCE GAME IN SOUTHEAST ASIA

HOW TO WIN CUSTOMER LOYALTY IN THE BATTLE FOR CLICKS

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FOREWORD

NEW HORIZON FOR E-COMMERCE IN SOUTHEAST ASIA

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During the dawn of the 21st century, the economies of Southeast Asia were among the fastest growing in the world. After a painful backlash in 2008, the region has regained its momentum and has been showing remarkable growth in the last five years, reaching a combined GDP equivalent to the world's fifth largest economy. In times of increased protectionism and trade tensions, few regions present similar growth prospects.

Southeast Asia's large population and rapid economic growth drive the emergence of a middle class market of several hundred million consumers. By 2020, the middle class population in Southeast Asia is projected to reach 400 million, which constitutes more than a doubling since 2012. As this large, emerging middle class becomes wealthier and accustomed to a higher quality of life, it is highly likely that the demand for foreign brands as well as sustainable products will increase.

Even if the over 600 million people living in Southeast Asia are diverse in religion, cultures and income levels, they are also united by their digital adaptation and use of mobile technology. This poses great prospects for the e-commerce sector, and even if the growth is rapid and volumes starting to be significant there is still lots of untapped potential in all Southeast Asian markets as shares of online sales still lag behind neighbouring giants such as China. We see promising potential for many Swedish and Nordic companies in the B2C segment of retail e-commerce in Southeast Asia.

This report provides valuable insights on the opportunities and key success factors in Southeast Asia's e-commerce market. We hope you find it useful and look forward to continue discussions on how to best support Swedish companies' growth in this dynamic region.

SOUTHEAST ASIA OVERVIEW

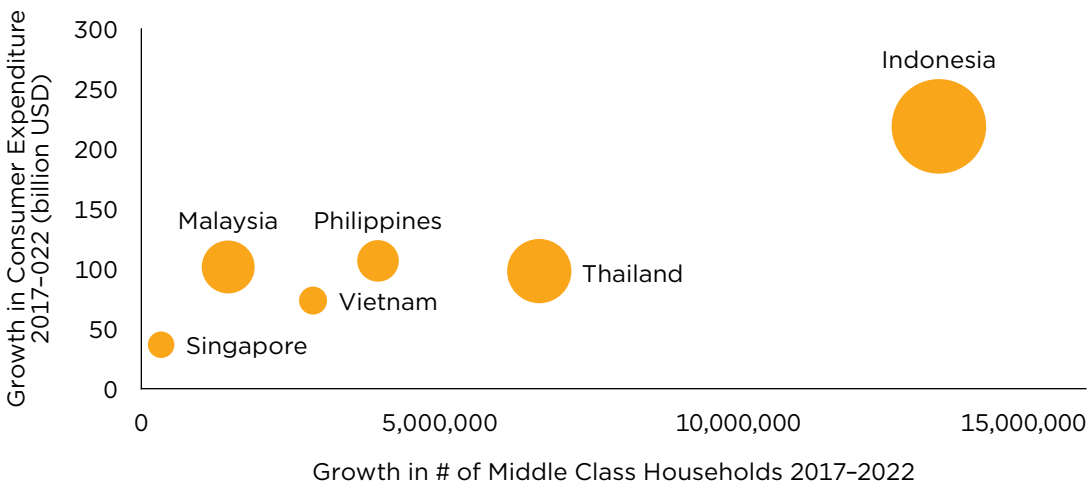
DIVERSE MARKET OF MILLIONS

With a combined GDP of USD 2.1 trillion and steady 5% growth, Southeast Asia is expected to be home to approximately 400 million middle income consumers in 2020. From Singapore's highly developed society to Vietnam's rapidly emerging middle class, Southeast Asia offers a diverse and fascinating region which combined represents 3.4% of global GDP. With a large, young population and some of the world's fastest growing economies, the region's strategic importance on the global stage can only be expected to increase further.

Improving internet access and infrastructure support the rising middle class who expect a high quality of living and easy access to products. Southeast Asia's internet user base continued to grow in 2018, underpinned by the growing accessibility of inexpensive smartphones as well as faster and more reliable mobile telecommunication services.

In Google and Temasek's latest study (e-Economy SEA 2018), Southeast Asia was estimated to be the world's fastest-growing internet region, with an existing internet user base of more than 360 million users across Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam. More than 90% of Southeast Asia's internet users connect primarily through their smartphones, making it one of the most mobile-first internet regions globally. Consequently online sales is growing rapidly in Southeast Asia, but e-commerce only accounts for 3% of all retail in the region to date and presents growing opportunities for both local and international companies to tap into.

GROWTH OF CONSUMER EXPENDITURE IN MIDDLE CLASS HOUSEHOLDS, 2017–2022



SOUTHEAST ASIA'S INTERNET ECONOMY

DIGITAL ECONOMY DRAWS INVESTORS' EYE

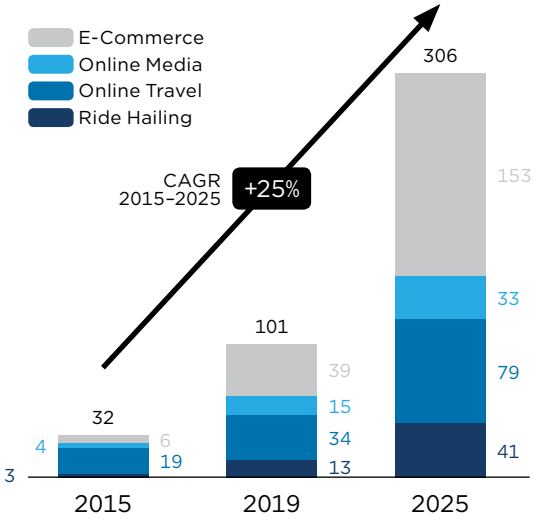
Southeast Asia's internet economy is predicted to reach a value of USD 300 billion by 2025, driven primarily by the growth of online travel, e-commerce and online media. The internet economy is growing in all six Southeast Asian countries but the stage of development relative to the size of each country's economy differs. All countries are playing catch up with giants like the U.S. and China that dominate the internet economy globally.

Vietnam stands out as the most developed market in the region with a Gross Merchandise Volume (GMV) of the internet economy at 4% of GDP. Singapore comes second with an internet economy of 3.2% of total GDP and the Philippines' internet economy has the most room to grow, with only 1.6% of GDP. Indonesia has the largest internet user base (150 million users in 2018), and the largest (USD 27 billion in 2018) and fastest growing (49% CAGR 2015–2018) internet economy in the region.

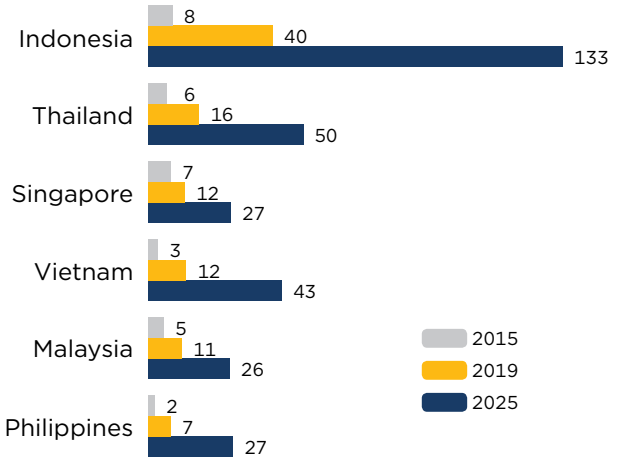
Indonesia and Singapore represented almost half of the total Southeast Asia internet economy in 2015 followed by Thailand. Indonesia alone is expected to account for more than 40% of the region's total industry value by 2025. Indonesia's extraordinary growth will mainly be driven by the large number of new middle-class consumers, increased access to internet and infrastructure as well as strong growth of tier two and three cities.

The region's growth has not gone unnoticed by investors who are funnelling massive funds into a market where platforms are jockeying for position. Large investments in flourishing e-commerce companies have been made by Chinese investors. Alibaba and Tencent lead the way with considerable investments in platform start-ups like Lazada and Shopee. Southeast Asia's growing internet economy is predicted to attract investments of approximately USD 40–50 billion over the next decade.

SOUTHEAST ASIA'S INTERNET ECONOMY, MARKET SIZE (GMV, USD BN) PER CATEGORY



SOUTHEAST ASIA'S INTERNET ECONOMY: MARKET SIZE (GMV, USD BN) PER COUNTRY



SOUTHEAST ASIA'S E-COMMERCE MARKET

ONLINE RETAIL IN POLE POSITION

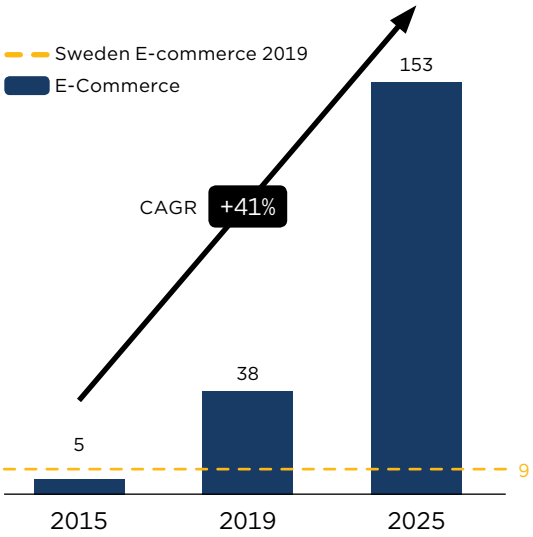
E-commerce is the most dynamic and fastest growing sector of Southeast Asia's internet economy. With a market value of USD 38 billion* in 2019, it is expected to exceed USD 150 billion by 2025. As countries in SEA mature into digital-first markets, e-commerce has spiked and more than 50% of populations in Singapore, Malaysia, Indonesia, Thailand, Vietnam and the Philippines now consume online – contributing 3–4% of the region's combined GDP.

With increasing consumer trust in e-commerce among the region's internet users, the market value has quadrupled since 2015 and is estimated to reach USD 153 billion by 2025. Expanding internet penetration and the adoption of online payments among consumers means that opportunities for overseas retailers are greater than ever.

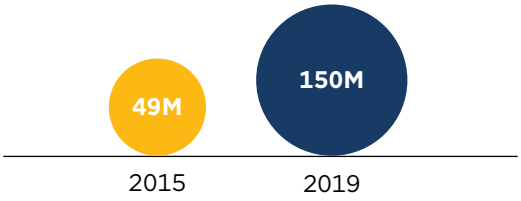
Cross-border retailing is being increasingly driven by the growing tech-savvy population who are searching for greater value and choice not available domestically. Southeast Asians' strong demand for convenience and increased access to smartphones are key drivers for mobile online shopping. According to Hootsuite, Southeast Asian internet users are the most engaged in the world. Thailand takes the lead (worldwide) by an average spend of 5 hours and 13 minutes per day on mobile internet. Indonesia, Philippines, and Malaysia rank among the top 10 in the world with a spend of 4 hours per day. By way of contrast, consumers in the UK and the U.S. spend just over 2 hours per day on mobile internet, and as little as 1.5 hours in France, Germany, and Japan.

* Defined as sales of first-hand goods through marketplaces, online stores and social media.

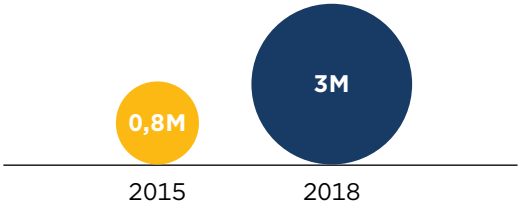
SOUTHEAST ASIA E-COMMERCE MARKET VALUE (GMV, USD BN)



ACTIVE E-COMMERCE USERS IN SOUTHEAST ASIA



DELIVERIES IN SOUTHEAST ASIA E-COMMERCE (DAILY)



SOUTHEAST ASIA'S E-COMMERCE MARKET

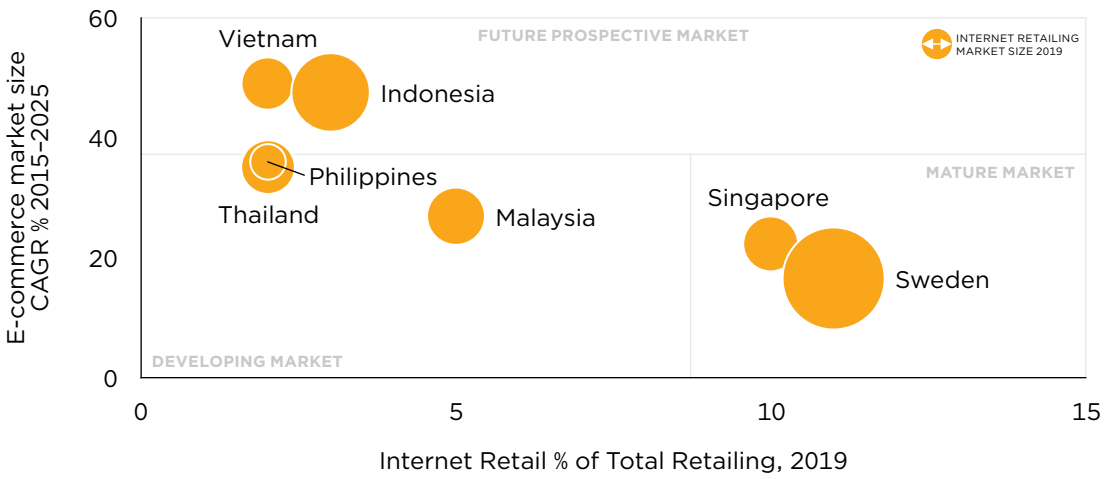
TAPPING INTO SOUTHEAST ASIA'S POTENTIAL

Southeast Asia's accelerating e-commerce growth indicates huge market potential given that the sector currently only represents a small share of the region's total retail sales. As such, there is no shortage of business opportunities for international companies to tap into.

Indonesia is leading the way and will account for roughly half of the region's total e-commerce market in 2025, having started at just USD 1.7 billion market value in 2015. Adoption rates are also increasing across all markets as Southeast Asian consumers increasingly rely on e-commerce to access products that are not available in stores, as a result of the relative underdevelopment of retail channels outside of metro cities. In this context, there are two main differentiators between the SEA countries: the lack of efficient logistical and digital infrastructure, such as reliable and wide-reaching payment solutions, and basic access to smartphones which is a gap that is rapidly closing.

While Southeast Asia is considered a key growth region for e-commerce, success for individual players will manifest itself differently in each country as preferences and income levels vary greatly. All SEA countries are still behind mature markets when it comes to e-commerce's share of the total retail market, but this is changing fast. In 2019, Thailand, the Philippines and Vietnam had an e-commerce penetration of 2%, compared to Sweden's 11% or China's 25%. In 2013, China was as low as 6%, which is close to today's penetration levels for Malaysia and Indonesia, at 5% and 3% respectively.

E-COMMERCE IS ON THE RISE IN SOUTHEAST ASIA BUT STILL ACCOUNTS FOR A SMALL SHARE OF TOTAL RETAIL SALES IN THE REGION



SOUTHEAST ASIA E-COMMERCE TRENDS

4 TRENDS SHAPING THE E-COMMERCE LANDSCAPE

Although local differences require companies to adapt their strategies for each SEA market, four major trends permeate the region.

1. PAYMENTS

Banking penetration is low in the region and just 47% of the Southeast Asian populations have a bank account. This means that online financial services available to the unbanked are widely popular. InstaPay is a good example and is on the rise in Indonesia, allowing SMEs to accept payments via WhatsApp or Line. E-money in mobile wallets is another fast-growing trend in the country.

InstaPay was also launched by the Philippines' central bank in 2018, but the number of commercial banks using the system is still limited. GCash, PayMaya, and Visa PayWave are key players on the Philippines market. Vietnam has the messaging app Zalo and the early player MoMo as well as state-owned PetroVietnam Oil venturing into mobile payments. Singapore and Malaysia have a relatively high number of banked citizens compared to other countries in the region. Nets system, PayNow and Dash are the most commonly used in Singapore. Regional market leaders Grab and Go-Jek are following in China's footsteps with a "super app" combining multiple functions such as transport, food delivery, online grocery shopping, bike-sharing with an e-wallet for payments.

2. CHINESE INVESTMENTS

Southeast Asia's internet economy has experienced a dramatic surge in fundraising over the last four years. Funds raised crossed the USD 1 billion mark for the first time in 2015 and, ever since, companies in the region have started to attract the attention of venture capital, private equity and corporate investors from around the world, but particularly from China. Southeast Asia's nine internet unicorns have raised USD 16 billion collectively. Singapore and Indonesia are top of the league based on number of deals.

3. PLATFORMS

E-commerce traffic in Southeast Asia is dominated by six main platform companies that, in many ways, are shaping developments in the e-commerce sector. Each platform has an extensive base of users and sellers and contributes to the fast-growing popularity of e-commerce among Southeast Asians. Competitions in key consumer segments such as "young females" and "fashionistas", as well as large verticals such as "apparel" and "health & beauty" is a popular approach in the leading markets. Platforms will increasingly aim for leadership in each geographical market with Indonesia as the primary battleground for both regional and local players.

4. SOCIAL COMMERCE

Southeast Asia has a young population and its citizens under 35 years of age are among the world's most active social media users. The countries differ in terms of demographics and digital behaviour, but one thing remains clear – the emerging middle class of Southeast Asia is digital. Buying and selling between consumers on social media platforms is booming which can be explained by Southeast Asian users spending most time on social media in the world.

SOUTHEAST ASIA E-COMMERCE TRENDS

TAILORED STRATEGIES: THE SMART WAY TO GO

Booming consumer spend is reflected in Southeast Asia's retail market which is expected to surpass USD 700 billion in value by 2023. Although the region is commonly viewed as one market, it is still heterogenous.

International companies are therefore advised to tailor their approach with local strategies for each country. Different income levels and digital penetration in each country need to be approached with local strategies to be successful. Apparel and footwear is the most purchased category of goods online in Malaysia, the Philippines and Vietnam while in Indonesia, Singapore and Thailand, media products are the most frequently bought e-commerce items. Malaysia has the highest mobile internet retail growth while omnichannel strategies with offline presence are crucial for progress in the Philippines.

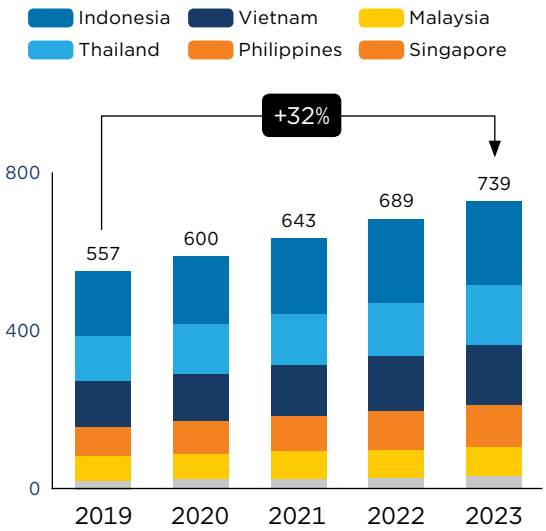
SINGAPORE IN THE VANGUARD

Singapore stands out from the rest of the region's countries due to its maturity. It is no secret that Singapore is a regional hub with high exposure to international brands. Unsurprisingly, Singapore's cross-border e-commerce rate is considerably higher than in countries such as Japan and South Korea.

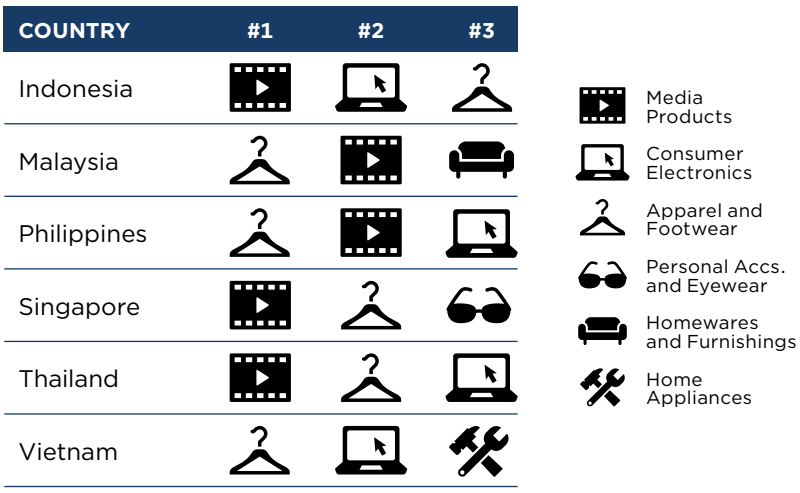
This position is primarily underpinned by high internet penetration and smartphone use as well as high disposable incomes. Singaporean consumers are very cautious, savvy and well-connected and have high expectations on their shopping experiences. They demand a seamless offline-to-online shopping journey, optimised e-commerce and, more importantly, m-commerce (mobile commerce) platforms, retailtainment (retail entertainment), instant gratification and a simplified user experience.

Time scarcity is a key factor among Singapore's discerning citizens. Here, people often appreciate time more than value-for-money. In order to meet these requirements retailers need to revamp their offering both in-store and online.

SOUTHEAST ASIA'S RETAIL MARKET VALUE (USD BN)



INTERNET RETAIL SALES TOP 3 PRODUCT CATEGORIES PER COUNTRY IN 2019



SOUTHEAST ASIA E-COMMERCE TRENDS

STATE OF PLAY: NAVIGATING THE SEA REGION

THAILAND

Social media is playing an increasingly important role in Thailand's retail sector both in terms of marketing but also for sale of goods, primarily through Facebook and Line. Over 50 million Thais were using Facebook in the beginning of 2018.

MALAYSIA

Malaysia has the second highest mobile penetration rate in Southeast Asia after Singapore. With over 31 million mobile internet subscribers in 2018, mobile internet retailing is expected to have the highest growth rate in the region, with a CAGR of 50% to 2023. Malaysians' purchasing decisions are often influenced by discounts and flash sales, a trend that can be traced back to almost all the countries in Southeast Asia.

THE PHILIPPINES

Despite strong integration of digital platforms in the Philippine retail industry, Filipinos' have a strong preference for shopping malls and bricks-and-mortar stores. Having a physical presence is still considered a must. Large retailers such as SM Retail and 7-Eleven are responding with a new model of "click and collect" whereby consumers order online but collect in the store.

To sustain consumer interest among the Filipinos both a physical and digital presence is vital. The Philippines have experienced a surge in retail prices under 2018 and high inflation is now a risk identified by retailers in the country.

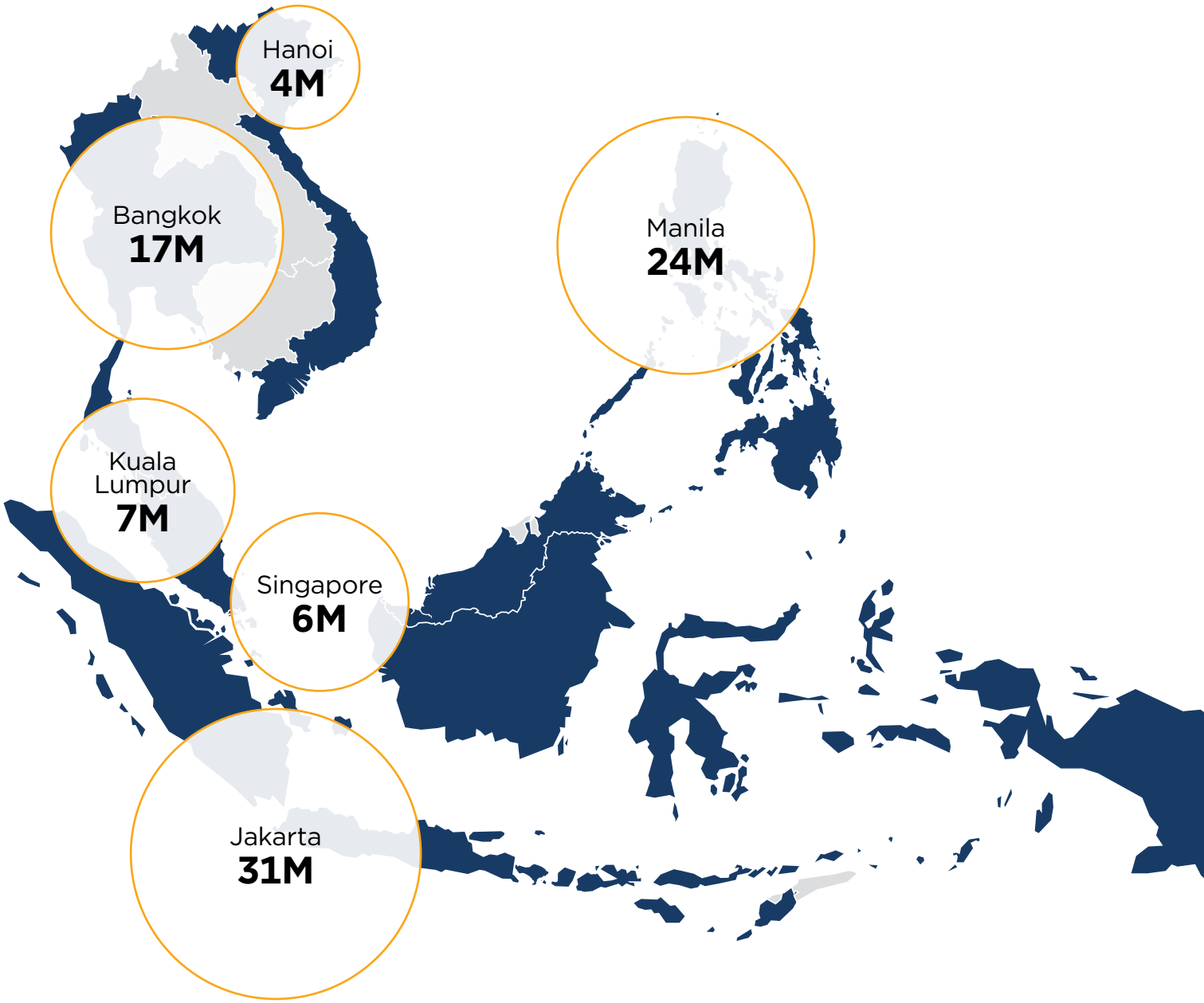
VIETNAM

Vietnam's retail landscape is greatly influenced by the country's infrastructure. Traffic jams are a major issue in many urban areas of Vietnam. Consequently, consumers favour retailers located nearby or with easy street access. As such, stand-alone shops tend to perform better than retailers in shopping centres. The inconvenience of travelling between stand-alone shops makes online shopping an attractive alternative and groceries has been a fast-growing category. In 2018, Saigon Union of Trading Cooperatives launched its online shop, which includes a selection of fresh groceries.

INDONESIA

Small start-ups are gathering momentum in Indonesia, especially in fashion and apparel, and rely heavily on internet platforms to sell and distribute their products. Consumer profiles in Indonesia differ in each area and retailers typically need to tailor their offerings taking both pricing and location into account. Physical retail is in decline in Indonesia even though consumer purchasing power remains stable. This trend is believed to be closely linked to the growth of technology and e-commerce.

SOUTHEAST ASIA IS HOME TO SOME OF WORLD'S MEGA-CITIES



SOUTHEAST ASIA SPENDING PATTERNS IN E-COMMERCE

PEAK SALES IN SEASONAL CALENDAR

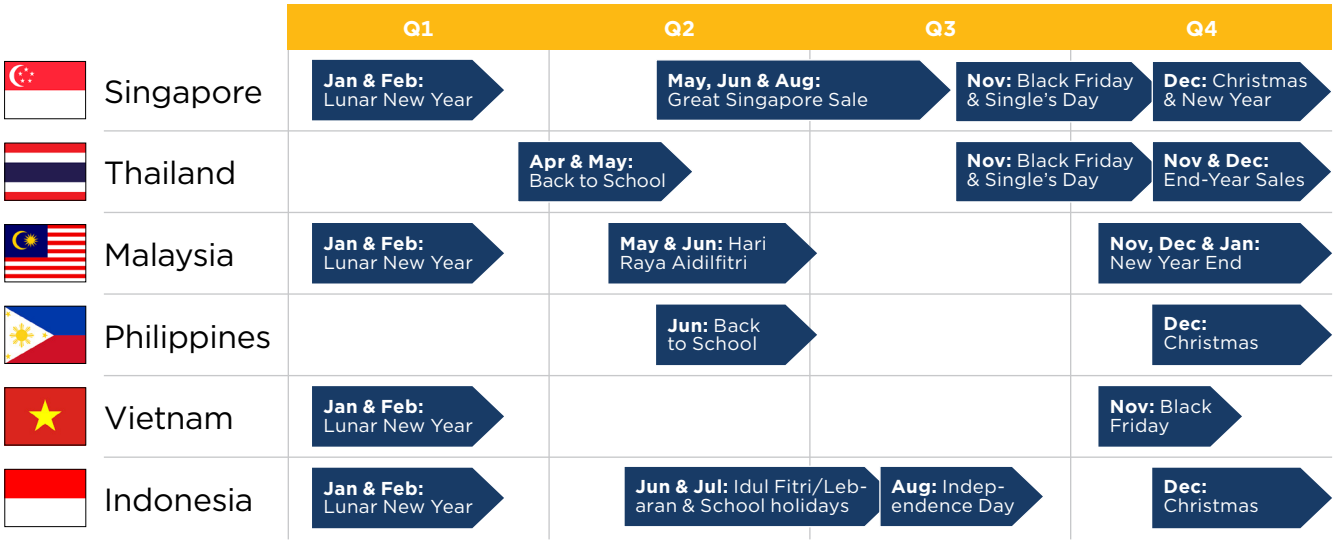
Seasonal peaks in retail and e-commerce sales volume is not surprising and Southeast Asia is no exception. As everywhere else, local consumers' shopping behaviour fluctuates with spiking sales over holiday periods. The fourth quarter of each year is the most important peak in e-commerce performance worldwide and Southeast Asia shows a similar trend, with almost 40% of online sales taking place in these months.

Another wave of mega sales online now occurs consecutively on September 9, October 10, November 11 and December 12, and the Lunar New Year spans across the region as one of the largest traditional holidays where retail sales surge. Both offline and online retailers usually take part by promoting additional discounts and red packet lucky draws. These seasons can be traced regionally but due to cultural diversity within the region, trends also vary between the countries to some degree.

Idul Fitri/Lebaran is an annual retail season unique to Indonesia where apparel selections mostly cater to the tastes of Muslims, as this is the key consumer group during this national holiday. In the Philippines, retailers typically run back-to-school promotions as early as mid-April up to mid-June for school-related items such as school and office supplies, apparel, footwear and bags.

Black Friday, adopted from the U.S., became very popular in Vietnam during 2018. In Malaysia, Hari Raya is the largest festival and retailers in many segments such as apparel and footwear, electronics and appliances and health and beauty will run seasonal campaigns, where discounts can reach as high as 90%. Mid-year Singaporean retailers run the Great Singapore Sale across all channels.

MOST IMPORTANT HOLIDAY SEASONS FOR RETAIL IN SOUTHEAST ASIA, SALES PER COUNTRY



E-COMMERCE – A COMPETITIVE LANDSCAPE

PLATFORMS ON THE UPSWING

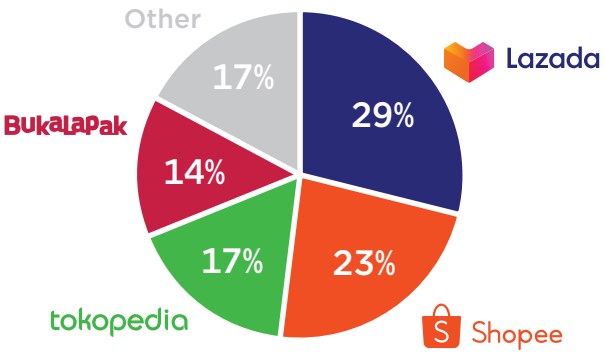
The growth of e-commerce in Southeast Asia is following the same pattern as in China – platforms are key. When it comes to e-commerce traffic in the region, six platforms dominate the landscape and play a key role in shaping the region's retail industry. Each of these platforms commands an extensive base of users and sellers and contributes to e-commerce's growing popularity.

In contrast to Europe where individual online stores are popular, several international as well as local brands are starting to leverage these platforms for the Southeast Asian market, instead of driving sales through their own branded e-commerce sites. In the consolidated e-commerce market, the four largest platforms carry more than 80% of total traffic where the Indonesian market accounts for 60% of monthly total traffic. Lazada and Shopee are the only platforms with full regional reach while others, as of today, are country-specific. Globalisation and regional reach are important factors. Nevertheless, Southeast Asia saw a rise in 2019 of players exclusively focused on a single domestic market.

Indonesian e-commerce platforms such as Tokopedia, Bukalapak, and Blibli are good examples of how companies are thriving in a single SEA market. Given its similarities to China roughly ten years ago, the Southeast Asian e-commerce market has become one of the most interesting regions for external investments. Some of the main investors are internet giants from China such as Alibaba and Tencent.

Investors are fuelling the competition and four unicorns in Southeast Asia have succeeded in raising billion-dollar funding rounds. Two of these are the e-commerce platforms Lazada and Tokopedia. The other two are the ride hailing giants Grab and Go-Jek. Tokopedia raised USD 1.1 billion from Softbank in December 2018 and became Indonesia's most valuable start-up, valued at about USD 7 billion.

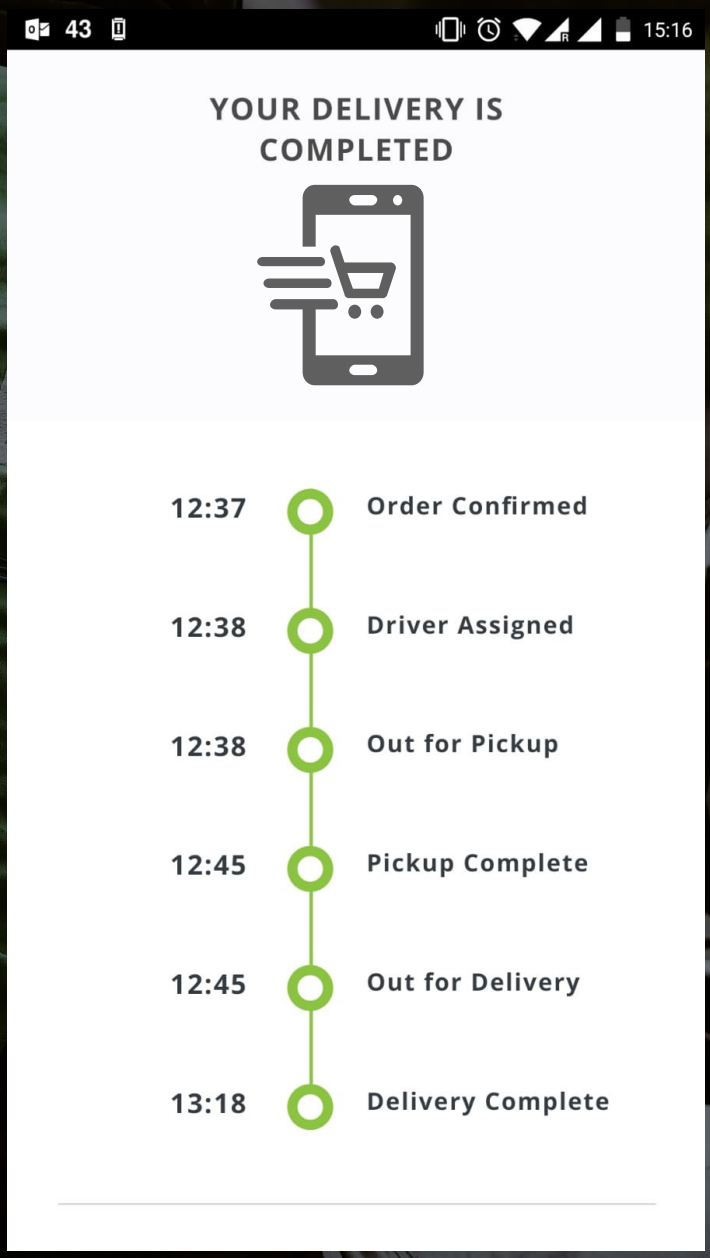
MARKET SHARE OF E-COMMERCE PLATFORMS IN SOUTHEAST ASIA, JUNE 2018



MARKET COVERAGE OF E-COMMERCE PLATFORMS 2018

Lazada	✓	✓	✓	✓	✓	✓
tokopedia	✓					
Bukalapak	✓					
blibli.com	✓					
Shopee	✓	✓	✓	✓	✓	✓
Qoo10	✓	✓		✓		

What do you get done in 41 minutes?



Mobile screenshot when buying a boardgame on the Tokopedia platform in Indonesia. Delivery after payment takes just 41 minutes using motorcycle couriers.

CONCLUSION

BOOM TIME IN SEA

3 STEPS TO OUTPERFORM ONLINE RIVALS

With an e-commerce market geared toward an emerging digital middle class, Southeast Asia is expected to follow the same rapid growth as China. The e-commerce boom presents major opportunities but navigating the landscape of platforms, different operating models and consumer behaviours can be challenging.

Most importantly, the market conditions may be very different from what Swedish companies are used to. Success in this rapidly developing sector will require the ability to pivot quickly. The average time spent on social media exceeds two hours in most Southeast Asian countries, but the platforms used and the behaviour on them differ country by country.

Tomorrow's e-commerce winners will have to constantly reinvent their capabilities in order to outpace rivals. Adopting an omni-channel strategy, partnering up with the right platforms and embracing social media will all be part of a key success strategy for building trust with consumers. Business Sweden gives three basic recommendations:

1. BUILD THE CUSTOMER JOURNEY

Focusing on customer experience is one of the most important factors that will drive success in the digital era of retail. With more and more processes being digitalised, understanding customer preferences, activities and selection criteria during the buying journey will help companies to be customer-centric and stay relevant in a fiercely competitive sector.

In an era where customers have low switching costs, they tend to choose suppliers and resellers that offer the best buying experience and perceived price. Differentiating your offer from competitors is critical in order to keep those customers returning.

Having a clear customer segmentation is essential for staying relevant to your buyers. Leading players tend to focus on a limited number of segments where they have strong knowledge of behaviour and key success factors. Digital buyers in Southeast Asia are unique consumers, where average time spent on social media exceeds two hours per day. It is therefore vital to build your presence on social media in a way that brings you closer to customers where they gain awareness of available products as well as trends from influencers, friends and family.

2. FIND THE RIGHT PARTNERS

As the market is dominated by platforms, finding the right channels suitable for your specific offering is essential. Future success in the market will rely heavily on your partners and their ability to strike a chord with consumers and use technology to meet their needs.

All large e-commerce players in Southeast Asia are platforms. Instead of fighting platforms and brick and mortar stores, combine their strengths in an omnichannel strategy. Swedish companies need to partner up with leading platforms as well as establish a robust presence and network in targeted customer groups, complemented by a strategic and active presence in social media.

3. INNOVATE LOCALLY

Retailers in Southeast Asia are expected to adapt quickly to new trends and consumer demands. With massive investments flowing into the region, key players are moving fast with a constant flow of disruption. Leading players gradually improve their offering and transform their core competencies beyond their main business. Companies need to be proactive and reactive as the markets are changing quickly and always cater to local needs.

THE SOUTHEAST ASIAN TRIANGLE
OF E-COMMERCE EXCELLENCE
Build the customer journey
Local innovation
Find the right partners

ABOUT BUSINESS SWEDEN

Business Sweden's purpose is to help Swedish companies grow global sales and international companies invest and expand in Sweden. Swedish companies can trust us to shorten time to market, find new revenue streams, and minimise risks.

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