

UNDERSTANDING ASEAN E-COMMERCE: TRENDS AND CHALLENGES

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The Southeast Asian digital economy will make more than US\$240 billion by 2025, of which only US\$102 billion will be from e-commerce*. With more than 350 million Internet users, the region is going to be the very epicentre of an economic boom, according to a Google research, becoming the world's biggest Internet retail market. However, the region varies greatly in terms of Internet usage and quality, and e-commerce penetration and readiness.


* Google/Temasek, 'e-Conomy SEA 2018, Southeast Asia's internet economy hits an inflection point', November 2018.

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Within the ASEAN region, where more than 50% of the population is under 30⁺, there are two different groups of countries: those with full Internet capacity, led by Singapore and Malaysia and followed closely by Thailand, the Philippines, Vietnam, Indonesia and Brunei, and the rest, still struggling with substantial infrastructural barriers. In this second group, formed by Myanmar, Cambodia and Laos, e-commerce is still in its first stages, and large e-marketplace platforms are not yet established. However, we know that this digital divide is not insurmountable and will not last long. The expansion of mobile phone network coverage in this second group has helped the diffusion of Internet access, which has been growing at a blistering pace over the last 10 years, from virtually 0% to 35–40% of the population, reaching a potential market of at least 25 million people.

Internet inclusiveness* (which combines four factors: availability, affordability, relevance and readiness) can be used as an indicator of trends and developments in the e-commerce sector. While Singapore is 15th in the global Inclusive Internet Index, lower-income countries such as Cambodia and Laos are ranked 73rd and 78th, respectively. Taking only Internet readiness into account, Malaysia ranks third. This factor is particularly interesting as it can tell us the capacity of businesses and consumers to understand, accept and access the e-economy.

* The Inclusive Internet Index is periodically updated by the Economist Intelligence Unit and commissioned by Facebook. The numbers mentioned in this paper were taken on 1st March 2020 .

But how does e-commerce work in Southeast Asia? There are numerous business models and combinations associated with e-commerce, and many hybrids, but we can distinguish four typologies: business-to-business (B2B), business-to-consumer (B2C), consumer-to-consumer (C2C) and business-to-government (B2G). B2B and B2C are the most significant in terms of market value**. The old-school B2B replicates the bricks and mortar, pre-Internet business model, in which the producer sells goods to a distributor (e-marketplaces) and the distributor sells them to the consumer for a premium price. In B2C, we can distinguish at least two typologies. The first replicates the traditional shop, where the seller runs an e-store within the e-marketplace and sells directly to the consumer, managing stocks and delivery on its own. One example is the online store of the Italian fashion house Guccio Gucci SpA, part of the giant Kering***. In the second typology, the brand outsources warehousing and other activities such as store set-up, product listing, customer service and payment system directly to a third service provider, or to the distributor. These extra services come with a price. Platforms such as Alibaba and Lazada offer standard packages of online sales management, applying a commission on the sales and a monthly or annual fee.

** Singapore Competition Commission (2018), *Handbook on E-Commerce and Competition in ASEAN*.

*** The Gucci group ranked first in the 2018 Digital IQ Index by Gartner, which rates the online customer experience offered by the luxury fashion brands.



C2C platforms – the most popular example here is eBay, which makes money by charging a transaction fee on each sale – collect orders on behalf of the seller without holding a warehouse. Resellers basically act as agents, and sellers are not required to prove their right or authorization to sell goods. This model is becoming popular, as anybody can set up a business in a few minutes without the need to create an e-shop or apply for a licence. However, in this way key elements of the interaction between the manufacturer and the final consumer, such as pricing, sales information and customer service, are uncontrolled, as potentially anyone can become a reseller in few clicks.



The ASEAN e-commerce scene has changed a lot in the last five years. Similarly to what happened in the 2000s with the spread of shopping malls, a few years ago direct sales platforms seemed to be the way for enterprises to go, but now big e-marketplaces with a diverse range of services are dominating digital shopping. Thanks to simplified accessibility, 24/7 customer service, flexible payment processes and an endless range of choices, e-marketplaces are becoming the preferred choice – for e-clients, but also for foreign enterprises that want to enter the ASEAN e-market.



In fact, e-commerce in the ASEAN region can be quite complex to navigate. Regulations, customer expectations, payment methods and logistics vary in each country. Moreover, rural and secluded regions in countries such as Laos, Myanmar, the Philippines, Vietnam and Indonesia are still difficult and expensive to reach. Last-mile fulfilment, including management of returns, is costly and logistically challenging. Also, cash on delivery is often preferred to electronic payment. All these are serious challenges for the foreign enterprise*.

* Australian Trade and Investment Commission (Austrade) (2019), *E-commerce in ASEAN: A Guide for Australian Business.*

Unlike in other parts of the world, where the device ratio is 50/50, in the ASEAN region mobile Internet connectivity has a paramount role, and this is reflected in the way e-commerce is developing. It is estimated that in the ASEAN region, between 70% and 80% of transactions are carried out through mobile phones**. Globally, e-marketplaces are investing millions in creating innovative, user-friendly (and addictive) apps that are changing the face of e-commerce. One of these is Amazon, the undisputed king of e-commerce, with around 2 billion visits a month.

** Various sources – among others, see this article of January 2019 from the ASEAN Post ➔

As noted, the ASEAN scene varies from country to country, and while it is true that Internet giants like Amazon, eBay and Alibaba are absorbing several local platforms and wiping out many established e-markets, enterprises with a serious interest in the ASEAN region should familiarize themselves with names like Tokopedia, Shopee or Lazada (now majority-owned by Alibaba Group). The table below shows the three most visited platforms in six ASEAN countries. They are mostly based in Singapore, and all of them operate almost exclusively in the ASEAN region.

Country	1	2	3
SINGAPORE			
MALAYSIA			
THAILAND			
INDONESIA			
PHILIPPINES			
VIETNAM			

Source: Similarweb (pro.similarweb.com), consulted on 10 March 2020

Qoo10 (co-owned by eBay) is an online shopping platform that offers sales services for SMEs; it also operates in Japan. Lazada is one of the biggest platforms, with warehouses all over Southeast Asia, but is also open to third-party retailers. Shopee (part of the Singaporean Garena group) targets mobile users and adopts a B2C–C2C hybrid model. It also has its own logistics infrastructure, Shopee Logistics Services. Tokopedia is the top Indonesian unicorn, providing a free C2C platform but also hosting official stores of several famous brands. Zalora operates all over Asia and specializes in clothing and fashion apparel.

So what is the best way to enter the ASEAN online market? With the globalization of consumer needs and tastes, international orders are booming. According to eTail Asia, cross-border e-commerce is expected to triple from 530 billion in 2018

* eTail Asia 2019 Conference Report (2019), 'Winning at Cross-Border eCommerce'.

to 1.5 trillion in 2022*. However, as mentioned above, few enterprises can bear the cost of maintaining an inventory in each country, while the extra costs of logistics, diverse returns policies and the timing of distribution can strongly affect the customer experience. One of those is the Swiss Nescafé Dolce Gusto, by Nestlé Group, with coffee capsule and machine e-stores in six ASEAN countries. Italian products such as food, wine, beauty products, fashion apparel and jewellery are becoming popular in the ASEAN e-market ↗, but few Italian companies have the means to establish a local warehouse.

What's next? With millions of young people still off the grid and IT illiterate – but not for long – the Southeast Asian e-market is set to grow exponentially. Fully aware of this, ASEAN is putting in place new regulations to enhance regional economic integration, simplifying and securing digital payments and reducing tariffs for inter-ASEAN trade – see for instance the ASEAN Digital Integration Framework 2019–2025 – while also opening at neighbouring markets, in the context of the Regional Comprehensive Economic Partnership (RCEP). ASEAN is looking at creating a free digital trade zone, which would *de facto* make ASEAN the biggest e-market after China and the USA. This trend is in line with the EU Digital Single Market Strategy, which reforms the Payment Services Directive and simplifies the rules on cross-border parcel delivery services. This new regulation is putting an end to unjustified geo-blocking and online discrimination on the basis of nationality or place of residence. We will try to gain a better understanding on how regulations influence e-commerce, and other aspects of the e-economy in the next months.

THE AUTHOR

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