E-Commerce In Asia
Bracing for Digital Disruption
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Introduction

Hyper-connectivity and mass adoption of mobile technologies have made it easier for e-commerce companies to target consumers when they are looking for a particular product by tracking their online habits and itineraries. The TV and radio advertising often used by traditional retailers lack this ability, making them not as time- or cost-efficient as many of the digital platforms available to modern marketers.

In Asia, many traditional retailers are finding it difficult to bring customers into their physical stores. On one hand, existing customers have little incentive to visit a physical location when it is more convenient for them to shop on mobile and online platforms. On the other hand, simply offering a wide range of products on e-commerce websites does not guarantee the reaching and captivating of new customers, as their online interactions are increasingly saturated with ads, promotions, recommendations, and notifications from all types of commercial entities.

In short, rising online sales can help some traditional retailers diversify and expand their customer base, but they can also adversely affect the bottom lines of physical stores, significantly impacting profits, commercial property prices, and employment opportunities in the retail sector.

It is in this context that this report presents a topline outlook of current e-commerce trends in key Asian markets. The report identifies the strengths and weaknesses of each specific market and examines the many potential challenges and opportunities created by a disruptive digital environment.
Regional Perspective
Shaky Beginnings, Robust Outlook

E-commerce is already big in the most affluent parts of Asia and has much room to grow in the region’s emerging economies. As local start-ups and global players tap into new opportunities, each country creates its own e-commerce leaders who set the pace and direction in their respective markets.

It is worth studying how new and established e-commerce players shape Asian consumers’ online and offline behaviours.

China – Big Room for Growth in Smaller Cities and Rural Areas

At 55%, e-commerce represents the biggest component of China’s internet sector, followed by online ads (21%) and online games (15%). Despite their relatively small shares, online payment and internet financing could see better growth prospects over the medium-term.

Of all these sub-segments, e-commerce has the best potential to achieve monetisation (i.e. generating revenue and profit) because its transaction-based business model closely involves payments and cash flows.

Indeed, online shoppers normally have clear intentions when they surf the internet, which helps to improve conversion rates (i.e. browse-buy ratio).

Diagram 1: E-commerce is the Biggest Component of China’s Internet Sector (2013)

Note: For e-commerce, we use revenue figures, instead of gross merchandise value (GMV).
Source: iResearch
Eager to enhance their online influence, most brand operators are willing to partner with e-commerce players to tap on their online expertise. In addition, the use of mobile devices has increased the time users spend surfing the internet (more than ten hours a day), while users are also spending more on mobile commerce. Of note, in 2014, iResearch found that about 30% of online sales in China were transacted on mobile devices, versus some 15% in 2013.

Thanks to the promotion of computers and mobile devices, improvements in telecom facilities, and cultivation of online buying habits, the number of e-commerce customers in China reached 302 million in 2013, accounting for 49% of the total netizen population. This is still far below the proportion found in Japan (75%), the US (76%), and the UK (97%), but, according to Aliresearch, e-commerce customers in China could sustain decent growth to reach about 540 million in 2020, or more than 25 million new online customers each year.

Diagram 2: Online Shoppers as a Percentage of Netizen Population (2013)

Studies by Aliresearch show that in the first year, online shoppers spend, on average, about 1,000 Chinese yuan per annum; by the fifth year, spending can rise to about 15,000 Chinese yuan; by the tenth year, spending would reach some 30,000 Chinese yuan. Since online shoppers in China, on average, have 3.5 years of online shopping experience, there is plenty of upside potential for average online spending to grow. Aliresearch expects online spending per capita to reach some 17,900 Chinese yuan in 2020, representing a compound annual growth rate (CAGR) of about 16% between 2014 and 2020.

Despite sound e-commerce developments over the years, online operators have mainly only penetrated the urban markets so far, while rural areas have been largely untapped due to less developed infrastructure and weak user awareness. In 2014, Aliresearch noted
that more than 35% of the urban population in China had made online purchases, but only about 10% of the rural population had used e-commerce platforms.

According to our estimates, online shoppers in rural areas spent an average of 2,600 yuan last year, or merely one-third of the amount spent by their urban counterparts. Given the rising incomes in the low tier markets, we believe the gap could narrow over the medium-term. Aliresearch estimates that online sales in the rural markets amounted to 180 billion yuan in 2014. With improvements in payment channels and logistics facilities, rural online sales are expected to reach 460 billion yuan in 2016, implying about 60% CAGR.

Contrary to conventional belief, our view is that the development of rural e-commerce in China has not been at the expense of offline retail sales. Analysis by McKinsey shows that for every Chinese yuan spent online in the rural markets, 0.57 yuan could be additional spending by the customers, over and above what would have been spent offline.

This is mainly due to the lack of retail infrastructure in rural areas, where online sales may actually encourage customers to spend more. Hence, we believe that the evolution of rural e-commerce could enhance retail sales growth in China over the medium term.

Online shoppers in China are increasingly buying via their mobile devices; they not only spend a lot of time on mobile internet (more than ten hours a day), they also make use of many e-commerce features (group-buying and location-based services). In 2014, mobile commerce contributed about 30% to e-commerce, and the ratio is expected to reach 57% in 2017.
This huge potential for mobile commerce motivated the Alibaba Group to launch its first app – “Mobile Taobao” – back in 2010. Riding on the success of the Taobao marketplace, “Mobile Taobao” has been the most popular mobile commerce app in China, by number of monthly active users, since August 2012. Coupled with other apps such as Tmall,
Juhuasuan, and Taodian, we estimate Alibaba dominated the market in 2014, with 86% of mobile market share.

Despite its relatively small mobile market share, JD.com has increasingly gained traction in mobile commerce, thanks to the development of its online marketplace, the improvement of its payment channels, and the user traffic support from Tencent following their strategic partnering. Such initiatives lifted JD.com’s mobile market share to 5.4% for the September quarter 2014, as compared to only 3.4% in the March quarter 2014.

E-commerce is well positioned to monetise on user activities, and Alibaba could be the major beneficiary of this trend, followed by JD.com. Baidu has limited e-commerce exposure except for its investment in LEHO.com, an online sales platform focusing on fashion products. Tencent has transferred most of its e-commerce operations to JD.com, following the strategic cooperation launched in March 2014.

**Diagram 6: Market Share of Mobile Commerce in China, 2014 (%)**

![Diagram showing market shares for Alibaba Group, JD.com, VIPShop, Suning.com, GOME Online, and Others for 1Q2014, 2Q2014, and 3Q2014.](source: iresearch)

**ASEAN – Growing at Uneven Paces and in Unexpected Places**

Compared to China, online sales are low in ASEAN countries. According to research firm Euromonitor, online retailing accounted for less than 1% of total retail sales in the six largest Southeast Asian countries – Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam.
Indonesia overtook Singapore and Thailand in 2014 to emerge as the largest e-commerce market in ASEAN with online sales of US$1.1 billion. Euromonitor forecasts online revenue to grow by a CAGR of 38% between 2014 and 2017. Slightly behind Indonesia, Thailand’s online sales amounted to US$1.1 billion in 2014, representing 1.2% of the total sales as per Euromonitor, which forecasts online revenue CAGR of 19% between 2014 and 2017.

Singapore is the third largest market with online retail sales of US$860 million or 3.4% of total retail sales as per Euromonitor, which forecasts a 13% CAGR for online retail revenue between 2014 and 2017. Despite much higher income levels, Singapore’s online sales lag behind similarly developed countries due to the convenience of well-developed retail outlets all over the island and the lack of strong domestic e-commerce players. A majority of online sales are skewed toward products that are not available locally.

Malaysia had online retail sales of US$496 million or 0.9% of total sales according to Euromonitor, which forecasts a 21% CAGR for online retail revenue between 2014 and 2017.

Diagram 7: ASEAN Internet Retailing as a Percentage of Total Retail Sales

E-commerce in ASEAN faces three main challenges: Payment, delivery, and marketing.

- **Payment**: There is a lack of trust in online retailers in terms of product reliability and safety of payment mechanisms. Credit card ownership covers less than 10% of the population and those who do have them do not use them online for fear of fraud. Most customers prefer cash-on-delivery which requires partnering with sophisticated delivery providers.
Delivery: With the exception of Singapore, delivery networks are a major challenge in ASEAN. Postal services are often unreliable and local logistics firms are still unprepared to handle high volumes of small packages.

Marketing: Online marketing is trickier in ASEAN than in China. The variations in cultures, languages, and regulations make it hard for online players to customise their online portals to suit local languages and cultures while battling various customs regulations.

Despite these major hurdles, a number of recent transactions show just how promising the ASEAN e-commerce sector really is.

Rakuten, Japan’s biggest marketplace, set up its Southeast Asian headquarters in Singapore in 2013, and is keen to become a regional player. In June 2014, Alibaba bought a 10% stake in Singapore Post for US$250 million, signalling its intention to grow large and fast in ASEAN. In October 2014, Indonesia’s leading e-commerce marketplace, PT Tokopedia, raised US$100 million from Japanese investment firm SoftBank Corp. and Sequoia Capital. In December 2014, Lazada, the Rocket Internet-backed e-commerce firm, received fresh funding of US$250 million from multiple sources (the main one being Singapore’s Temasek Holdings). Besides Lazada (multi-category), Rocket Internet also owns online store Zalora (apparel) which operates all over the region.

Last year also saw the entry of Internet messaging players into e-commerce. Japanese Internet voice and messaging provider LINE entered the e-commerce fray in 2014 in Thailand with the launch of its online marketplace. For now, it will only be available in Thailand, where it already counts 33 million active users. LINE partners with a local e-commerce service provider, aCommerce, which takes care of product sourcing, storage, and delivery.

LINE’s rival, WeChat, which has about 480 million users, also launched e-commerce and food delivery services. This was after WeChat’s parent company, Tencent, bought a 15% stake in JD.com, China’s second largest e-commerce company, giving it an exclusive shopping channel on the WeChat platform. WeChat then launched its first takeaway delivery service in December by partnering with Foodpanda.

KakaoTalk, which has 50 million users mainly across South Korea, also has plans to get into e-commerce by challenging Coupang, the so-called “Amazon of South Korea.”

Each of these instant messaging players is taking advantage of instant access to millions of users, while avoiding the expensive process of building an e-commerce infrastructure from scratch. There have also been rumours that Twitter will enter the e-commerce market by providing an online platform for retailers to sell their products.

Payment, delivery, and marketing are the three key areas that need to be developed for e-commerce to truly take off in Southeast Asia.
Country by Country
Multiple Realities, Multiple Outcomes

An in-depth analysis of the trends in five ASEAN markets shows that e-commerce is at a different stage in each country, with different sets of opportunities and challenges. Logistics remains a key impediment to be overcome in Indonesia and the Philippines, while Singapore – which faces no such infrastructure limitations – still has relatively low online retail adoption rates because of the convenience of accessing traditional retailers. Opportunities also abound in each market; rising labour costs in Singapore may be a boon for the online retail segment, while the non-traditional work hours of the Philippines’ business process outsourcing workforce has created a ready market for non-traditional retail.

Singapore – Countering Rising Labour Costs and Stagnating Tourism

By many accounts, Singapore’s internet penetration, smartphone adoption, financial infrastructure, and logistical facilities are among the best in the world.

Yet the city-state has not seen online retail adoption rates similar to those of Japan or South Korea. This could be due to various factors: The high convenience of shopping in the many malls, the fact that tourist spending is mostly done in offline locations and the absence of a strong local e-commerce player.

Indeed, a large portion of online sales comes from players outside Singapore. According to AT Kearney, about 47% of all online retail sales in Singapore come from outside the ASEAN region. As a result, a big cross section of online sales tends to have considerably high shipping costs and long delivery times.

Online retail adoption could, however, accelerate over the next three years due to the following reasons:

1) Tourist arrival numbers have not been increasing

Singapore attracted over 15 million tourists in 2014, a significant figure that plays a key role in the retail segment. Retail sales generated from these tourists and travellers tend to be comparatively more resilient to changes brought on by online shopping, as it is a part of the holiday experience for them. However, tourist numbers have not been increasing, resulting in a lower percentage of retail sales from tourist spending.

Retail brands have also expanded into other markets (China, Indonesia, and Malaysia), making Singapore a less unique shopping destination.

About 47% of all online retail sales in Singapore come from outside the ASEAN region
2) **Traditional retailers have been hit hard by labour policy changes**

The services sector – including the retail industry – has felt the most impact of the Singapore government’s reduction of the dependency ratio ceiling, which determines the number of foreign workers a firm is permitted to hire based on the number of local staff it employs.

Retailers in Singapore collectively face two problems: First, escalating labour costs which impinge on their profitability; and second, even if retailers are able to contain their labour costs and afford additional labour, there isn’t any labour to be found as locals tend to shy away from service sector jobs.

**Diagram 8: Percentage of Retail Sales Coming From Tourist Spending (Singapore)**

![Diagram showing percentage of retail sales from tourist spending in Singapore over the years from 2009 to 2013. The percentage increased from 9.7 in 2009 to 11.1 in 2011, then decreased to 10.7 in 2013.](source: DBS Bank)

**Diagram 9: Unit Labour Cost of the Singapore Economy (4Q rolling average)**

![Diagram showing the unit labour cost of the Singapore economy from 2000 to 2014. The cost fluctuated significantly, with a peak in 2008 and a trough in 2009. The source is DBS Bank.](source: DBS Bank)
3) **Suburban retailers may steal market share from downtown retailers**

The emergence of master-planned regional centres – Jurong in the Western part of Singapore, Tampines in the East, and Woodlands in the North – brings shopping to the heartlands and offers shopping experiences that were previously only available downtown.

This development offers shoppers the convenience of shopping malls within short distances from homes. Except for niche lifestyle needs and high-end products, consumers prefer to shop for groceries, garments, and cosmetics within their neighbourhood malls. As such, malls that offer low- to mid-end products are likely to face higher substitution from online sales.

4) **Emergence of strong e-commerce players**

More and more local players and local affiliates of larger global e-commerce platforms are emerging in Singapore. Global players such as Alibaba have invested in Singpost, which is developing a logistical hub in Singapore. This should cut down the costs as well as the delivery times for local customers, leading to better adoption of online platforms for day-to-day purchases.

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**Diagram 10: TechinAsia’s Popular E-Commerce Sites in Singapore**

<table>
<thead>
<tr>
<th>Name</th>
<th>Products Sold</th>
<th>Launched</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reebonz</td>
<td>Luxury goods</td>
<td>2009</td>
</tr>
<tr>
<td>Kwerkee</td>
<td>Novelty design accessories</td>
<td>2012</td>
</tr>
<tr>
<td>Qoo10</td>
<td>Business-to-consumer general marketplace</td>
<td>2012</td>
</tr>
<tr>
<td>RedMart</td>
<td>Household items/groceries</td>
<td>2011</td>
</tr>
<tr>
<td>Luxola</td>
<td>Cosmetics/beauty products</td>
<td>2011</td>
</tr>
<tr>
<td>NoQ Store</td>
<td>Books</td>
<td>2011</td>
</tr>
<tr>
<td>HipVan</td>
<td>Home &amp; furnishings, accessories, art, fashion</td>
<td>2013</td>
</tr>
<tr>
<td>Bellabox</td>
<td>Beauty products</td>
<td>2011</td>
</tr>
<tr>
<td>Clozette</td>
<td>Fashion</td>
<td>2010</td>
</tr>
<tr>
<td>Rakuten</td>
<td>Business-to-consumer general marketplace</td>
<td>2014</td>
</tr>
<tr>
<td>Taobao</td>
<td>Business-to-consumer general marketplace</td>
<td>2013</td>
</tr>
<tr>
<td>Zalora</td>
<td>Fashion</td>
<td>2012</td>
</tr>
<tr>
<td>Carousell</td>
<td>Consumer-to-consumer second-hand marketplace</td>
<td>2012</td>
</tr>
<tr>
<td>Wego</td>
<td>Travel</td>
<td>2005</td>
</tr>
<tr>
<td>VanityTrove</td>
<td>Beauty products</td>
<td>2011</td>
</tr>
</tbody>
</table>

Source: TechinAsia.com, DBS Bank
Luxola, a Singapore-based online cosmetics retailer, said it hit its first S$1 million in sales within two years of its April 2011 launch. But its most recent million-dollar revenue was achieved in under two months in April 2014, according to its founder and chief executive, Alexis Horowitz-Burdick, who expects annual revenue to hit S$100 million by 2016.

Even e-marketplaces that represent individual sellers and retail entrepreneurs claim to be doing great. Singapore-based Qoo10, for one, says transaction volume on its site grew from under S$100 million in 2012 to S$150 million in 2013 and is expected to double to S$300 million in 2014. In February 2014, Japanese e-marketplace giant Rakuten launched its Singapore website to connect more individual buyers and sellers. Rakuten has also partnered with Toys ‘R’ Us to sell the latter’s goods on its website. Like Toys ‘R’ Us, local brick-and-mortar store Planet Telecoms has also entered the e-commerce fray.

**Indonesia – Major Roadblock From Lack of Trust and Unreliable Logistics**

Indonesia overtook Singapore and Thailand in 2014 to emerge as the largest e-commerce market in ASEAN with online sales of US$1.1 billion. This translated into only 0.7% of total sales in Indonesia according to Euromonitor, which forecasts online revenue CAGR of 38% between 2014 and 2017. Within online retail sales, entertainment media (books, video games, etc.), consumer electronics, fashion, and travel/tourism have been the bestsellers.

**Diagram 11: Leading Online Retailers in Indonesia**

<table>
<thead>
<tr>
<th>Company</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kaskus</td>
<td>Misc</td>
</tr>
<tr>
<td>TokoBagus</td>
<td>Misc</td>
</tr>
<tr>
<td>Berniaga</td>
<td>Misc</td>
</tr>
<tr>
<td>Lazada Indonesia</td>
<td>Misc</td>
</tr>
<tr>
<td>Bhinneka</td>
<td>Consumer electronics</td>
</tr>
<tr>
<td>Agoda.com</td>
<td>Travel</td>
</tr>
<tr>
<td>Zalora</td>
<td>Fashion</td>
</tr>
<tr>
<td>Tiket</td>
<td>Travel</td>
</tr>
<tr>
<td>Groupon Indonesia</td>
<td>Misc, lifestyle</td>
</tr>
<tr>
<td>Tokopedia</td>
<td>Misc, mostly consumer electronics</td>
</tr>
<tr>
<td>Bukalapak</td>
<td>Misc, mostly consumer electronics</td>
</tr>
<tr>
<td>Qoo10 Indonesia</td>
<td>Misc</td>
</tr>
<tr>
<td>Elevenia</td>
<td>Misc</td>
</tr>
<tr>
<td>Lamido Indonesia</td>
<td>Misc</td>
</tr>
<tr>
<td>Rakuten Belanja Online</td>
<td>Misc</td>
</tr>
</tbody>
</table>

Source: DBS Vickers
Lazada and Tokopedia are the top online marketplaces in Indonesia. In October 2014, Tokopedia claimed that its merchants were, monthly, selling about 2 million products and receiving 10 million visitors. In February 2015, Lippo Group launched MatahariMall, a new e-commerce venture, in partnership with the Matahari chain of department stores.

Online retail is hampered by trust and image issues in Indonesia. According to a study by McKinsey, customers’ key customer concerns are over fraudulent transactions, security issues with online payments and the reliability of product quality. Companies that effectively address these issues may see better growth in online retail in the medium term.

Zalora Indonesia has for instance introduced free shipping with no minimum spend, money back guarantees, cash-on-delivery payments, and customer service platforms to address these issues.

The lack of a developed logistical infrastructure is another key issue, especially considering the fact that Indonesia is a large nation spread across several islands with under-developed infrastructure. As a result, e-commerce players face difficulties in reaching the more remote locations and most online sales are highly concentrated around Jakarta. JNE, the market leader in e-commerce logistics in Indonesia, delivers about 60% of its e-commerce related packages within Jakarta.
At 47%, 42.8%, and 41.6% respectively, Yogyakarta, Jakarta, and Bali have three of the highest internet penetration levels in the country (national average of 32%), mainly from people using 3G phones\(^1\). Thanks to their demographic and economic growth potential, these three provinces represent a large potential market for e-commerce players.

\(^1\) Indonesia Internet Service Provider Association, Indonesia Internet Usage for Business Sector, 2013.
Thailand – Proactive Retailers in a Fragmented Sector

In 2014, online sales amounted to US$1.1 billion in Thailand, only slightly behind Indonesia. This translated into 1.2% of total sales, as per Euromonitor, which forecasts an online revenue CAGR of 19% between 2014 and 2017.

At present, internet retailing in Thailand remains fragmented with many small online retailers. Major brick-and-mortar chains that have developed online platforms are also among them.

For example, Tesco Lotus started an online shopping mall in Thailand back in 2013. They offer over 20,000 products for home delivery. Big C and Tops also have online platforms targeting urban clientele. CP ALL, the 7-Eleven franchisee in Thailand, is using its nationwide network of more than 8,000 stores to allow online retailers to do self-collection and in-store payments.

Japanese internet voice and messaging provider LINE entered the e-commerce fray in 2014 in Thailand with the launch of its online marketplace. For now, it will only be available in Thailand, where LINE has 33 million active users. LINE partners with a local e-commerce service provider, aCommerce, which takes care of product sourcing, storage, and delivery.
Last year, its rival WeChat, which has about 480 million users, also launched e-commerce and food delivery services.

Lazada.com, which operates in the ASEAN region, reportedly allocated US$30 million of its 2014 marketing budget on Thailand, while, in the same year, sales were expected to reach US$50 million. Lazada Thailand claims to have an average of 5 million users per month with a bounce rate of 40% and 30% of traffic coming from referrals.

Luxola is an online beauty store with operations in Malaysia, Thailand, Indonesia, and Brunei. Out of its 450,000 visitors per month, about 36,000 are estimated to be from Thailand. Weloveshopping.com is an example of a consumer-to-consumer transaction platform in Thailand that uses a third-party payment processor provided by True Money, an online wallet service in the country. They also hold customers’ payments for seven days before releasing them to merchants, allowing buyers to claim a refund.

Intense competition from traditional retailers, who are expanding aggressively, is seen as a major threat to online retail’s growth. Similarly, high-end department stores are seeing significant growth. The newer shopping complexes in Bangkok’s central region are moving toward the high-end, luxury-style shopping segment. This segment is more resilient to the disruption caused by online retail due to their exclusivity.

As in Indonesia, lack of trust also serves as a major deterrent in Thailand’s online retail market. The majority of online shoppers (62%) in Thailand are reluctant to give out credit card information while online. Further, suitable security measures in this area are still lacking.

Logistics also play a role. Free delivery of the goods purchased through e-commerce was limited to only 25% of buyers in 2013. While the national postal service is considered cheap, delivery remains unreliable. Many private logistics operators cover only selected areas and tend to be expensive.

The low internet penetration level is another key bottleneck for Thailand. Despite much higher income levels, smartphone penetration in Thailand is only 40% versus 25 to 30% in Indonesia.

**Malaysia – Eager Consumers, Unfavourable Environment**

Malaysia’s online retail sales reached US$496 million or 0.9% of total sales, according to Euromonitor, which forecasts a 21% CAGR for online retail revenue between 2014 and 2017. Travel is a clear leader in terms of online purchases, and entertainment media, consumer electronics, and fashion tend to enjoy high interest as well.
Lelong.my is the online marketplace leader in Malaysia, clocking 5 million visits in November 2014, with Lazada closing in, with 3.8 million visits during the same period. Groupon, eBay, and Zalora are also particularly popular online merchants in Malaysia. These past few years, major international players such as Zappos and Amazon have also shown interest in Malaysian consumers.

**Diagram 15: Intent to Purchase in the Next 6 Months – Malaysia Online Consumers (2014)**

Lelong.my
- Fashion
Lazada
- Misc, Mostly consumer electronics
Groupon
- Misc, Lifestyle
Zalora
- Fashion
eBay
- Misc
Rakuten
- Misc
Qoo10
- Misc
Lamido
- Misc
Yoube li
- Misc, Mostly consumer electronics
Mudah.my
- Misc
ShaShinKi
- Consumer electronics
Fashion Valet
- Fashion
ASOS
- Fashion
Shopbop.com
- Fashion
Book Depository
- Books

Source: DBS Vickers
Malaysia has a number of traits that make online retail a viable sector — high internet and smartphone penetration levels, heavy credit card usage, and a good transportation infrastructure in our view. However, the online retail segment has a relatively small footprint (less than 1% share).

According to A.T. Kearney, the main challenges to the growth of Malaysia’s e-commerce sector have been cyber security issues and consumers’ preference to physically inspect the goods.

In order to reduce online fraud, the government introduced specific regulations in its new legislation in 2013. Though these were seen as positive for consumer protection, some industry observers highlighted the possibility of prohibitive costs for retailers.

On consumer behaviour, we believe these patterns are likely to change in the long term as online retailers develop ways to improve consumer experiences (product photography, website usability, money-back guarantees, etc.) and as consumers become more familiar with online shopping.

The Philippines – Foreign Players Take the Lead

The online retail market in the Philippines accounts for less than 3% of the country’s 100 million-strong population, according to the Philippine Retailers Association. Further, only 2.5 million credit cards are in use. Despite this, online retail recorded 11% growth in 2012, according to Euromonitor International.

It has been further revealed by Euromonitor that around 40% of local internet retailing is fragmented and shared by small players in the market. Among the big players, Amazon takes the lead, due to its trusted security and its extensive range of products.

Diagram 17: Top 5 Retail Sites in the Philippines in 2013

<table>
<thead>
<tr>
<th>Site</th>
<th>Unique Visitors (1000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amazon Sites</td>
<td>1,094</td>
</tr>
<tr>
<td>Apple.com Worldwide sites</td>
<td>730</td>
</tr>
<tr>
<td>AVG.com</td>
<td>693</td>
</tr>
<tr>
<td>Lazada Sites</td>
<td>628</td>
</tr>
<tr>
<td>MULTIPLY.com</td>
<td>515</td>
</tr>
</tbody>
</table>

Source: ComScore, Inc. 2013
Generally speaking, Amazon is mostly used to import goods, which is why electronics and electrical goods lead the market share, followed by food and groceries.

Another point to note is that the Philippines is very popular for business process outsourcing, with its workforce of more than 400,000 people. These workers are on duty at odd hours and tend to order food and groceries from convenience stores with online operations such as Philippine Seven (7-eleven in the Philippines). Traditional shopping malls are closed during these times while such convenience stores operate 24 hours a day, seven days a week.

Over 10 million migrant Filipinos work abroad, and that has created a new market for buying online from overseas and delivering within the country. This trend has led to more online retail sites opening in the Philippines to tap local markets. A case in point is Island Rose, one of the largest flower retailers and wholesalers in the Philippines, which opened an e-commerce site in 2000. This online retail shop allows consumers from all over the world to purchase gifts and have them delivered to their loved ones anywhere in the Philippines.

With the increase in popularity of online retail, SM Investments Corporation, owner of one of the largest shopping malls in the country, has announced its scheduled commencement of online operations.

The main challenge to online retail remains the reluctance of owning and using credit cards due to trust and security issues.

"In the Philippines, the main challenge to online retail remains the reluctance of owning and using credit cards"
Many online retailers have offered cash-on-delivery options to overcome this, even though this is relatively costly. Further, the setting up and secure maintenance of an online facility seems to be a big step for Filipino retailers. Our previous example, Island Rose, overcame this challenge by using third party cloud software-as-a-service solutions from NetSuite (based in California).

Online retailers also have to face high logistics charges to ship among islands. According to Philippine Seven's CEO, it is cheaper to have distribution centres in each island than to ship from a central location.

**Diagram 19: List of E-commerce Retailers in Philippines**

<table>
<thead>
<tr>
<th>Site</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amazon</td>
<td>Misc</td>
</tr>
<tr>
<td>Lazada Philippines</td>
<td>Misc</td>
</tr>
<tr>
<td>Kimstore</td>
<td>Consumer Electronics</td>
</tr>
<tr>
<td>Zalora Philippines</td>
<td>Fashion</td>
</tr>
<tr>
<td>OLX</td>
<td>Misc, P2P</td>
</tr>
<tr>
<td>Shop This Easy</td>
<td>Fashion</td>
</tr>
<tr>
<td>Philippine Seven</td>
<td>Misc</td>
</tr>
<tr>
<td>Ayos Dito</td>
<td>Misc</td>
</tr>
<tr>
<td>Goods.ph</td>
<td>Misc</td>
</tr>
<tr>
<td>Widget City</td>
<td>Widget City</td>
</tr>
<tr>
<td>Metro Mall</td>
<td>Misc</td>
</tr>
<tr>
<td>Keekay.ph</td>
<td>Cosmetics</td>
</tr>
</tbody>
</table>

Source: ICD Research
Conclusion

Asian retailers, especially retail platform operators in China, may be in store for more threats from e-commerce. In Singapore too, we expect a gradual loss of market share to online players as rising labour costs make traditional retailers less competitive.

The potential threat from online sales is still low in Malaysia, Indonesia, and Thailand, but there is much potential for retailers who are using online as an additional channel to increase sales. Retailers with relatively lower sales per square foot, such as department stores, are likely to have their business models disrupted in the near future.

Retail segments that could see some tough competition from pure e-commerce operators include handbag and luggage, cosmetics, home appliances, and food products. Retailers selling lifestyle and luxury products (e.g. jewellery, luxury watches, global premium brands), meanwhile, may be more resilient as competition from online merchants is much less aggressive in these areas.
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