

## ISSUES



The inside of the warehouse of an online fashion retailer in Singapore. The demographics are favourable for online shopping to grow. Come 2030, Asean will have 138 million middle-class households.

# Shopping, interrupted

E-commerce is booming in Southeast Asia, but infrastructure limitations mean it still makes up only a fraction of the global pie

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For a whole century, Nov 11 was known as Armistice Day, to mark the cessation of fighting in World War I between the Allies and Germany. Today, 11/11 has become better known as Singles' Day, a term coined by Chinese e-commerce giant **Alibaba Group Holding**. And it has become an excuse for consumers across the world to load up their electronic shopping carts on a myriad of shopping sites, especially those under Alibaba.

One such shopper is Karen Yeung, an account manager, who took the recent opportunity to purchase some electronic items. But she also spotted what she believes to have been some dirty tricks by retailers. "Some of these retailers mark up their prices before slashing them for the sale, so you'll have to do some research if you're looking to get the best deal," she says.

Despite such misgivings, 11/11 and other dates have been appropriated by e-commerce retailers, who see the opportunity to boost online sales. Black Friday and 12/12 have grown in popularity and are now capitalised on by bricks-and-mortar retailers too.

In any case, any day is a good day for

shopping. Lazada, the Southeast Asian subsidiary of Alibaba, saw 11 million shoppers on its platform within a 24-hour period during its birthday bash on Sept 9. According to the company, the parcels that were shipped out, when stacked, equalled the height of 70 Mount Everests.

The demographics are favourable for online shopping to grow. Come 2030, Asean will have 138 million middle-class households. "That's the same as the number of households in the US at the moment," says Simon Baptist, global chief economist at Economist Intelligence Unit. He expects the Asean region to be the third-fastest-growing place for e-commerce globally, after India and China.

According to the *e-Economy SEA 2018* report, a joint study by Google and Temasek Holdings, there are now 350 million internet users in the region, an increase of 90 million from 2015. Total spending in the e-commerce market is expected to surge from US\$23 billion (\$31.5 billion) in 2018 to US\$102 billion in 2025.

Against this backdrop, e-commerce has been hailed as a great leveller for small and medium-sized enterprises, giving them reach and opportunities in markets previously out of reach. In Singapore, an estimated 78% of SMEs used e-commerce and

exported to other markets within Asia-Pacific, according to a study commissioned by logistics provider FedEx.

The recent Nov 11 shopping event was a hit, with smaller Southeast Asian players feeling the uplift as well. According to Alban Villani, managing director, Southeast Asia, Hong Kong and Taiwan, at advertising platform **Criteo**, Singles' Day drove a 237% increase in sales across the region, with Indonesia seeing a 381% rise. Yet, such sales events would only increase the competitive pressure among retailers. And the ones who suffer would likely be the smallest players unable to absorb the shortfalls. For all the glowing numbers and untapped potential, has e-commerce been the tide that lifted all boats? Has the availability of the technology really helped the smaller, home-grown retailers?

## Infrastructure needed

In Singapore, the government has recognised the potential of e-commerce and is helping build a more efficient infrastructure for it. For online retail, one crucial aspect to get right is the last-mile delivery.

To this end, the government is helping to put together a so-called federated locker system for different delivery providers to deposit the goods, which consumers

can pick up at their convenience. "I think dealing with an industry where the rate of change is so rapid, you need to approach the problem with different types of solution sets, and that is the path we are attracted to do," says S Iswaran, minister for communications and information.

On Dec 7, The Locker Alliance pilot was launched by the Infocomm Media Development Authority of Singapore. For now, two housing estates — Bukit Panjang and Punggol — have been chosen for the scheme.

If such a system is implemented island-wide, logistics service providers can enjoy a fivefold improvement in delivery efficiency and halve the distance travelled by delivery drivers. "This in turn will support the exponential growth in e-commerce locally and regionally," says Tan Kit How, IMDA's CEO.

E-commerce giants such as Alibaba and Amazon.com and their global network of subsidiaries and related companies have so far dominated the e-commerce space. The Singapore government hopes to see e-commerce as part of the broader digital economy and a way for SMEs to gain access and win a rightful share of the business. In short, the aim is to "democratise" the economy.

"The smallest business in the most re-

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## The merging of two models

In the cut-throat environment of the e-commerce space, online retailers are finding it increasingly hard to differentiate themselves from their other online competitors. Some have resorted to retreating into a new old space – physical retail. The trend is partly driven by consumers' dissatisfaction. Karen Yeung, an account manager, for example, is wary of buying clothes online due to inconsistent sizing by retailers. "I don't want to end up spending more time and effort sending back the items," she says.

Online fashion brand Love, Bonito opened its first retail store at 313 Somerset in November 2017 after seven years in business. It opened another store at IEM this month. Love, Bonito made the move after positive experiences with pop-up stores. "Despite the exponential growth of e-commerce, traditional bricks-and-mortar still makes up a huge portion of the retail pie as consumers prefer the ability to touch, feel and try – this is particularly relevant in the fashion space," says Love, Bonito's chief commercial officer Diane Song.

Online concierge service honestbee has moved offline too. It went from buying groceries on behalf of its customers to the retail business, under the branding "habitat by honestbee", where customers can experience an automated checkout experience, with robots packing their purchases for collection.

Pakline Png, managing director of habitat by honestbee, says going offline was the best way to engage customers, especially when it came to food. "As online grocery retail is only less than 10% of the total grocery business in Asia, it is important that we make ourselves more accessible to our customers in both the online and offline space and serve them Q2O [online to offline]," she says.

Song: Despite the exponential growth of e-commerce, traditional bricks-and-mortar still makes up a huge portion of the retail pie



For honestbee, it is about ensuring that technology enhances the shopping experience. It had to hire more staff to help with customers' initial learning curve. "Like every new technology, customers need time to learn and adapt, but over time, they will get used to using it," says Png.

Honestbee's move into the offline space also allows it to leverage data to better cater to customers' preferences, as it uses the retail space as a fulfilment centre for online orders. "We designed habitat by honestbee as a destination location where customers can come and get their weekly groceries done and have great meals and fun moments with family and friends in a beautiful space surrounded by good food," says Png.

It is a similar experience for Love, Bonito. Song says the brand's offline presence actually helps the company have a more "intimate" experience with its customers and understand them better. "The data and analytics from e-commerce only

LOVE BONITO



HONESTBEE

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goes so far and we're now able to get a better contextual and qualitative understanding of our community."

The online players, when moving offline, also find themselves picking up some new tricks in the traditional world. "Given that we've been a digital-first brand, going offline meant learning the ropes of traditional retail [such as] retail spatial design, service and operations," says Song.

"We're constantly learning, refining, optimising and innovating. I'd say the biggest challenge with going offline would be the temptation to accept the status quo and have a cookie-cutter approach to the offline store experience. We truly believe the offline experience needs to be differentiated,

delightful and considerate – something we don't see many brands doing," she adds. So far, Love, Bonito has opened 16 outlets across Singapore, Malaysia, Indonesia and Cambodia.

By setting up physical shops, the retailers are also starting to better appreciate that

locations can play a critical role. "It's a key difference compared with e-commerce – one needs to be mindful of the catchment area and ability to attract a relevant footfall and audience," says Song.

Would there be more online retailers on the ground – the way physical retailers were under pressure to go online in an earlier era of e-commerce? Png of honestbee believes this is the way to go. She says being present in both spheres does help a business reach more customers and build a wider customer base.

Love, Bonito's Song, however, is more cautious about advocating such a move. "It's not an easy space to move into, as it requires commitment and a high level of attention to service. We see this as an important pillar of our brand and strategy because we believe in the need to create authentic and intimate experiences with our community, and our offline stores serve as a great platform for us to do so," she says.

mote village, once they get access to key platforms, they can access the markets that only the big boys used to be able to do, can access partnerships that companies with a global or regional footprint can do, and also source for new things without being physically there, I think for the region – and certainly for Singapore – that's our primary reason," says Iswaran.

While observers agree that e-commerce can help level the field for smaller companies, they note that these companies face inherent disadvantages, ranging from search engine optimisation to the fragmentation of regulations and access.

Kavita Rekhraj, Deloitte Southeast Asia consulting leader for the retail, wholesale and distribution sector, says SMEs should concentrate on their products and outsource other related functions.

Still, the bigger players play the same game but at a more sophisticated level. For example, via strategic alliances with related parties, the big players can form a unified single view of the customer across the ecosystem of commerce, payment, entertainment and service platforms. "Such insights help the marketing teams map the competitive landscape, engage new customer communities and land the right message with the right customer using the right channel," Rekhraj notes.

Chandan Joshi, EY Asean and global emerging markets consumer products and retail leader, warns that the wider open access means SMEs might find themselves competing directly with overseas SMEs as well. "In some cases, they might be more competitive on either quality or cost, or

both, posing a new threat to local players," he says.

### Fighting big platforms across oceans

The efficiency of last-mile delivery could make the difference for smaller e-commerce players, who still face a big challenge: getting discovered by consumers. The internet is vast, but it is either a market of boundless opportunities or an ocean for SMEs to founder in simply because they do not have sufficient marketing muscle. "Significant investments have to be made for search engine optimisation and online advertising," says Jan Ondrus, professor at ESSEC Business School.

For the smaller retailers, the obvious solution is to join the big, existing platform markets such as Lazada, where there is a sizeable customer base. But there is a price to pay for this, as such arrangements are likely to be more favourable towards the platforms, thus concentrating even more power in their hands and reinforcing what is already an imbalance in the industry.

For instance, retailers such as German footwear maker Birkenstock stopped selling on Amazon in the US, owing to "unacceptable business practices". Amazon has been known to undercut smaller players into losses and then acquire them at floor prices.

The wider implication of this is the subjugation of a vibrant local market, with big platforms continuing to dominate individual retailers, warns Alex Capri, visiting senior fellow, department of analytics and operations, National University of Singapore Business School.

ESSEC's Ondrus concurs, and adds that

there is a risk of monopolies. "In hospitality management, the situation arose, but leaving the online platform might be a big issue for small hotels. If they leave the platform, they cease to exist. Hotel chains are trying to compete by creating their own online booking systems and platforms, but they fail to offer greater value to consumers. Loyalty schemes seem to have little impact," he says. Direct intervention from regulators might be needed, he adds.

Capri calls the dominance of the handful of platforms, either American or Chinese, "techno-colonialism". These platforms now own the data on most consumers in any given market. This is why certain countries, such as India, are pushing aggressively for data localisation laws.

"This is an existential threat to vibrant, local markets for everything, from content providers to software as a service and, of course, retailers. Even local unicorns such as Indonesia's Tokopedia and Bukalapak are getting most of their funding from tech giants such as Alibaba, Tencent Holdings and JD.com," says Capri.

However, Ondrus notes that it is difficult to avoid concentration in fragmented markets such as Southeast Asia. "You need massive investments in logistics, especially for last-mile delivery," he says.

### Regional limitations

Even as the e-commerce industry in this part of the world continues to grow, it still lags by comparison with markets such as the US and China. Over the past couple of years, despite growing at more than 30% a

year, e-commerce in Southeast Asia has yet to account for more than 10% of total retail sales. The total e-commerce sales generated in this region, estimated at US\$12 billion, is huge. However, relative to China's US\$1.6 trillion, the market in this region is still tiny, Deloitte's Rekhraj says.

On the bright side, she sees new growth drivers coming from ride-hailing, food delivery and other "concierge" services.

"Payment security and trust are still major concerns of consumers across the region. In developing markets in particular, cash on delivery still dominates, with buyers wanting to examine the product upon delivery and likeness to the product featured online, before making payment," says Rekhraj.

And while online marketplaces do give smaller players a leg up, the challenge is ensuring a fair and level playing field.

"There are a host of obstacles in the way [of smaller players], namely, the lack of funding; the lack of harmonisation of and transparency in regulations; and the lack of access to training and upskilling programmes. There are also bandwidth and lack of infrastructure problems, which are steadily being chipped away," says NUS's Capri.

"For cross-border commerce, SMEs are being hit hard by increasing data protectionism, which is preventing the flow of cross-border data that could be harvested and leveraged for service-related business opportunities," he adds.

These issues will hold back the region's overall e-commerce growth. ■