

e-Conomy SEA 2019

Swipe up and to the right:
Southeast Asia's \$100 billion Internet economy

Reference

e-Conomy SEA is a multi-year research program launched by Google and Temasek in 2016. Bain & Company joined the program as lead research partner in 2019. The research leverages Bain analysis, Google Trends, Temasek research, industry sources and expert interviews to shed light on the Internet economy in Southeast Asia. The information included in this report is sourced as “Google & Temasek / Bain, e-Conomy SEA 2019” except from third parties specified otherwise.

Disclaimer

The information in this report is provided on an “as is” basis. This document was produced by and the opinions expressed are those of Google, Temasek, Bain and other third parties involved as of the date of writing and are subject to change. It has been prepared solely for information purposes over a limited time period to provide a perspective on the market. Projected market and financial information, analyses and conclusions contained herein should not be construed as definitive forecasts or guarantees of future performance or results. Google, Temasek, Bain or any of their affiliates or any third party involved makes no representation or warranty, either expressed or implied, as to the accuracy or completeness of the information in the report and shall not be liable for any loss arising from the use hereof. Google does not provide market analysis or financial projections. Google internal data was not used in the development of this report.

Content

Executive summary	4
Introducing e-Conomy SEA 2019	6
Mobile Internet is transforming Southeast Asia	8
The Internet economy hits \$100 billion	13
Fast and faster: two-speed Southeast Asia	17
Growth opportunities beyond Metros	27
Fundamental changes in consumer behavior	31
Time is money: competing for engagement	41
Digital Financial Services reach the inflection point	44
Funding remains healthy despite global headwinds	51
Ecosystem challenges are being resolved	59
Appendix	62

Executive summary

Mobile Internet transforming Southeast Asia. Just over a decade ago, four in five Southeast Asians had no Internet connectivity and limited access to the Internet. Today, Southeast Asians are the most engaged mobile Internet users in the world. There are 360 million Internet users in the region and 90% of them connect to the Internet primarily through their mobile phones.

They communicate with their families, friends and colleagues, entertain themselves, learn new skills and become more productive. Increasingly, they also buy products, plan trips and order food online. All of this takes place millions of times every day across the region. A vision that was almost impossible to imagine is now daily routine.

Southeast Asia's Internet economy hits \$100 billion. Powered by these fundamental changes in consumer behavior, the Internet economy continues to grow at an unprecedented pace. It has soared to \$100 billion for the first time in 2019, more than tripling in size over the last four years. e-Commerce and Ride Hailing continue to beat the most optimistic of predictions. Online Media and Online Travel keep growing at a steady rate, with ample room to expand further. By 2025, the Internet economy is expected to grow to \$300 billion.

Fast and faster growth: dual-speed Southeast Asia. The Internet economies in Malaysia, Thailand, Singapore and the Philippines are growing by between 20% and 30% annually, with no signs of slowing down. This is a remarkable feat compared to other regions, but hardly the best showing in Southeast Asia. The two pacesetters in the region are Indonesia and Vietnam, which lead the pack with growth rates in excess of 40% a year.

Time is money: competing for user engagement. Companies are switching their focus from acquiring new customers to driving engagement. Their goal is to convince users to stay on their platforms for longer, in the belief that purchases will follow. Vying for user engagement, companies have expanded their scope across sectors, moving into new services, gamifying promotions and streaming enticing content. This has ignited more intense competition, while providing users with more choices and lower prices.

Growth opportunities beyond Metros. The growth of the Internet economy has yet to spread evenly across Southeast Asia. Seven Metropolitan areas, which house just 15% of the region's population, still account for more than 50% of the Internet economy. On average, people living in these Metro areas buy six times more online than those living elsewhere. The Internet economy, however, has the potential to grow twice as fast in areas outside the big cities, bringing all Southeast Asians on board.

Digital Financial Services reach the inflection point. The adoption of Digital Payments has finally reached the inflection point and is expected to cross \$1 trillion by 2025, accounting for almost one in every two dollars spent in the region. Other Digital Financial Services are still nascent but gaining traction. These technology-enabled business models are best positioned to give Southeast Asia's underbanked population access to Financial Services. While new entrants and established players are competing and partnering to tackle this opportunity, supportive regulations will play a critical role.

Funding remains healthy despite global headwinds. More than \$37 billion of capital has flowed into the Internet economy over the last four years. While the majority has gone to e-Commerce and Ride Hailing Unicorns, investments in nearly 3,000 startups in the region remain sizable. A growing cadre of "Aspiring Unicorns" has emerged and is on the lookout for late-stage funding to scale further. Regional and global investors are geared up for this opportunity, ready to back companies for longer and with more resources.

Ecosystem challenges are being resolved. Southeast Asia has made progress in overcoming the initial roadblocks in the Internet economy. Internet access is now affordable for large segments of the population and consumer trust in digital services has improved significantly. e-Commerce logistics, once a challenge, has turned into a business opportunity for both startups and established players. Digital Payments are rapidly spreading online and offline. But talent remains a pressing constraint despite all efforts by Internet economy companies to "fill the gap".

Introducing e-Conomy SEA 2019



e-Conomy SEA is a multi-year research program launched to shed light on the Internet economy in Southeast Asia. It covers the six largest markets in the region: Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam. The 2019 report covers five key sectors of the Internet economy: Online Travel (Flights, Hotels, Vacation Rentals); Online Media (Advertising, Gaming, Subscription Music and Video on Demand); Ride Hailing (Transport, Food Delivery); e-Commerce; and a first in the series, Digital Financial Services (Payments, Remittance, Lending, Investment, Insurance).

The series kicked off in May 2016 with the inaugural *“e-Conomy SEA — Unlocking the \$200 billion digital opportunity in Southeast Asia”*. In that report, we projected that the Southeast Asian Internet economy would grow to \$200 billion by 2025, fueled by rapid growth in Online Travel, e-Commerce and Online Media. We also looked at the funding pipeline and concluded that investors had ample reason to be excited about the region’s potential.

Since then, we have continued to track the growth of the Internet economy in the region closely, expanding our coverage to more sectors and charting their progress. And we are constantly surprised by how fast the Internet economy is growing. In last year’s report, *“e-Conomy SEA 2018 — Southeast Asia’s Internet economy hits an inflection point”*, we noted that the economy had reached a turning point, which would see gears shift. Investors have been moving funds into the region since, resulting in billion-dollar investments into companies, talent and infrastructure.

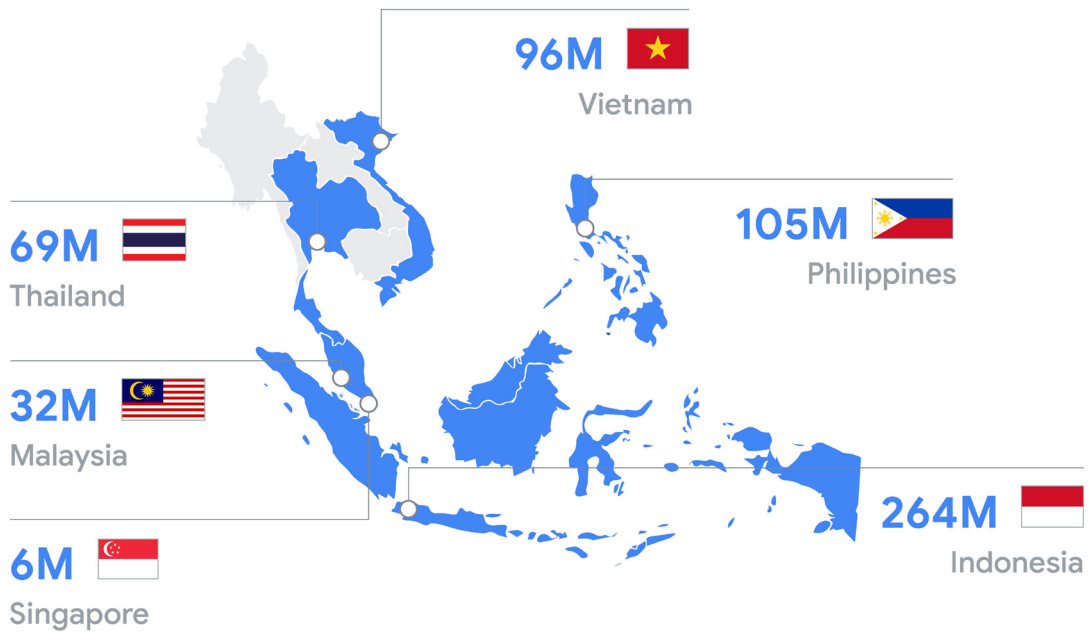
This year’s report, *“e-Conomy SEA 2019 — Swipe up and to the right: Southeast Asia’s \$100 billion Internet economy”*, shows that the Internet economy has, for the first time, crossed the \$100 billion mark. The pace of growth has been unprecedented, leading to a revision of our own estimates.

This and previous reports would not have been possible without the assistance of industry experts who have contributed to the research. In particular, teams at Golden Gate Ventures, Monk’s Hill Ventures, Openspace, Vertex Ventures, Wavemaker and Jungle Ventures helped provide insights on venture capital investments in Southeast Asia.

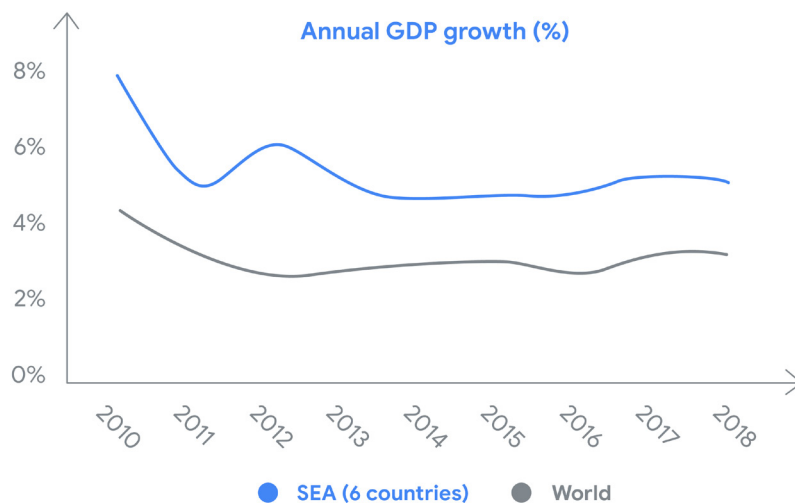
Mobile Internet transforming Southeast Asia



Home to some 570 million people, Southeast Asia’s largest economies comprising Indonesia, Malaysia, the Philippines, Thailand, Vietnam and Singapore are among the fastest growing markets in the world.



Economic growth in the region has averaged 5% a year in the last five years¹ and has exceeded the global growth average by approximately 2 percentage points over the past decade. This is indicative of a stable and rapidly developing region that is on its way to becoming a major economic powerhouse. By 2030, Southeast Asia is expected to become the world’s fourth largest economic bloc.



¹World Bank

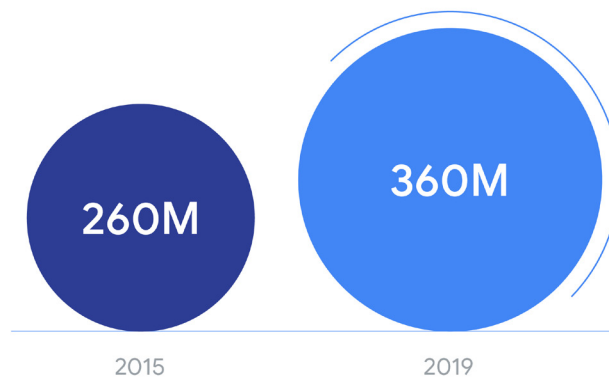
Another phenomenon is reshaping Southeast Asia's fastest growing economies: a highly-connected and Internet-enabled community has taken root in recent years and it is growing rapidly. A decade ago, almost four in five Southeast Asians had no Internet connectivity and limited access to the information superhighway. Today, Southeast Asians are the most engaged mobile Internet users in the world.

Number of
Internet
users added
since 2015

100M

The region added more than 10 million Internet users last year, bringing the total number of people connected to the Internet to 360 million in 2019. The Internet user base is now 100 million larger than it was in 2015.

Southeast Asia Internet users

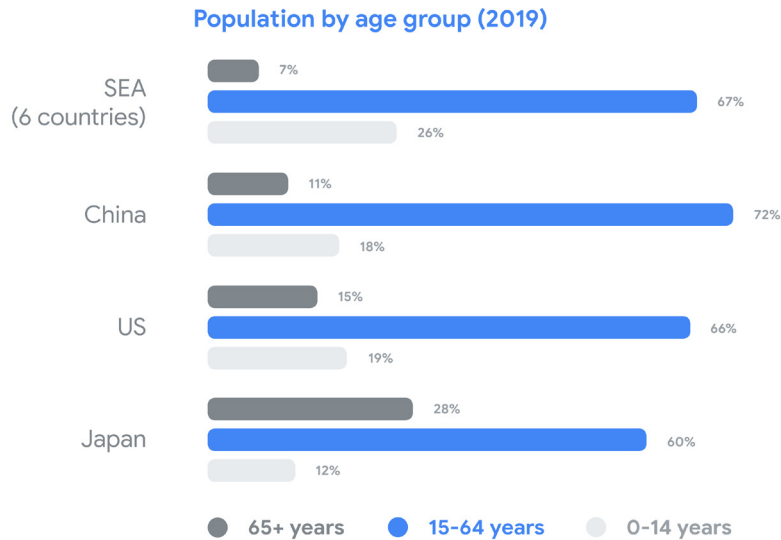


Many of the new additions were young users, aged 15 to 19. Supported by the region's healthy demographics, this savvy brigade is set to grow. Some 150 million Southeast Asians will turn 15 over the next 15 years, which works out to be 10 million people joining the "mobile age" every year.² They will enter adulthood having grown up with a device that allows them to communicate with their friends and family, work with classmates on school projects, entertain themselves with the latest games, videos and music, and discover information that aids them in their studies. And as these waves of young, mobile and digitally connected users move into their working lives, they will naturally become part of the Internet economy, further fueling its growth.

In line with previous research findings, users in the region continue to be the most engaged in the world, spending significantly more time on the mobile Internet than their global peers. According to the Digital 2019 research by We Are Social and Hootsuite,³ Internet users in Thailand spent five hours and 13 minutes per day on the mobile Internet, more than those in any other country. Users from Indonesia, the Philippines and Malaysia, who are connected to the mobile Internet for approximately four hours a day, are also among the top 10 countries in the world by mobile Internet usage. The global average is three hours and 13 minutes.

² World Bank

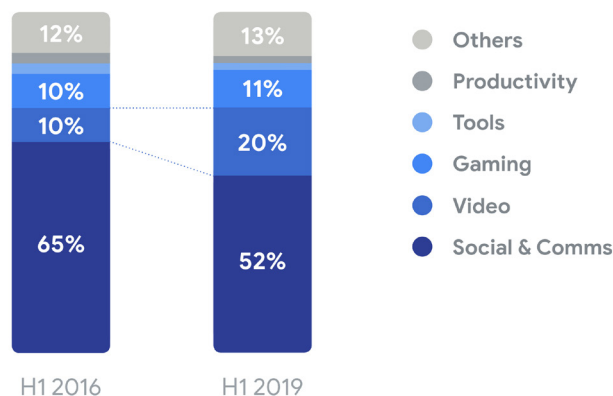
³ Digital in 2019 - We are Social, Hootsuite



Be it first-jobbers living in Chiang Mai, white-collar professionals based in Hanoi or small business owners residing in Singapore, the mobile Internet is transforming the lives of millions of Southeast Asians by giving them unprecedented access to people, information and services. Throughout the day, across both work and personal activities, Internet services are making their lives more convenient and productive than before.

For most users, social media and communication apps account for almost half of the time they spend on the mobile Internet. Video apps follow close behind, with user engagement having doubled over the last three years.⁴ Such apps have become the preferred companion for activities beyond just entertainment. In Indonesia, where searches for “review” videos on YouTube grew by 40% in 2018,⁵ consumers use video platforms to find the best products and services. Elsewhere in Thailand, one in three millennials say they use YouTube to educate themselves on particular topics, and four in 10 mothers use the platform to learn how to do specific things.⁶

Share of time spent (Apps by category, %)



⁴ App Annie analysis for e-Economy SEA

⁵ Year in Search: 2018 insights for brands, Think with Google, Indonesia

⁶ YouTube/ORC International, YouTube Audience Insights Study, Thailand, 2018

Towards a more productive and purposeful use

Increasingly mindful about their financial needs, Southeast Asians are becoming more proactive when it comes to considering which Financial Services are best for them. While Financial Services continue to be primarily purchased offline, the influence of online research is growing. Research shows that 60% of Singaporeans and 50% of Vietnamese did research online prior to purchasing Financial Services offline.⁷ That is not all. Some 72% of consumers in Indonesia see Google Search as the online gateway for personal loan information and the second most helpful source of information for Financial Services, after bank branches.⁸

Apps that help consumers locate places and businesses or suggest the best routes to destinations have also become staples for many Southeast Asian users. Waze and Google Maps, for instance, use up-to-date maps, real-time traffic information and public transport schedules to help millions of people save time on their daily commutes. Such apps also serve as powerful tools for small and medium-sized businesses (SMBs) in the region. They allow users to discover SMBs, check their locations and opening hours, contact them to ask about their products and services, review and even book them, as in the case of many restaurants and hotels.

At the same time, many Southeast Asians rely on cloud-based apps that are freely available and widely trusted, such as Gmail, Google Docs and Google Sheets, to work more efficiently. These apps help SMBs to cut costs, improve efficiency and boost collaboration. They allow employees to keep their work in one secure place, as well as collaborate and share documents, spreadsheets and presentations with teammates across devices.

In a region where 10 official languages coexist with hundreds of local dialects, apps like Google Translate have become critical in bridging communication gaps, especially for users traveling in the region. Internet browsers like Google Chrome as well as popular e-Commerce, Ride Hailing and Travel apps in Southeast Asia use translation services to enhance communication in real time between users and service providers.

These are just some of the many ways in which the mobile Internet is transforming lives in Southeast Asia. As most mobile Internet apps are free for use, they do not add to the monetary value of the Internet economy sectors covered in this research, such as e-Commerce, Ride Hailing, Online Media and Online Travel. However, their value to users and SMBs in the region cannot be understated.

⁷ "Rethinking search strategies for SEA consumers", Think with Google, Southeast Asia, 2018

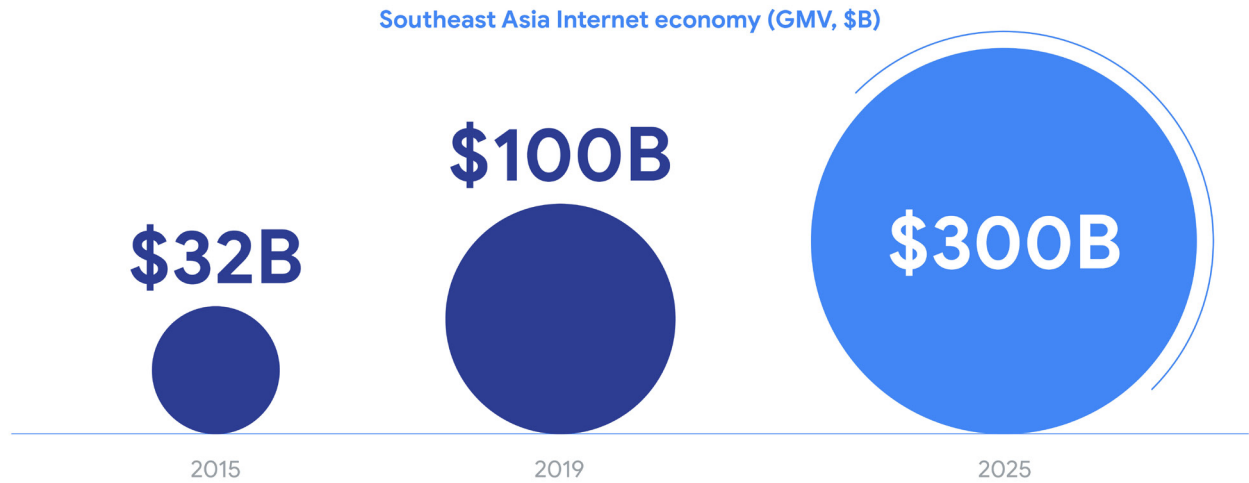
⁸ "Year in Search: 2018 insights for brands", Think with Google, Indonesia

The Internet economy hits \$100 billion



The Southeast Asian Internet economy crossed a major inflection point in 2018. This year, it has continued to surge on accelerating growth. Powered by rapid adoption and changing consumer preferences, it hit yet another milestone: the \$100 billion mark.

We estimate that the Southeast Asian Internet economy has leapt nearly 40% from last year to exceed \$100 billion in gross merchandise value (GMV) in 2019 across the Online Travel, e-Commerce, Online Media and Ride Hailing sectors. With a 33% compounded annual growth rate (CAGR), the value of the Internet economy has more than tripled between 2015 and 2019.



This pace of growth has exceeded all expectations. At this rate, the Southeast Asian Internet economy is on track to hit \$300 billion by 2025, topping our initial projection in 2016 by \$100 billion.

Apart from spending more time on the mobile Internet, many are also spending money on online services and products. The Internet economy now involves 180 million people in Southeast Asia, or about one in two Internet users.

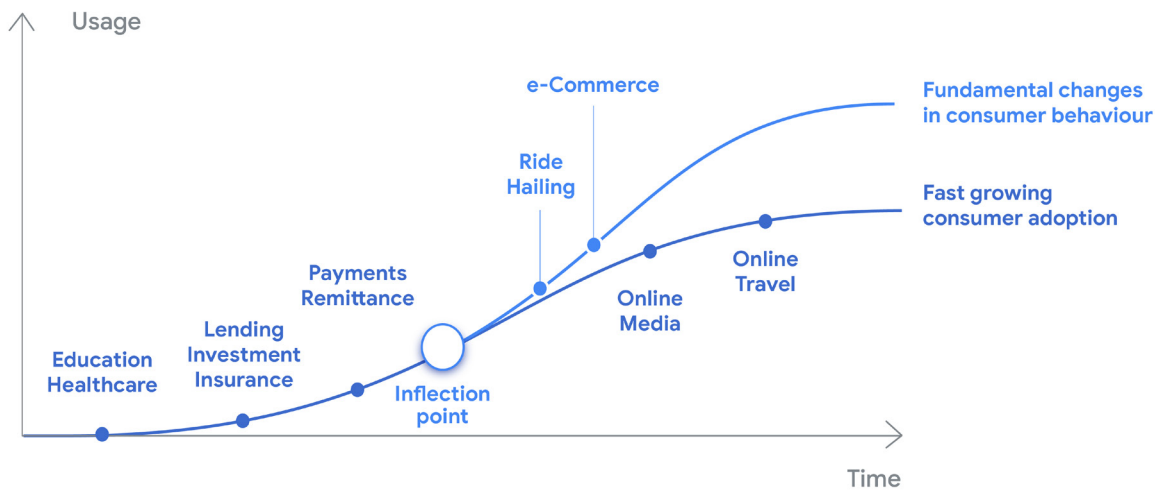


It is not just the penetration rate that stands out; the speed at which the region has adopted the digital economy is also striking. Take e-Commerce as an example. In 2015, some 49 million people bought or sold items online. Today, that number has tripled to 150 million people.

How fast the number of Ride Hailing users has grown since 2015

5X

Demand for Ride Hailing services has also exploded, with the number of active users ballooning five times to reach more than 40 million today, from just eight million in 2015.

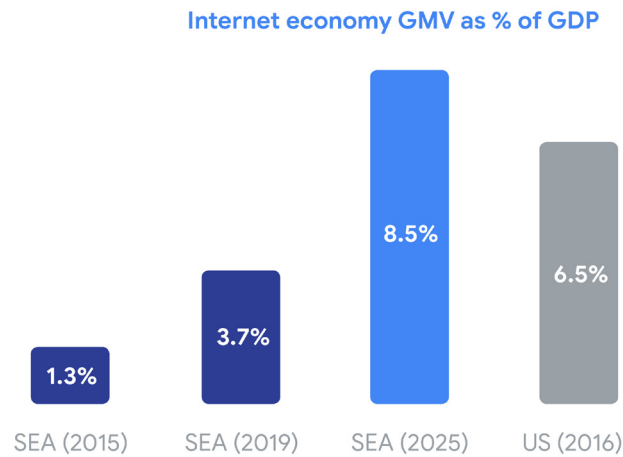


Both e-Commerce and Ride Hailing, which includes Food Delivery services, are experiencing a burst of demand as the result of both rapid adoption and fundamental shifts in consumer behavior. In the span of a few years, e-Commerce and Ride Hailing have become an integral part of daily life for millions of Southeast Asians, especially those living in big cities. They offer convenience, value and access to services and products that were previously difficult to obtain.

For instance, the wide accessibility and affordability of Ride Hailing services in crowded Metropolitan areas are prompting many Southeast Asians to rethink the need to own vehicles. Ride Hailing is a big draw for people in crowded cities such as Bangkok, Jakarta and Kuala Lumpur, where private vehicle ownership is costly, contributes to air pollution and is associated with frustrating jams.

Similarly, consumers are relying on Food Delivery services for meals they would otherwise have to cook at home or buy from food vendors. For an emerging and increasingly time-conscious middle class, the convenience of having piping hot food delivered to one's doorstep is highly valued. Such consumer behavior has become the norm, particularly among dual-income families.

As a key part of the Internet economy, e-Commerce marketplaces have long been around. But while consumers used to go online sporadically for discounts on big-ticket items such as electronics, today's shoppers are turning to the Internet for more frequent purchases of lower-cost items, including groceries, personal care and apparel. This means making multiple stops on e-Commerce sites and shopping more regularly.



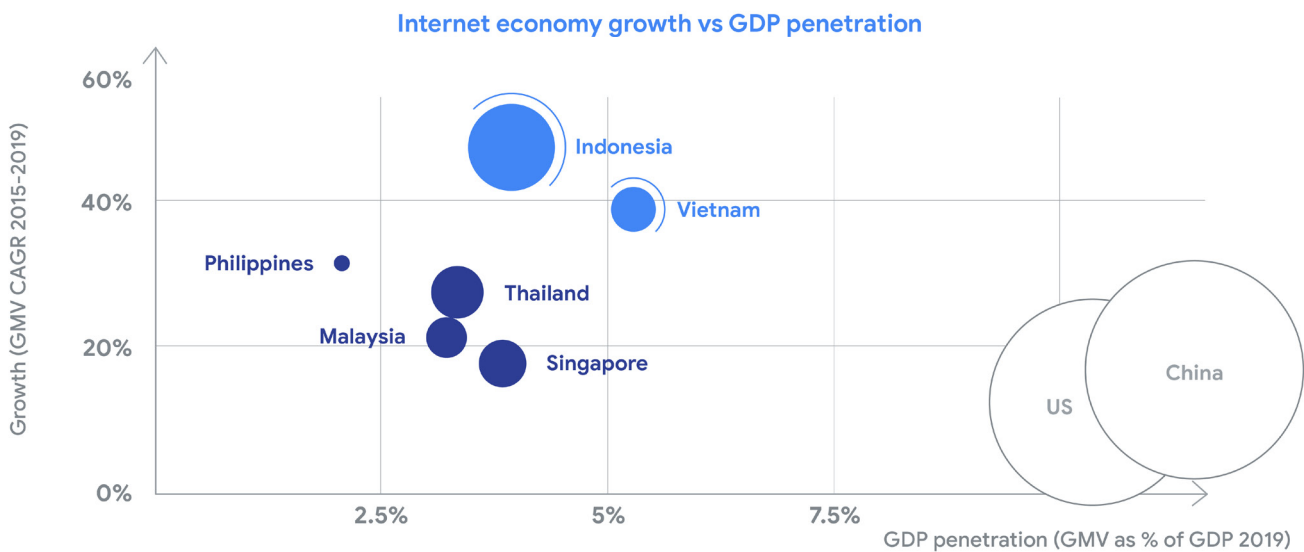
With all sectors taken into account, the GMV of the Internet economy amounted to 3.7% of Southeast Asia's gross domestic product (GDP) in 2019, up from 1.3% in 2015. It is projected to exceed 8% by 2025. Southeast Asia is closing the gap with developed markets like the United States, where the Internet economy had made up 6.5% of the GDP in 2016.⁹

⁹US Bureau of Economic Analysis (BEA).

Fast and faster: two-speed Southeast Asia



The Internet economy is thriving across all six Southeast Asian countries. But within this group of rockets, speed is relative, with some taking off faster than the others. While the region has grown at an average rate of 33% a year since 2015, Indonesia and Vietnam have pulled away from the pack, bolting ahead.



Estimated at \$40 billion in 2019, Indonesia’s Internet economy has more than quadrupled in size since 2015 at an average growth rate of 49% a year. As the largest and fastest growing Internet economy in the region, Indonesia is well on track to cross the \$130 billion mark by 2025. In particular, the e-Commerce and Ride Hailing sectors are firing on all cylinders, fueled by intense competition between Indonesian and regional players. All sectors are also benefiting from the growing adoption of Digital Payments.

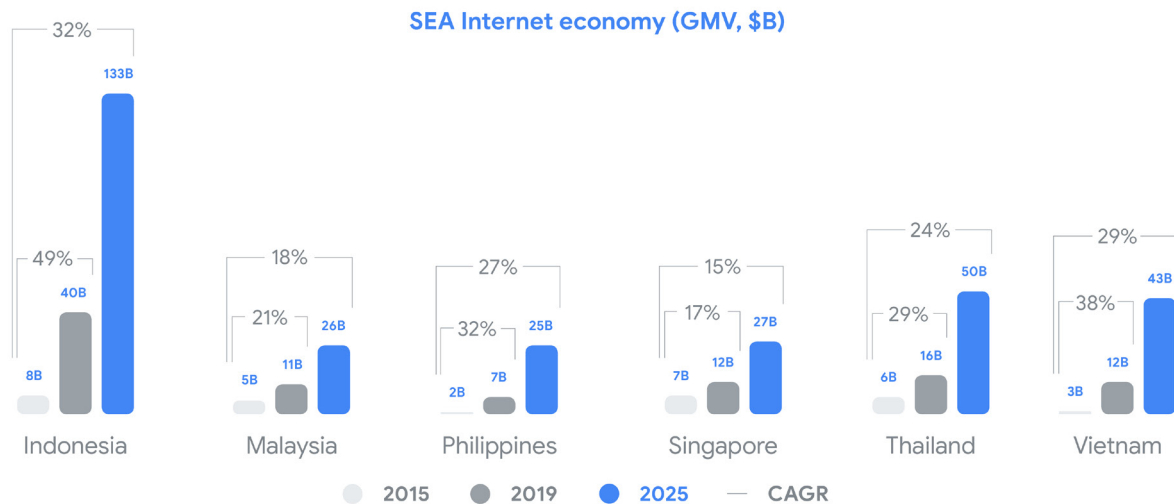
Size of Indonesia’s Internet economy by 2025

\$130B

Investments have followed suit, with fewer but larger deals. This year, Indonesia is on track to match the record established in 2018, when almost \$4 billion was raised. Large funding rounds completed by Indonesian Unicorns like Bukalapak, Gojek, Tokopedia and Traveloka are leading the way. Singapore-based Grab has also announced a multi-billion-dollar commitment to invest in the country over the next few years.

Vietnam’s Internet economy is booming as well, as it reaches for \$12 billion in 2019 on a 38% annualised growth rate since 2015. With the GMV of its Internet economy set to account for over 5% of the country’s GDP in 2019,¹⁰ Vietnam is emerging as the most digital of all economies in the region. e-Commerce is a key driver behind the impressive numbers, where homegrown marketplaces like Sendo and Tiki compete with regional players like Lazada and Shopee.

¹⁰ Vietnam’s General Statistics Office announced in August 2019 a 25% upward revision of the official country’s GDP estimates for 2011-2017. Taking the revised estimates into account, Vietnam’s Internet economy GMV as a % of GDP would be approximately 4.2%. It retains its status as the region’s most digital economy, slightly ahead of Indonesia’s 4.0% showing.



These dynamics are unlocking opportunities for entrepreneurial Vietnamese SMBs, which have jumped onboard the Internet economy to do business. Investor confidence in Vietnam, the third most-funded economy in the region after Indonesia and Singapore, is on the rise. Over the last four years, Vietnam’s Internet economy has attracted almost \$1 billion in funding, with 2019 in line to be a record year.

While Indonesia and Vietnam are leading the way, Malaysia, the Philippines, Singapore and Thailand are also performing strongly. In fact, with growth rates averaging between 20 and 30% a year since 2015, these countries stack up very well against many others globally.

Funds raised by SEA’s regional gateway since 2016

\$23B

Singapore continues to punch above its weight as the established gateway for funding in Southeast Asia. Internet companies based in the Lion City have raised more than \$23 billion since 2016. Unicorns like Grab and Sea Group as well as companies like Carousell, GoBear, ONE Championship, PropertyGuru, ShopBack and Zilingo choose to be based in Singapore for its world-class infrastructure, supportive business environment and its ability to attract talent.

With high per capita incomes, the wealthy city-state is ahead on many metrics. For example, average order values in Singapore’s e-Commerce sector are three to four times higher than those in the rest of the region. Ride Hailing trips and Food Delivery orders reveal similar patterns. It is this strong spending power that makes Singapore’s Internet economy, worth \$12 billion in 2019, comparable in size to its much larger neighbors.

Of the six Southeast Asian countries, the Philippines has the most room for growth. The Internet economy makes up 2.1% of the country's GDP currently, and is expected to hit 5.3% by 2025. Notably, the Philippines is experiencing a growth surge in the Online Media sector, which has recorded a 42% annualised growth rate since 2015. Subscription Music and Video Streaming services are especially popular among young Filipinos who are well-acquainted with English content.

Landmark deals in the Digital Financial Services sector, such as those involving Voyager Innovations, Coins.ph and First Circle, have boosted investments in the Philippines' Internet economy to over \$300 million in 2018. This is a sixfold increase compared to the previous year. Aided by supportive regulations, Digital Financial Services is one of the country's most dynamic and promising sectors.

Thailand's Online Travel sector ranks among the biggest in the region, valued at \$7 billion in 2019 and growing at a brisk 17% annualized growth rate. Online Media has also been expanding rapidly at 39% CAGR since 2015, buoyed by high levels of engagement on social media and video platforms among the Thais.

With regional and global players at the forefront of the country's Internet economy, funding for Thai startups has dried up. The \$50 million raised in the first half of 2019 is far below the peak recorded in 2017. Late-stage funding has been absent, with a lack of deals that are worth \$25 million and above.

Malaysia's Internet economy has continued to rise at a steady 21% annualized rate despite economic headwinds. e-Commerce, a bright spot, has tripled in size since 2015 and exceeded \$3 billion in 2019. The sizable Online Travel sector, spearheaded by budget airlines and budget hotel chains, has reached close to \$5 billion.

While funds for Malaysian Internet companies have nearly totalled \$1 billion since 2015, the country is also experiencing a slowdown. The \$140 million raised in the first half of 2019 fell short of 2018 levels.

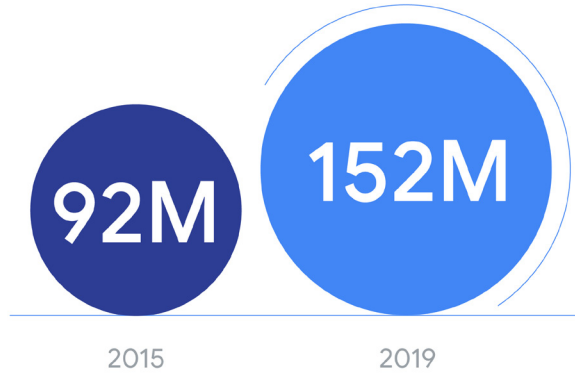
The lack of homegrown Unicorns explains the lower levels of funding received by Malaysia, the Philippines and Thailand as compared to their neighbors. Yet, all three countries remain deeply integrated into the region's Internet economy, and companies like Grab, Lazada, Shopee and Traveloka continue to invest in them through their local subsidiaries.

Other challenges that limit the potential of these countries remain. For one thing, all three pose regulatory uncertainties when it comes to Ride Hailing, which is a possible reason why the industry is not growing as quickly as in Indonesia, Singapore and Vietnam. These challenges relate to strict licensing schemes, which have led to an insufficient supply of drivers and a lack of competition to meet rising consumer demand.

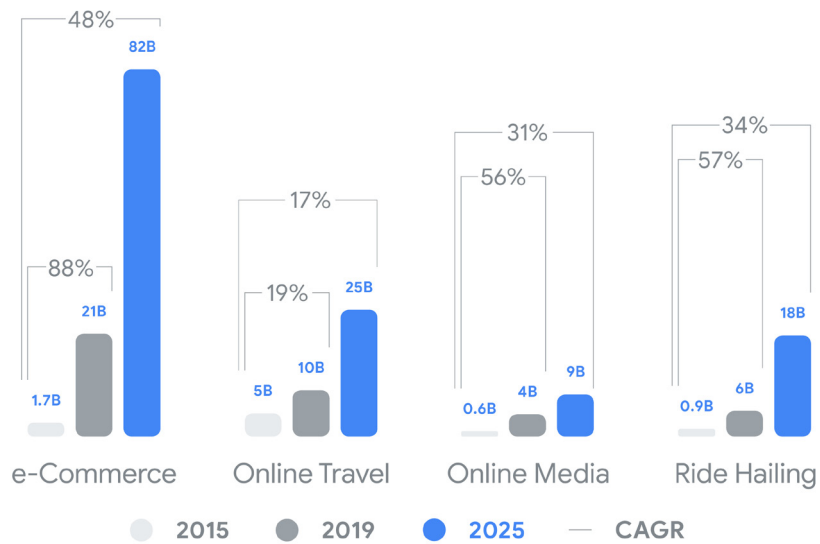


Indonesia

Internet users in Indonesia

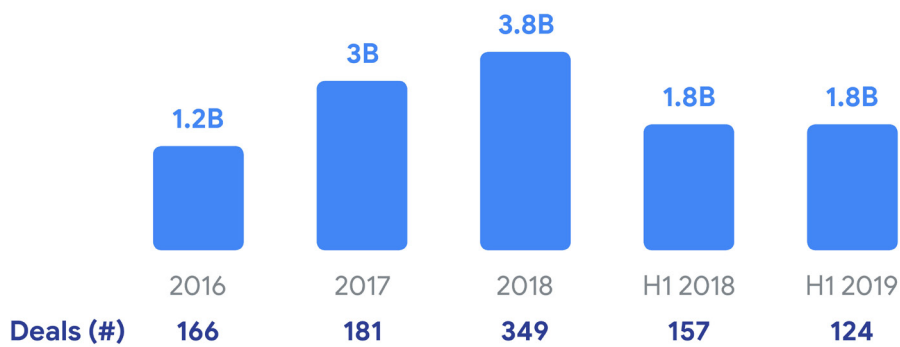


Indonesia Internet economy (GMV, \$B)



● 2015 ● 2019 ● 2025 — CAGR

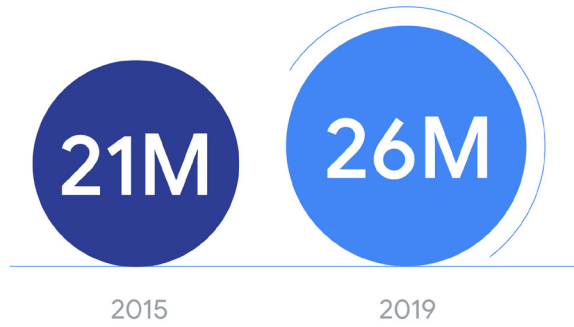
Funding in Indonesia Internet economy (\$B)



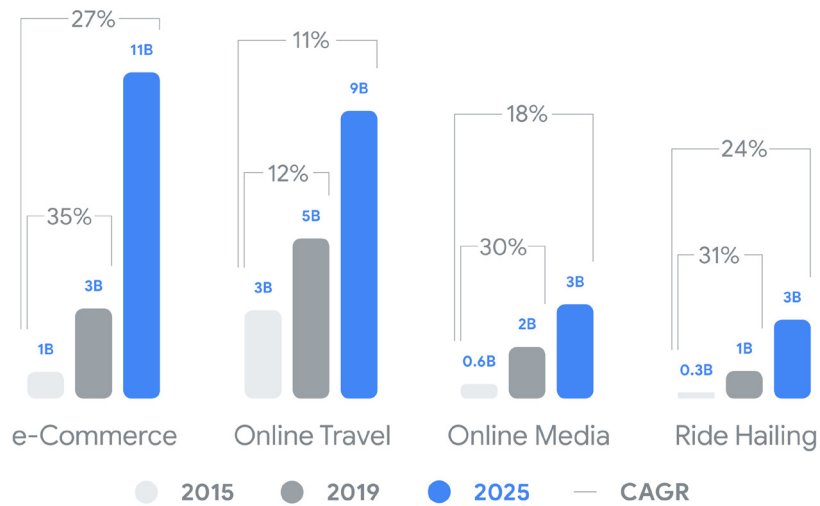


Malaysia

Internet users in Malaysia



Malaysia Internet economy (GMV, \$B)



● 2015 ● 2019 ● 2025 — CAGR

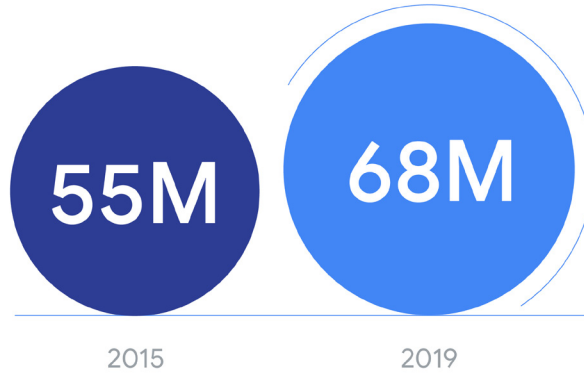
Funding in Malaysia Internet economy (\$B)



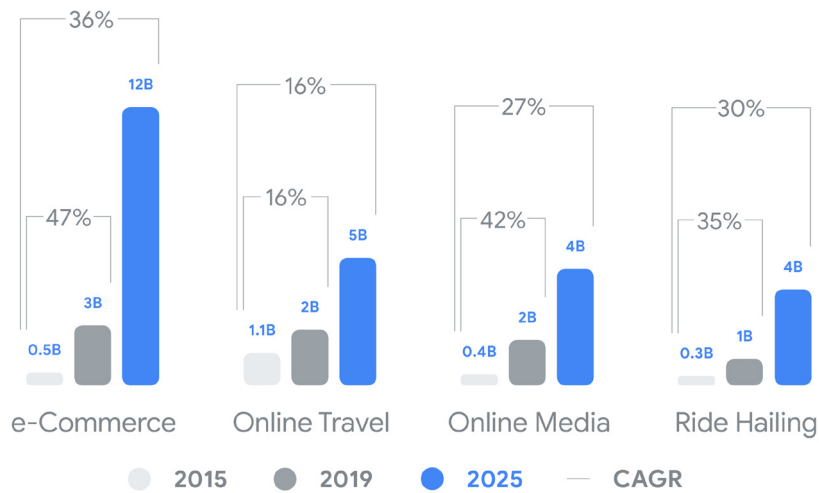


Philippines

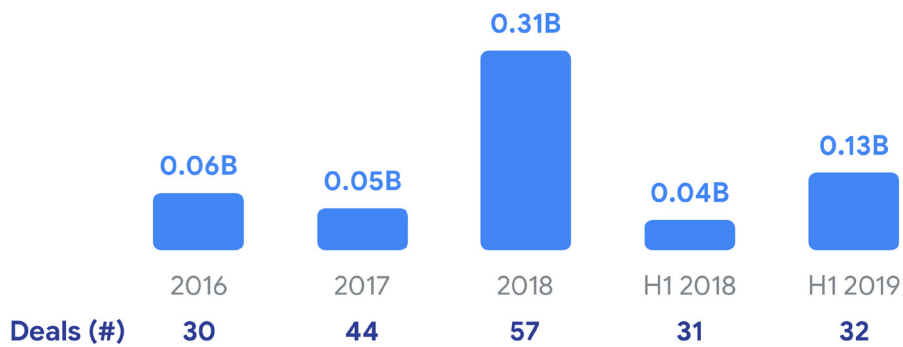
Internet users in the Philippines



Philippines Internet economy (GMV, \$B)



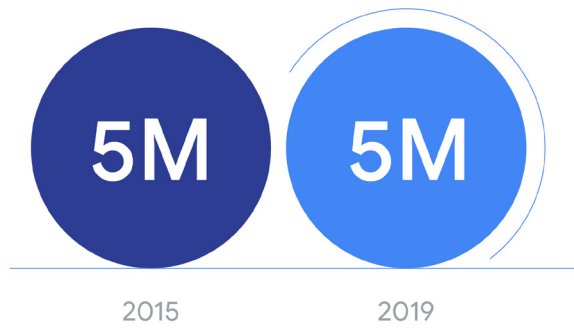
Funding in Philippines Internet economy (\$B)



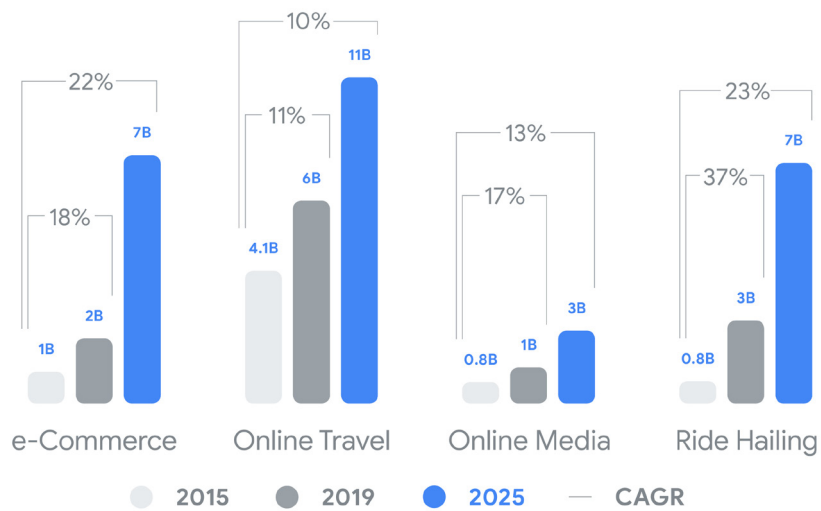


Singapore

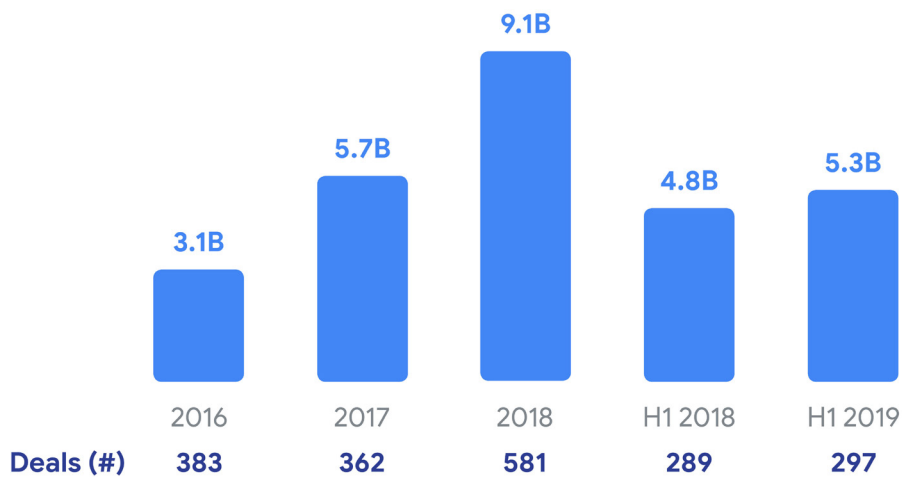
Internet users in Singapore



Singapore Internet economy (GMV, \$B)



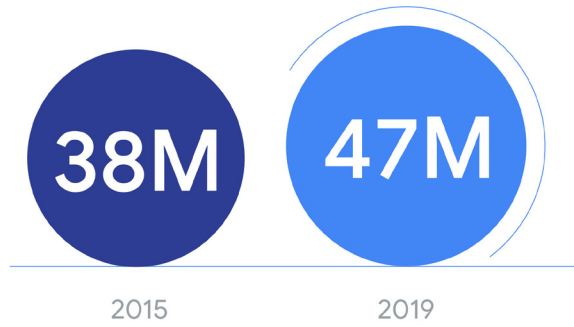
Funding in Singapore Internet economy (\$B)



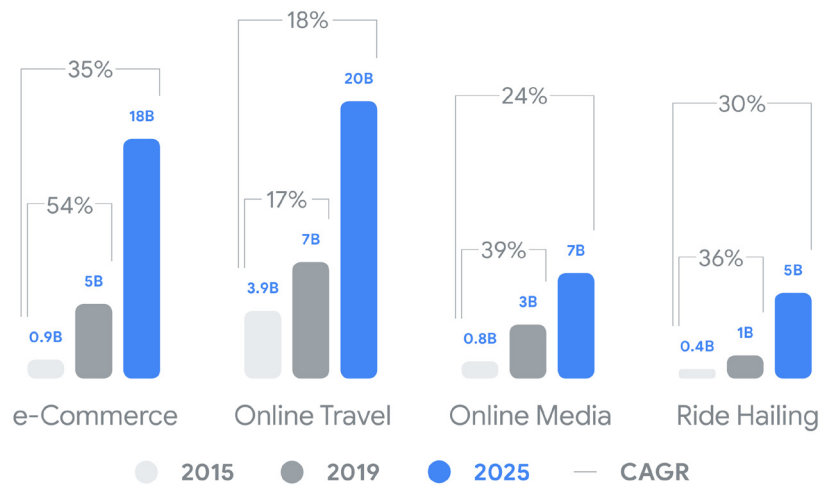


Thailand

Internet users in Thailand

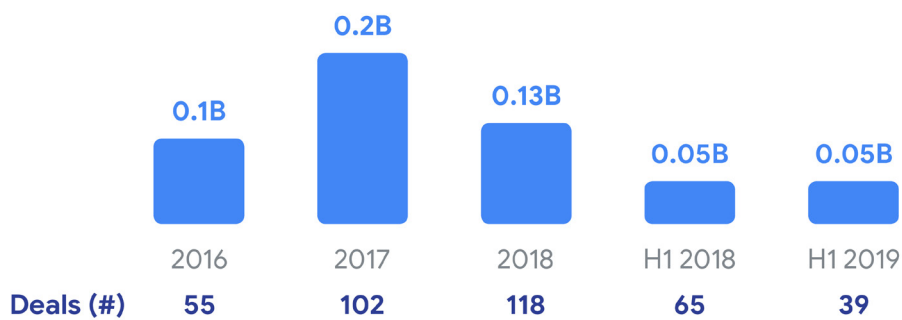


Thailand Internet economy (GMV, \$B)



● 2015 ● 2019 ● 2025 — CAGR

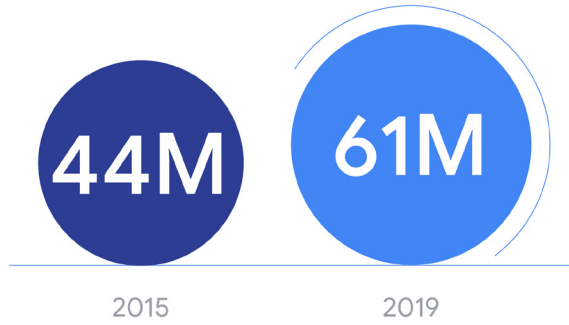
Funding in Thailand Internet economy (\$B)



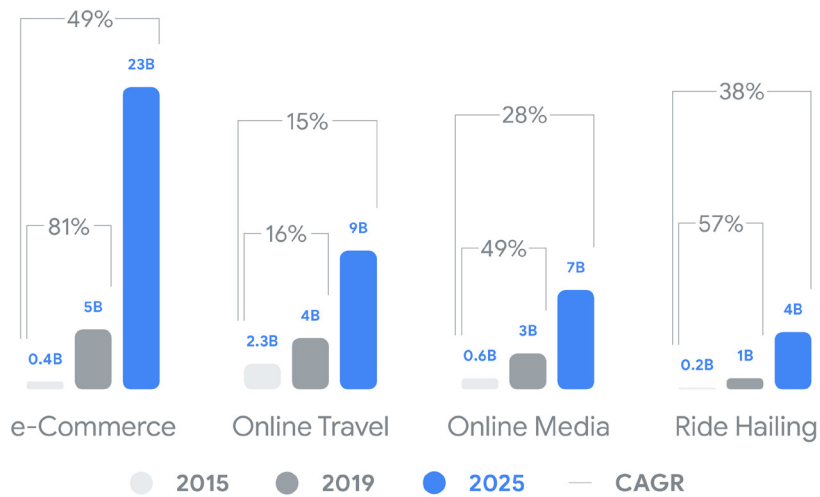


Vietnam

Internet users in Vietnam



Vietnam Internet economy (GMV, \$B)

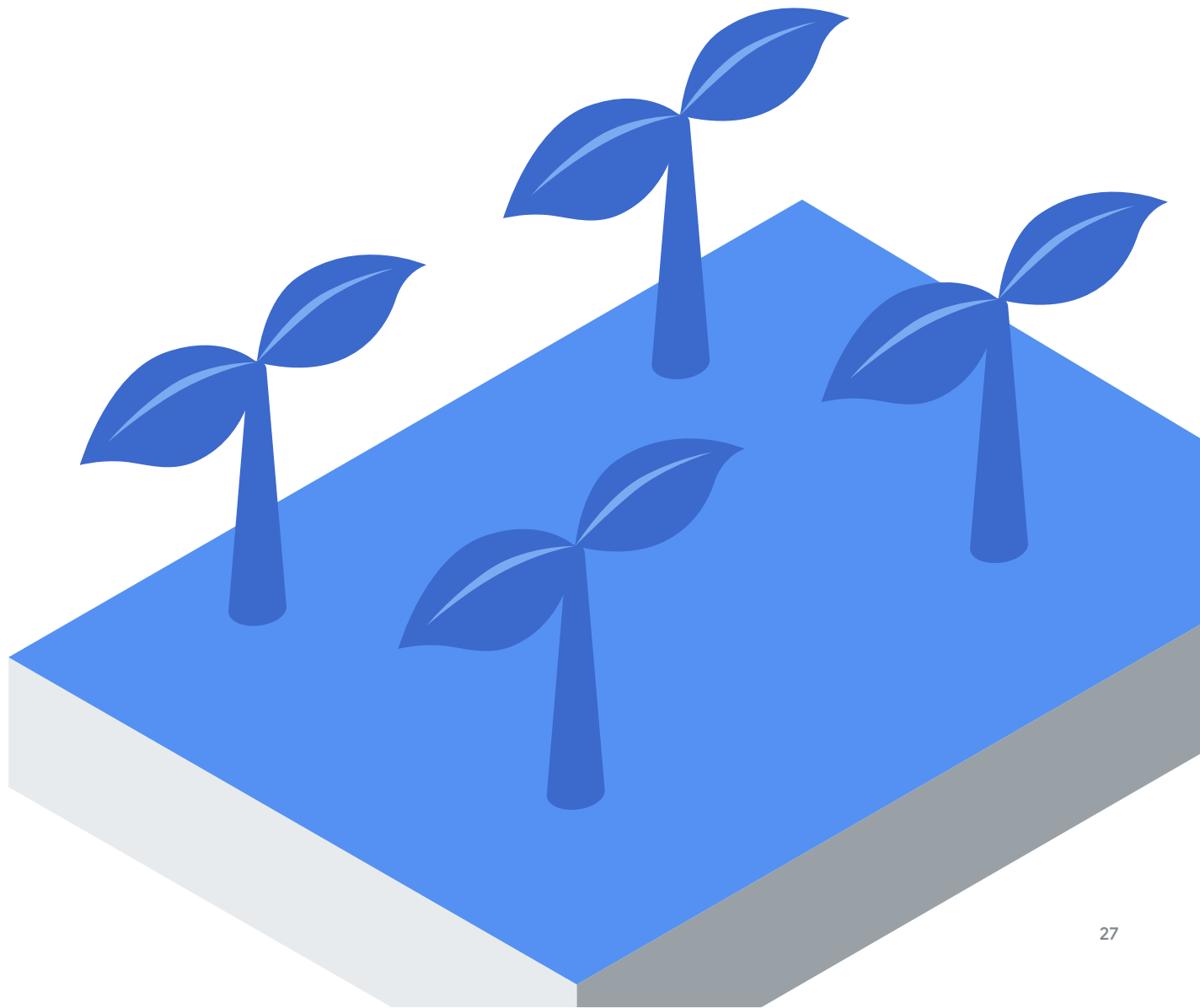


● 2015 ● 2019 ● 2025 — CAGR

Funding in Vietnam Internet economy (\$B)



Growth opportunities beyond Metros



Southeast Asia has several of the largest and most densely populated urban areas in Asia. These include the Metropolitan areas of Jakarta Bogor Depok Tangerang Bekasi (“Jabodetabek”) in Indonesia; Kuala Lumpur and Klang Valley in Malaysia; Metro Manila in the Philippines; Singapore, an island-state; Greater Bangkok in Thailand; as well as Hanoi and Ho Chi Minh City in Vietnam.

Share of SEA’s Internet economy made up by 7 Metro areas

52%

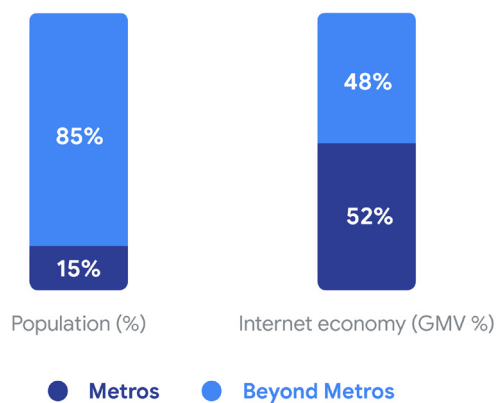
Home to about 87 million people, or 15% of the 570 million people in the six Southeast Asian countries covered in this report, these cities account for nearly 30% of the region’s combined \$2.7 trillion GDP.

The disproportionate influence of Metro centers is even more pronounced when it comes to the Internet economy. For most Internet economy players in Southeast Asia, the majority of active users and orders are derived from these areas, which together account for more than half of the region’s Internet economy.

Their importance to the Internet economy is not surprising. Average incomes in these bustling cities are several times higher than in areas outside of them. They are also better equipped with infrastructure, from logistics facilities to transport networks and Internet connectivity.

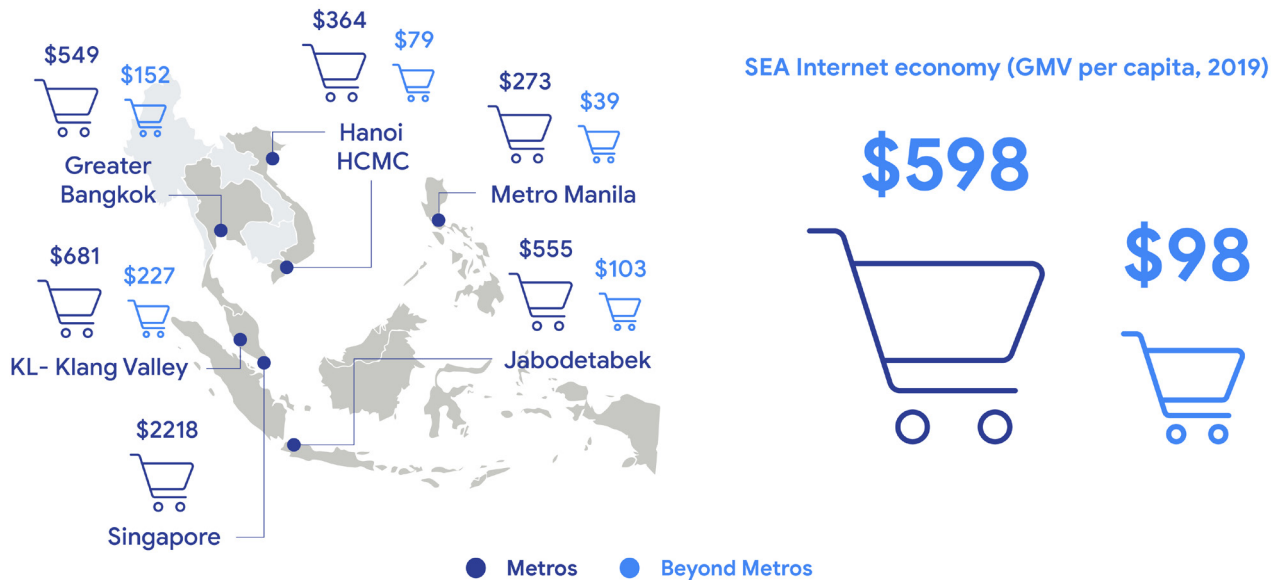
As such, many Internet economy businesses have launched their operations in the big cities first. Ride Hailing services were first launched in Jakarta and Kuala Lumpur. Singapore was also one of the first adopters of Online Travel and Food Delivery, largely because of its location and ease of accessibility.

SEA Internet economy (2019)



Another way of looking at the uneven distribution between the Metro and Non-Metro areas is to study patterns in personal expenditure. While estimating how much people spend on the Internet economy, we found that the annual per capita spending stands at almost \$600 in Metros across the region — more than six times the nearly \$100 annual per capita spending estimated in Non-Metro areas.

A closer look at the six countries reveals a similar pattern. In the more developed economies like Malaysia and Thailand, the spread in per capita spending between Metros and Non-Metro areas is three to four times. In Indonesia, the Philippines and Vietnam, the difference is more than fivefold, amid a wider gap in living standards and infrastructure between those living in Metros and elsewhere.

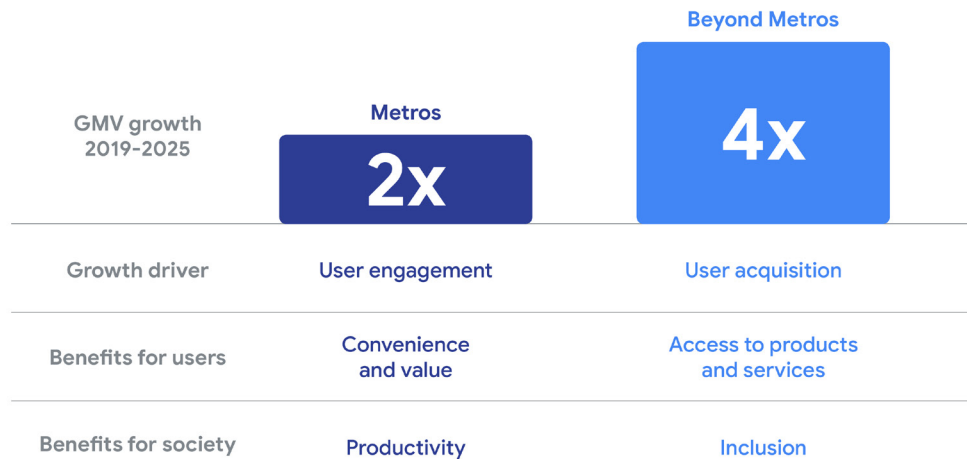


There are clear signs, however, that Internet economy players are investing to develop their businesses beyond Metros in search of further growth. Indonesian e-Commerce Unicorn Tokopedia has announced its intention to “go rural” by signing a memorandum of understanding to develop a “digital villages” initiative in partnership with the West Java administration. Many others are following suit.

With the increasing adoption of Digital Payments and telecom carrier billing options, more subscribers from outside the Metros are paying for premium Online Media services such as Gaming, Music and Video on Demand. These trends are also evident on Google Search. In Indonesia, for example, 46% of all searches for Internet packages come from Non-Metro areas.¹¹ And while the majority of Online Travel bookings today come from Metros, this is set to change, going by how travel-related queries on Google Search grew 1.5 times faster in Non-Metro areas compared with Metros last year.¹²

Consumers living in smaller cities and rural areas will benefit from having services they could not access before. For example, they will be able to buy products online that are not available in nearby stores at competitive prices. Or they can book flight tickets and accommodations with just a few clicks when they want to visit their relatives without having to go down to travel agencies located far from their homes.

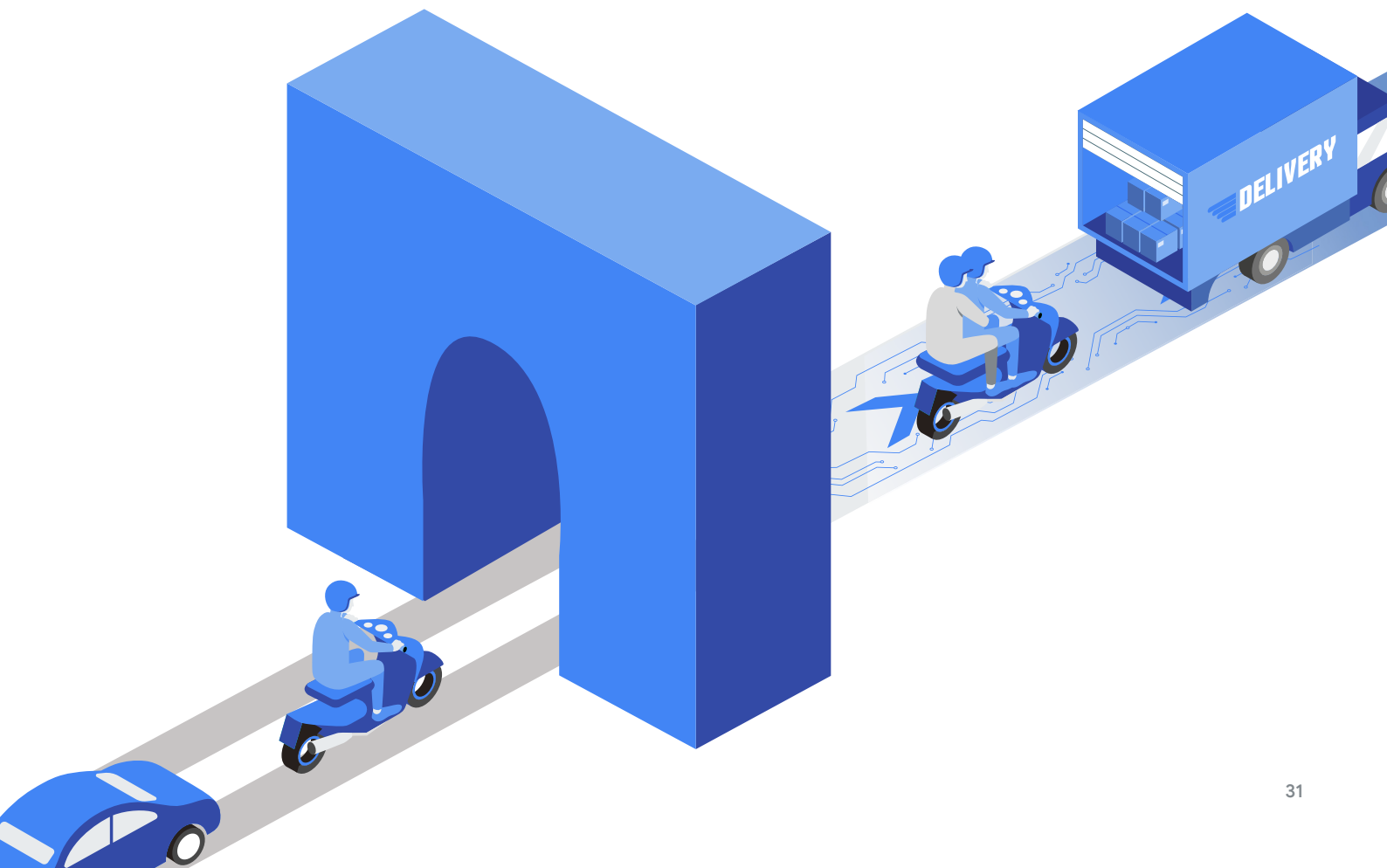
¹¹ “Year in Search: 2018 insights for brands”, Think with Google, Indonesia
¹² “Year in Search: 2018 insights for brands”, Think with Google, Indonesia



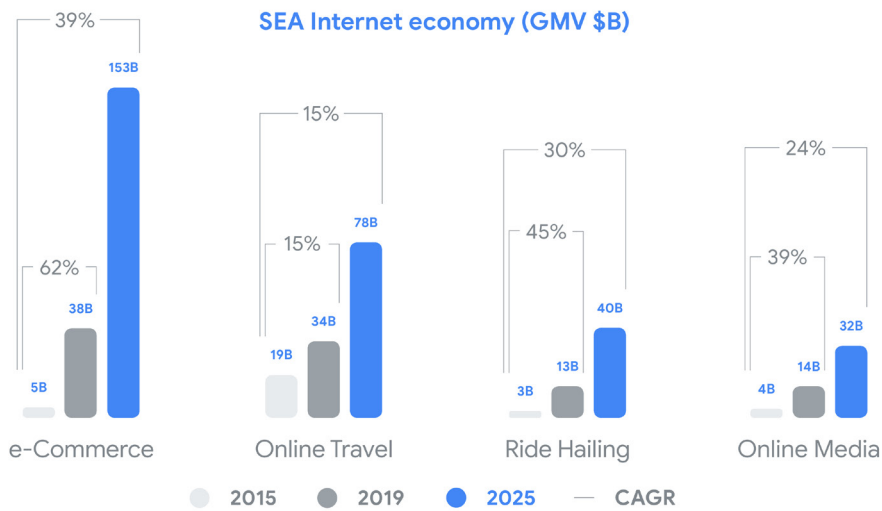
As we see Internet companies focus more on acquiring new users outside the Metros, growth in the Non-Metro areas is expected to pick up. In fact, the Internet economy in areas beyond the Metros is projected to grow fourfold between 2019 and 2025, twice as fast as in Metro areas.

With jobs being created in sectors like Ride Hailing and Food Delivery, as well as the upskilling of traditional retail stores as e-Commerce delivery points and Digital Payment merchants, the Internet economy will serve as a powerful lever to drive economic growth in less developed regions. Central and regional administrations are taking notice and working to make the Internet economy a key plank of their policies, with the aim of promoting inclusion.

Fundamental changes in consumer behavior

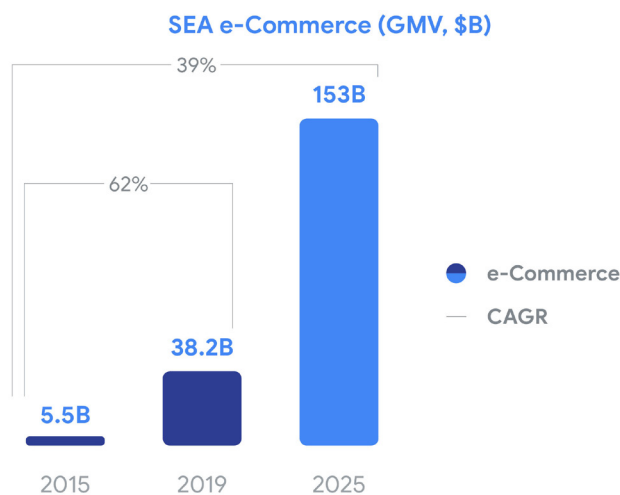


All Internet economy sectors continued to grow at a healthy pace in 2019. But e-Commerce and Ride Hailing were the standout performers, eclipsing expectations.



e-Commerce blazes through \$38 billion, turbocharged by shopping festivals

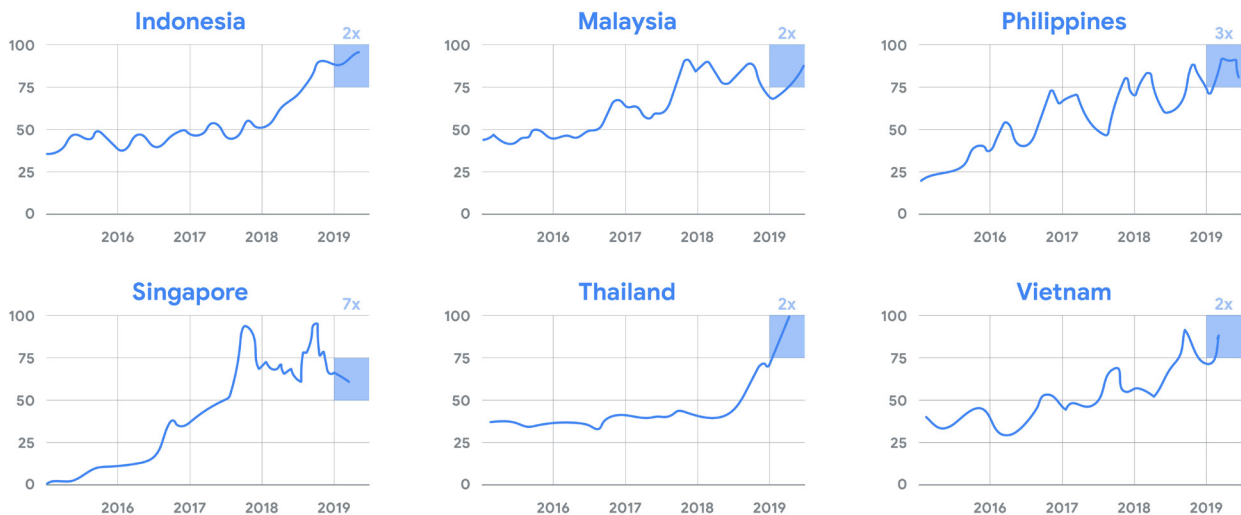
e-Commerce has overtaken Online Travel to become the biggest sector of the Internet economy. In just four years, e-Commerce has traced a hyperbolic growth trajectory, jumping seven times from \$5.5 billion in 2015 to over \$38 billion in 2019. The sector is on track to exceed \$150 billion by 2025 — \$50 billion more than predictions made over a year ago — on the back of stronger-than-anticipated growth.



e-Commerce has given Southeast Asians access to a global marketplace and provided value, choice and convenience unmatched by traditional brick-and-mortar stores. Along the way, it has become a uniquely social experience, combining the excitement of deals with elements of entertainment.

The rise of online promotions, for one thing, means there is always a good reason for consumers to shop on e-Commerce apps and websites. In the US, there is Black Friday. In Southeast Asia, there is much more: online shopping festivals have multiplied, from 9.9 (9 September) and Singles Day (11 November) to 12.12 (12 December), while sales are “always on”. According to Google Trends, queries related to vouchers, coupons and promotions, typically given out by e-Commerce players during shopping festivals, have more than doubled in the last four years.¹³

Google Trends for selected e-Commerce promotions



Leading e-Commerce apps in the region are turning to entertainment as a promotional strategy. Some apps show live streaming videos of popular influencers “unboxing” gadgets and giving reviews of their favorite brands. Others offer shoppers the option of chatting with “social sellers” and competing in live auctions, which makes the buying process more interactive. Such approaches have gained traction especially in countries like Vietnam and Indonesia.

Many of these initiatives are combined with elements of “gamification”. For instance, users are often invited to work with one another during shopping festivals to bring down the cost of an item on offer. In game terminology, this is similar to fighting or raiding a “boss”. Engaging users with gamification also generates valuable insights on consumer behavior and preferences, which help e-Commerce companies to fine-tune their service and product offerings through Machine Learning.

Marketplaces are not working only on driving demand. Knowing that users are spoiled for choice when it comes to where they can shop, e-Commerce companies are choosing to also focus on the supply side by ensuring that their platforms are stacked with good quality products and original brands from reliable sellers. For leading marketplaces in the region, working with sellers to boost sales and profits is now a strategic priority, given that sellers tend to be “stickier” to platforms compared with users.

¹³ Google Trends for selected promotional terms (e.g. coupons, vouchers), 1/2015 - 4/2019

Building logistics networks with reliable nationwide coverage has long been the main objective of the region's e-Commerce players. Now, companies are racing to speed up deliveries. Many e-Commerce players are moving towards next-day delivery options, with some also launching same-day deliveries in several cities for consumers who are willing to pay extra to get their groceries or last-minute buys within 24 hours.

Average number
of e-Commerce
orders a day

5M

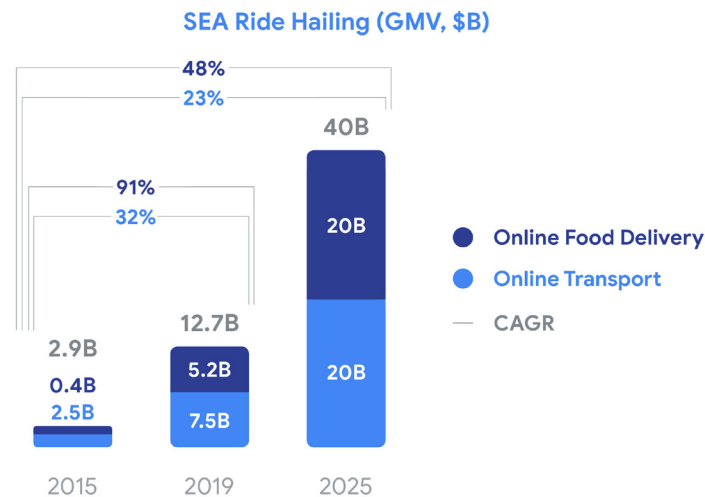
As a result of these innovations, consumer behavior has shifted fundamentally when it comes to online shopping. Where online shopping in the past was about buying a big-ticket item such as a television or a smartphone on the cheap, e-Commerce today has become a regular shopping experience, with over 5 million orders coming in on an average day. Groceries, personal care and beauty products are becoming standard items in Southeast Asians' online shopping baskets.

As a result, the Average Order Value (AOV), or how much a consumer spends for each order, has fallen to between \$15 and \$20. This figure is about a quarter of the AOV in developed markets. In emerging and less urbanized areas of the region, it can get even lower, to below \$10.

Keeping deliveries affordable while keeping the profits running is a big challenge for e-Commerce players. It is no surprise then that companies are increasingly turning to supply-side monetization levers to sustain growth, such as by charging marketplace sellers for value-added services, logistics and inventory management fees as well as advertising. Now that the e-Commerce sector has grown exponentially, monetization is the name of the game.

Ride Hailing approaches \$13 billion, with booming Food Delivery services

Ride Hailing is the region’s second best performer, overtaking Online Media in 2019. It has more than quadrupled in value from \$3 billion in 2015 to almost \$13 billion in 2019. As it stands, the sector’s 2025 potential exceeds \$40 billion, up from \$29 billion predicted previously, as a result of the booming Food Delivery sector.



Four years ago, Ride Hailing players focused primarily on providing alternative transportation services through an app. But the sector has since transformed. In 2019, Ride Hailing companies in Southeast Asia are not just providing transport services but also a whole range of offerings, including Food Delivery and Financial Services.

The Ride Hailing industry in Southeast Asia is led by two players, Grab and Gojek. Grab is the only Ride Hailing player operating Online Transport and Food Delivery in all six Southeast Asian countries. It also offers Financial Services directly or through its subsidiaries and partnerships. Gojek, the Indonesian Ride Hailing Unicorn, is most active in Indonesia with more than 18 services including Online Transport, Food Delivery, financial and lifestyle services. In 2018, it started to expand regionally, entering Singapore, Thailand and Vietnam, with plans to launch in Malaysia and the Philippines. Others players such as FastGo in Vietnam and Micab in the Philippines have a nascent presence in the region for now.

Both Grab and Gojek are also leaders in Online Food Delivery, which has rapidly become a key driver of their growth and profitability. There, they compete with specialized players like Foodpanda and Deliveroo, which have established their presence in Southeast Asian countries for some years.

Food Delivery has undergone a fundamental shift in consumer behavior since 2018. From a niche service that was used only occasionally by a small group of users, it has become common for busy professionals and families alike to order food online for everyday meals and special occasions. By sparing consumers the inconveniences of humid weather and traffic jams, Food Delivery has become particularly popular in Metro areas.

The use of promo codes and ubiquitous marketing campaigns certainly played a key role in convincing users to try out such services. But increasingly, the wide variety of cuisine options available — including affordable meals from food court and street food stalls — the enticing user interfaces and speedy deliveries have become the determining factors behind recurring usage.

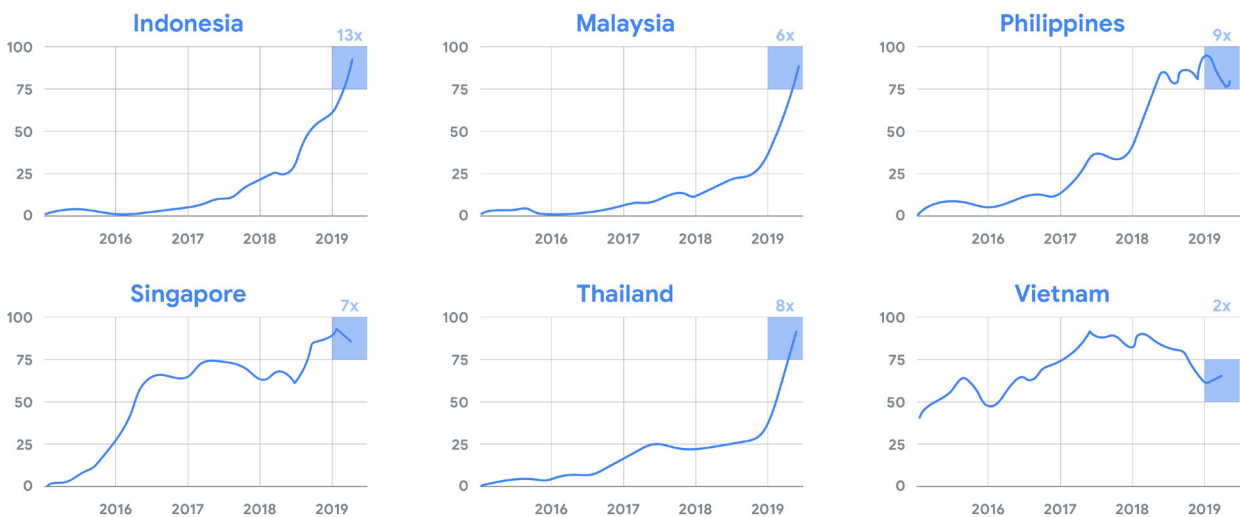
Unsurprisingly, interest in these services has exploded. According to Google Trends, queries for Online Food Delivery brands have grown more than 13 times in Indonesia, nine times in the Philippines and eight times in Thailand over the last four years.¹⁴ Orders have followed suit. Food Delivery GMV, which was less than \$400 million in 2015, has surged by almost 15 times in just four years.

Size of Online Food Delivery sector by 2025

\$20B

It has more than doubled in 2019 alone compared to the previous year. We now estimate that it may cross \$20 billion by 2025, representing a growth of about 50 times over one decade.

Google Trends for selected Online Food Delivery brands



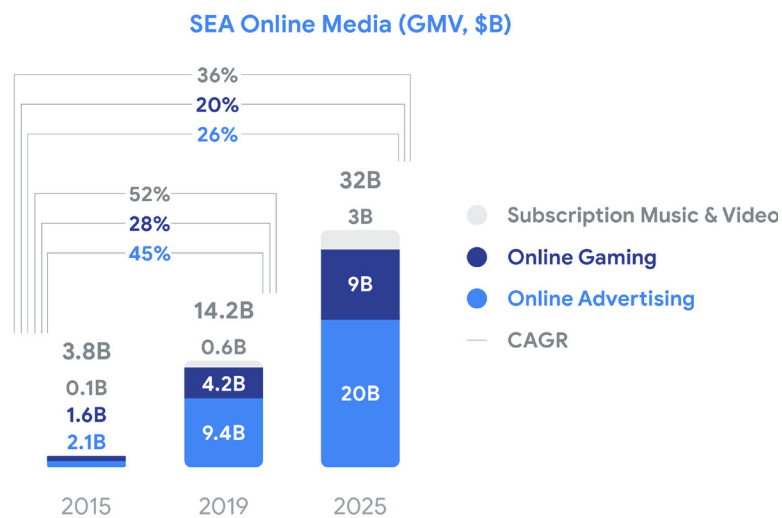
¹⁴ Google Trends for selected Online Food Delivery brands, 1/2015 - 4/2019

Ride Hailing companies have also ramped up efforts to boost their supply capabilities — by recruiting, training and developing drivers, delivery men and restaurant partners — to meet the rising demand for such services. But regulatory constraints and tight labor market dynamics have complicated such efforts in some countries, making the supply side of the equation a key prerequisite for success in this sector.

Ride Hailing companies are at a stage where they need to start demonstrating their abilities in steering their businesses towards profitability. Many have invested heavily into building loyalty and reward programs to deepen customer engagement and retention amid rising competition. Borrowing from the playbook of airlines, hotel chains and credit card companies, they have started to offer point accumulation schemes, tiered memberships, exclusive promotions and a variety of redemption options. These are seen as more sustainable and effective ways to drive continued growth as compared with short-lived promotions.

Online Media hits \$14 billion, boosted by unmatched user engagement

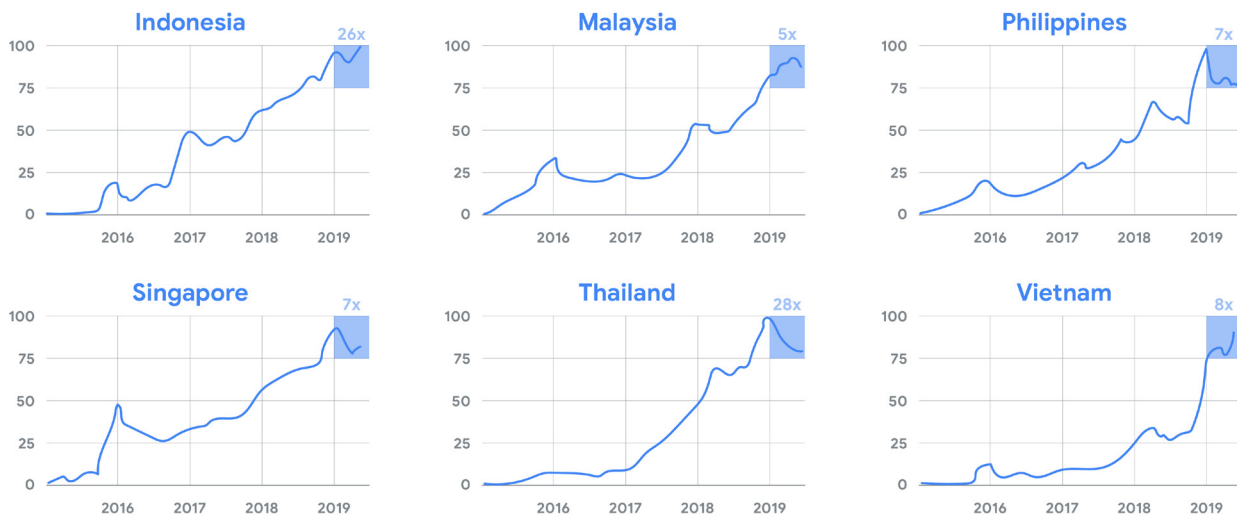
Whether it is streaming videos, listening to music or playing the latest games, Southeast Asians have embraced Online Media in a big way. The sector has risen by almost four times in the last four years to reach \$14.2 billion in 2019. It is expected to grow to \$32 billion by 2025, marking potentially another tripling of value over the next six years.



One of the biggest factors underpinning the strength of Online Media is the growth of the Internet user base. With around 100 million new Internet users having come online between 2015 and 2019, it is easy to see how sectors like Online Gaming and advertising have multiplied in size.

Most new Internet users start off by consuming free content in ad-supported apps. But some eventually end up completing in-app purchases on mobile games and subscribing to Music and Video Streaming Services, all of which have garnered unprecedented interest in Southeast Asia. According to Google Trends, queries for Subscription Video Streaming brands like Hooq, iFlix, Netflix and Viu have grown more than five times in Malaysia and seven times in the Philippines and Singapore over the last four years, hitting all-time peaks in 2019.¹⁵

Google Trends for selected Subscription Streaming Video brands



In addition, live-streaming and short-form videos have taken Southeast Asia by storm, going by the breakthrough popularity of apps like BIGO LIVE and TikTok. Besides racking up millions of users in the region, these apps have also gone viral globally. From rap videos to lip-sync battles, the youth are using such platforms to express themselves, chalking up views and subscribers in the process.

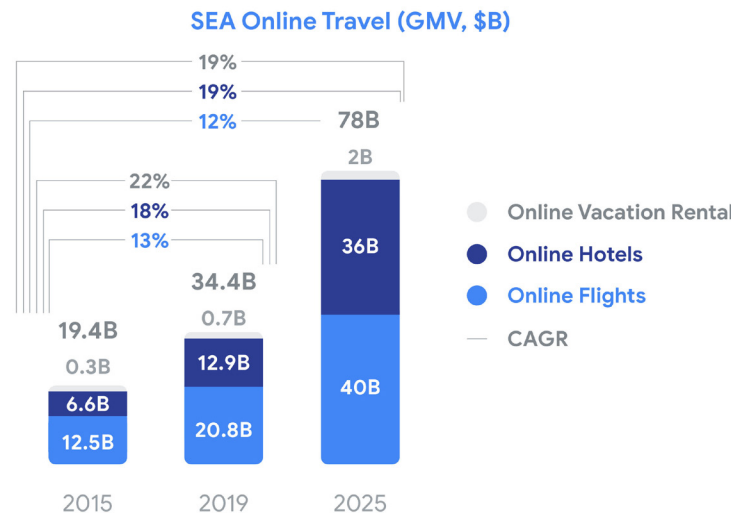
Southeast Asia is no longer passively importing music and video trends from the West. Instead, it is turning into a global powerhouse in content production, as local content creators become more skilled and successful at producing music and videos for the digital youth. Vietnamese pop star Son Tung, whose songs have drawn more than one billion views on YouTube, recently collaborated with American rap star Snoop Dogg to produce a track. In Indonesia, YouTube sensation Atta Halilintar made waves as the first in the region to gain more than 10 million subscribers on his YouTube channel.

In the arena of game development, Southeast Asian companies are also starting to compete with their global counterparts. Garena's Free Fire has become one of the most popular mobile games in the region and beyond. It is among the most downloaded games in the world today, with more than 450 million registered users and over 50 million peak active users. One reason for its widespread popularity is that it has been optimized for the mobile experience, making it a good fit for Southeast Asian audiences and gamers in other mobile-first regions.

¹⁵ Google Trends for selected Subscription Streaming Video brands, 1/2015 - 4/2019

Online Travel grows to \$34 billion, backed by the rise of budget hotel chains

Online Travel is the most mature and stable sector of the Internet economy. One of the first services to move online, it has since attracted a strong and stable base of users. The sector grew to \$34.4 billion in 2019, up from \$19.4 billion in 2015.



Tourism in Southeast Asia has always been a key pillar for the Online Travel sector. A rising middle class of affluent users who are traveling more frequently for leisure and business, both domestically and internationally, is further boosting the sector. Significantly, intra-Asean travel accounts for almost half of the international visitors the region receives.¹⁶

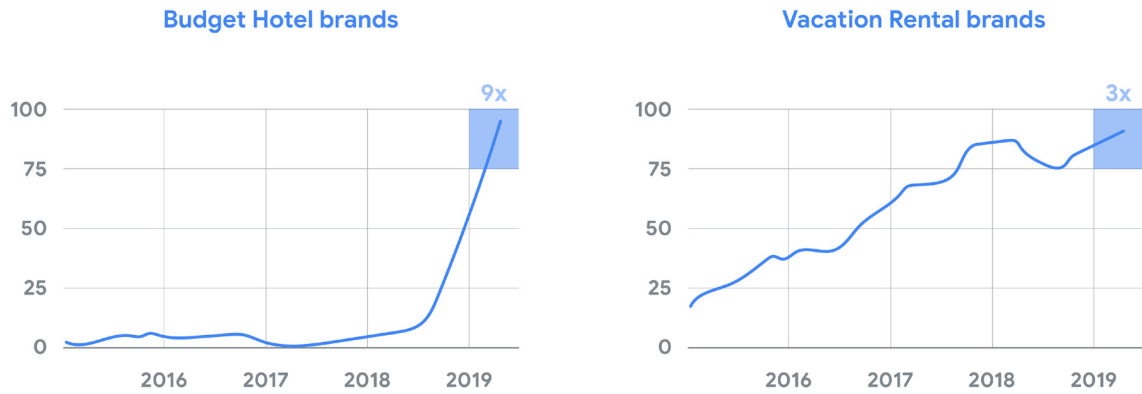
While its growth has been more steady than spectacular, innovation in the Online Travel sector continues to give rise to new products and services. Online Travel aggregators like Tiket.com and Booking.com have built partnerships with Internet players like Gojek and Grab to expand their reach. They have also invested in developing their offering of local travel services, aptly named “experiences”, driven by the insight that for every dollar spent by travelers in flight and accommodation, a varying multiple of that is spent during the trip itself.

The rise of the budget hotel segment has been a highlight, led by brands like OYO Rooms and RedDoorz. These companies offer reliable accommodation at a fraction of the price of international hotel brands, aimed at youth and cost-conscious travelers from within and outside of Southeast Asia.

After becoming popular in India, such services are mushrooming in Southeast Asia, where there are thousands of budget hotels and guesthouses scattered across the region waiting to establish a presence online. According to Google Trends, queries for selected budget hotel brands soared in 2019, up more than nine times compared to 2015.¹⁷

¹⁶ “ASEAN Tourism Strategic Plan”, The Asean Secretariat, 2016-2025
¹⁷ Google Trends for selected Online Budget Hotel brands (ID, MY, PH, SG, VN)

Google Trends for selected Online Travel brands



As we observed in 2018, vacation rental services such as Airbnb continue to gain ground in Southeast Asia. Queries for leading vacation rental brands grew more than three times in 2019 compared to 2015.¹⁸ As a pioneer of vacation rental services, Airbnb is an exemplification of the entire category. Online aggregators Agoda, Expedia and Traveloka, however, have been building their own suite of rental accommodations to challenge the leader. With clearer and more supportive regulations on short-term property rentals, these services could facilitate the development of the tourism sector across the region.

¹⁸ Google Trends for selected Online Vacation Rentals brands (ID, MY, PH, TH, VN), 1/2015 - 4/2019

Time is money: competing for engagement



Time is money. Often applied across businesses, this old saying applies to the Internet economy as well. Leading companies in Southeast Asia are developing new ways for people to spend more time on their apps, using anything from games and live-streaming videos to interactive content and in-app messaging. The goal? To engage and anchor users to their platforms, with the belief that engagement will eventually turn into orders.

Number of sessions for Indonesia's e-Commerce apps over 6 months

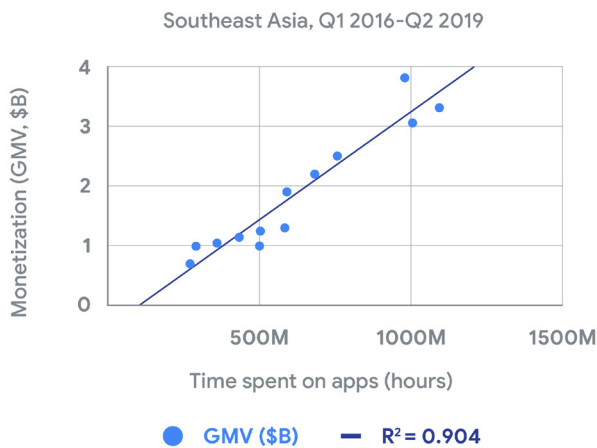
30B

The results affirm their belief: users today are opening e-Commerce, Ride Hailing and Food Delivery apps more and more often. The number of sessions for e-Commerce apps in Indonesia, for instance, has jumped from 8 billion in the first half of 2016 to almost 30 billion in the same period three years later. It is a similar story for Ride Hailing apps, where engagement has grown threefold over the past three years.¹⁹

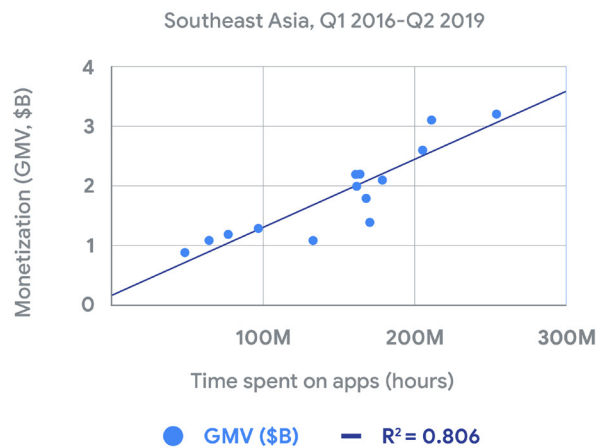
Such an enthusiastic approach to engagement is unique to Southeast Asian Internet users. In developed markets such as the US, Europe and Japan, frequent online buyers are less interested in spending time online. There, apps tend to focus on specific services, streamlining the user experience, minimizing the time it takes to select products and making it simple for users to submit orders.

In Southeast Asia, the opposite is happening. Companies are building more engaging user experiences for the simple reason that higher engagement is seen as a precursor to business growth. In fact, while working with App Annie to analyze the engagement in the region's most popular e-Commerce and Ride Hailing apps, we observed a significant correlation between the time spent on apps and monetization.

e-Commerce - Monetization vs Time Spent



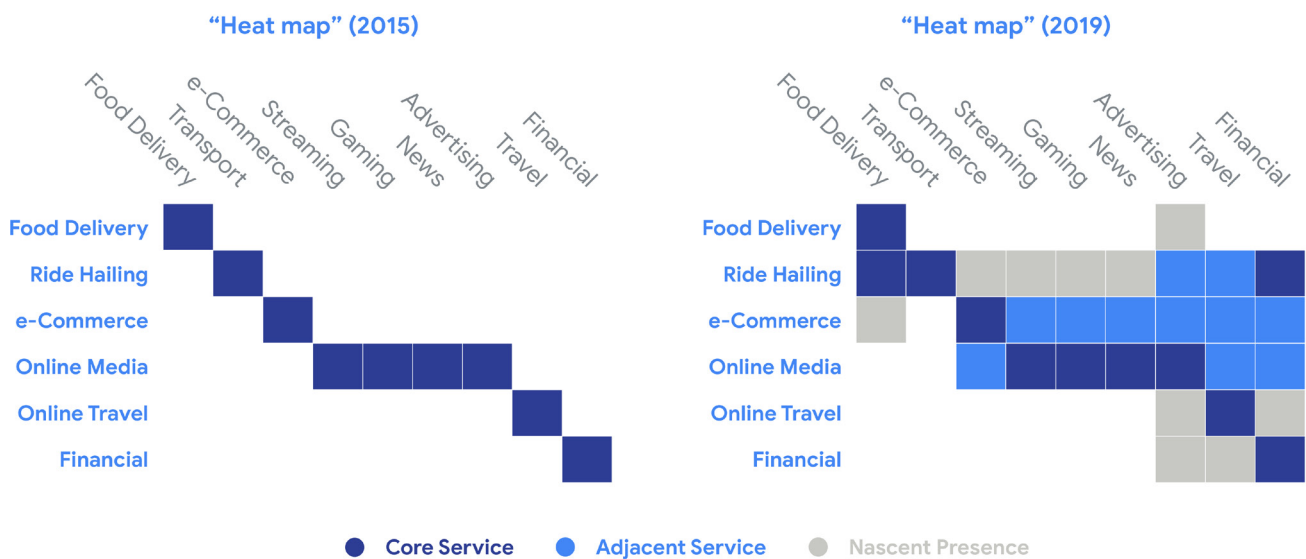
Ride Hailing - Monetization vs Time Spent



¹⁹App Annie analysis for e-Economy SEA

To boost efficiencies, e-Commerce and Ride Hailing companies are partnering with other service providers to pool their expertise and resources. Grab has partnered with HOOQ to offer Video on Demand services on the Grab app for Singapore users, while Gojek has teamed up with Google to provide news services directly on the Gojek app. e-Commerce apps like Lazada, Shopee and Tokopedia are putting up more games and live-streaming videos to entertain their users.

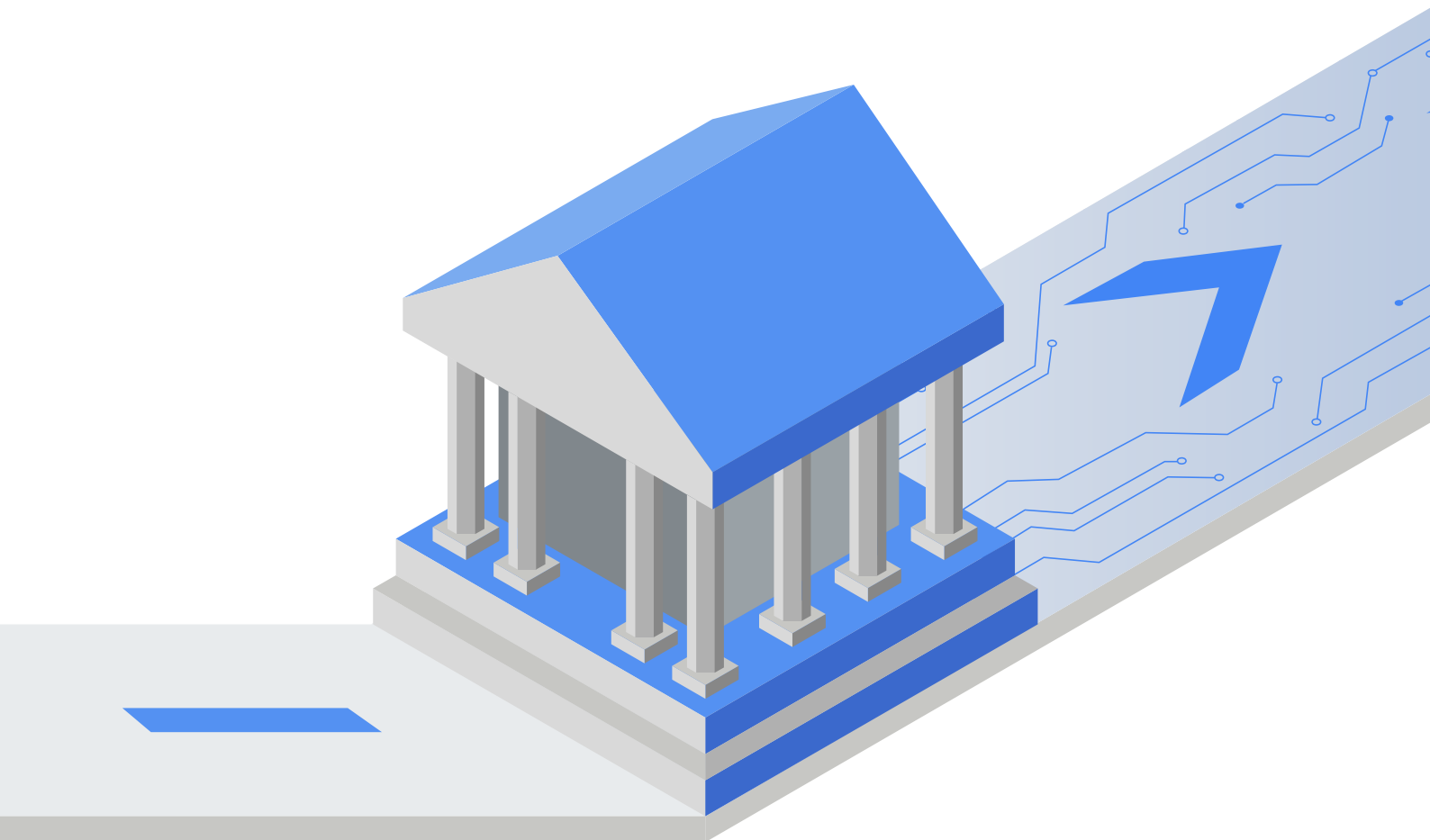
When we plotted what different companies in various sectors of the Internet economy were offering in 2015 and compared that with the services and content offered in 2019, we saw a colorful “heat map” that tells two stories. On the one hand, players have expanded sideways across sectors. On the other hand, competition in those sectors has intensified.



These trends are benefitting users in many ways. Take, for example, how online flight and hotel bookings used to be the exclusive domain of Online Travel providers. Now that these bookings can be done through Ride Hailing, e-Commerce and Online Media platforms, as well as selected Financial Services marketplaces, users have the flexibility and option to compare offers and pick the best deals. As apps compete for users’ time and, by extension, their money, the market is served with more choices and more competitive prices.

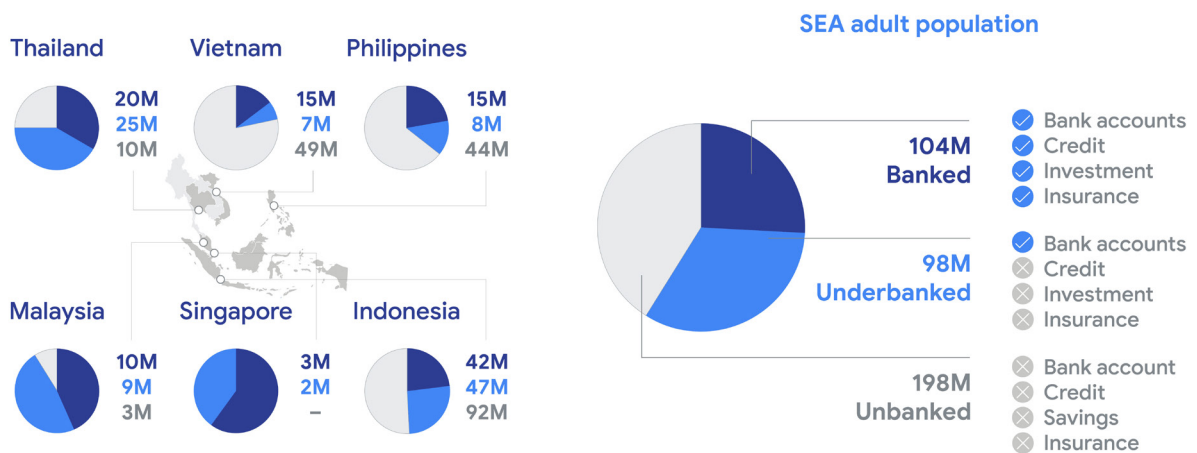
What this also means is that apps with a large and frequently engaged user base are best placed to draw synergy from adding new services on their platforms. After all, they have overcome the toughest challenges of acquiring new customers and building consumer trust in their brands.

Digital Financial Services reach the inflection point



Southeast Asians have insufficient access to many of the basic Financial Services that people in developed economies take for granted. While new Financial Services business models enabled by technology appear well-positioned to solve this challenge, adoption and usage are still limited in the region. “Fulfilling its Promise - The Future of Southeast Asia’s Digital Financial Services”, a focused research project led by Bain & Company in collaboration with Google and Temasek, aims to shed light on this conundrum that remains unresolved.

Of the nearly 400 million adults in Southeast Asia, only 104 million are fully “Banked” and enjoy full access to Financial Services. Another 98 million are “Underbanked”, with a bank account but insufficient access to credit, investment and insurance, while 198 million remain “Unbanked” and do not own a bank account. Millions of small and medium enterprises also face large funding gaps.



There are many reasons for this. One is cost. In a sprawling region where physical infrastructure is mostly lacking, it is prohibitively expensive for financial institutions to build physical branches that can serve all customers. Other challenges include the absence of public registers, identification systems and reliable credit information, all of which are basic prerequisites for financial institutions. Moreover, banking is a tightly regulated sector in many Southeast Asian nations. Competition and innovation, as a result, have been stifled.

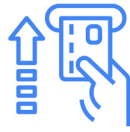
Digital Financial Services have the potential to solve many of these challenges. Enabled by technology and based on robust data, they can help to increase access, improve convenience, slash costs and deliver more inclusive Financial Services for all Southeast Asians.

Digital Financial Services



Digital Payments

All form of payments (account to account cards, e-Wallets) excluding cash



Digital Remittance

Remittance through digital channels, no in-person interactions



Digital Lending

Lending through digital channels, no in-person interactions



Digital Investment

Investments through digital channels, no in-person interactions

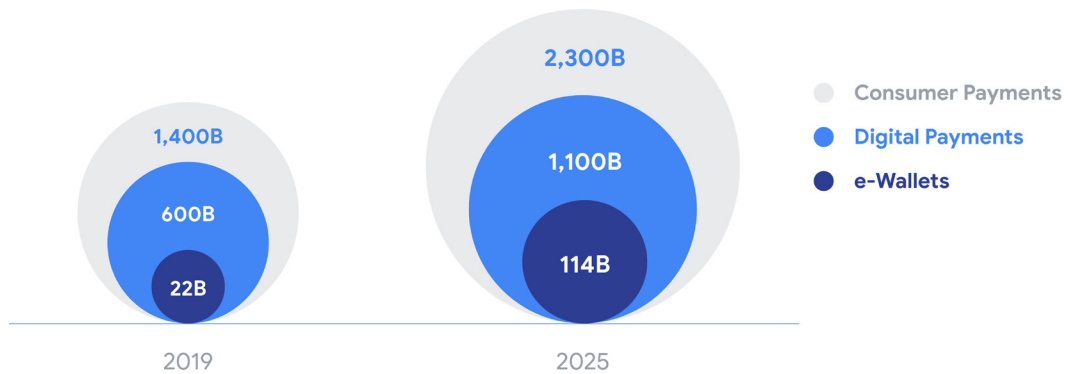


Digital Insurance

Insurance through digital channels, no in-person interactions

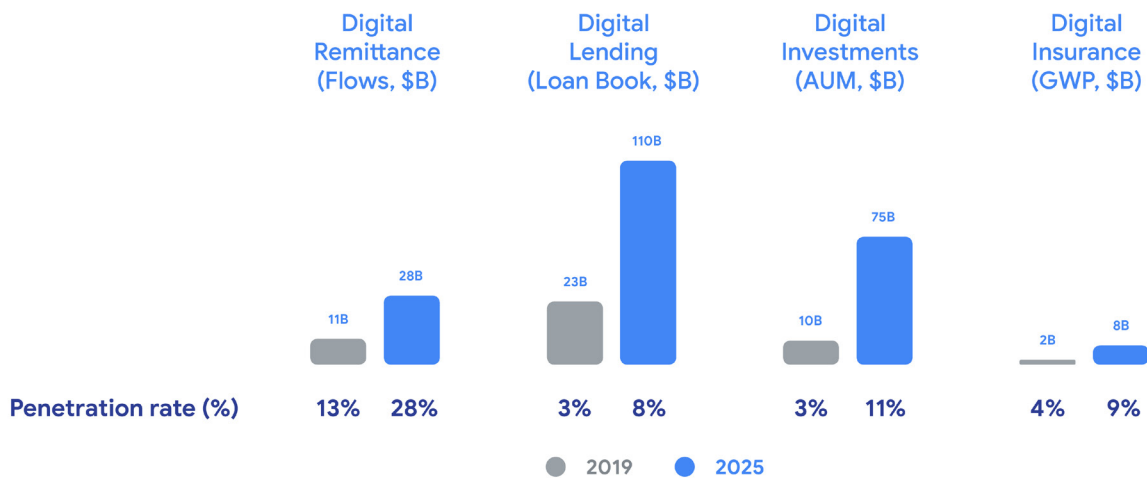
Five Financial Services are ripe for transformation in the digital era: Payments, Remittance, Lending, Investment and Insurance. Among these, Digital Payments, defined as cashless transactions that include cards, account-to-account transfers and e-Wallets, has reached the inflection point. Adoption and usage levels are surging, in line with other Internet economy sectors such as Ride Hailing and e-Commerce.

SEA Consumer Payments (GTV, \$B)



Growing in the double-digit range, Digital Payments are expected to cross \$1 trillion by 2025, becoming the payment method for nearly one in two dollars spent in the region. Meanwhile, e-Wallets, though starting from a small base, are poised to grow even faster. Accounting for just over \$22 billion in 2019, they are likely to grow more than fivefold and to exceed \$114 billion by 2025.

Although other Financial Services are still in a nascent digital stage, we expect their penetration rate to increase two-to threefold over the next five years. Digital Lending, on track for a \$110 billion loan book by 2025, will be the largest volume contributor, spearheaded by innovations in consumer and SMB lending.



A uniquely diverse and fragmented competitive landscape

The Financial Services landscape is marked by uneven development across the region. A vast number of players are pursuing this opportunity from different vantage points. Besides the types of companies that would typically play in this field — banks, remittance companies and insurance companies, for instance — the ecosystem also includes Ride Hailing and e-Commerce companies, airlines, telecommunications companies, and social media platforms, among others. They can be broadly classified into four main buckets: Pure-play Fintechs, Consumer Technology Platforms, Established Financial Services Players and Established Consumer Players.

Pure-play Fintechs are independent players that have emerged to compete in a particular segment with a new business model or technology. They include companies such as Momo, the Vietnamese payments app, Stashaway, the digital wealth management service, and Akulaku, the Indonesian digital lender. Many of these companies have successfully grown their user base by addressing specific pain points related to access, convenience, value and transparency. However, they face high customer acquisition costs (CAC) and it remains to be seen whether they can generate an even higher lifetime value (LTV) to be financially sustainable. The ability to fund their balance sheets to scale their business models is also untested.

Consumer Technology Platforms count among their ranks regional Internet companies such as Gojek, Grab, Lazada and Sea Group. When it comes to Financial Services, these companies' biggest asset is their established customer base, which transacts online using their core services such as Transportation, Food Delivery and e-Commerce. These platforms have introduced payment services to facilitate transactions on their core services initially, but from there, they are well positioned to offer other Digital Financial Services such as lending, investment and insurance, often in partnership with Financial Services institutions.

Established Consumer Players include the likes of telcos and retailers. These companies can reach a broad base of consumers through their physical distribution networks, all the way to most rural areas. The key challenges holding them back from exploiting the opportunity at hand are the relative lack of Financial Services expertise and IT systems that are not usually designed to offer compelling user experiences.

Lastly, the **Established Financial Services Players** are companies that have been in the business the longest: banks, insurers and other financial institutions. They have the most experience and expertise of the four but most of them struggle to roll out superior digital services, hampered by legacy IT systems as well as a thin talent bench in areas that matter the most, such as software development, digital marketing and data science.



In such a diverse and fragmented competitive landscape, clear leaders among these four categories are yet to emerge, making Southeast Asia different from many other markets, where a select few have already established their dominance. What is more straightforward is how the competition will play out. According to most experts we interviewed, players that own the customer relationship are those best positioned for the long term. Amidst intense competition, companies that become gatekeepers for both consumers and merchants are most likely to acquire and retain customers. That means the battle is focused on three areas: a share of consumers' minds, time and wallets.

As they go about it, challenger and traditional players are both competing and partnering to offer new services in an efficient manner. Some are teaming up to share resources and scale up. For instance, Consumer Technology Platforms are hoping to monetize their customer relationships by partnering with Established Financial Services Players seeking additional distribution channels. Others are closing deals, especially with Pure-play Fintechs, to acquire new users, technology and talent.

Different solutions to meet the needs of different consumer segments

Each of the three consumer segments we introduced earlier – the banked, underbanked and unbanked – presents different opportunities when it comes to Digital Financial Services. Different players have their own strengths that could unlock potential growth prospects.

Banked consumers, who already have full access to Financial Services, sit in the playing field of Established Financial Services Players. These players already have existing customer relationships, deep Financial Services expertise, balance sheet capacity and consumer trust. The key to winning more consumers over? Better user experience, lower service fees, higher returns and better rewards. To this end, banks and insurance companies that are able to digitize faster are best positioned to serve a growing share of the banked consumers.

The underbanked are likely to be the true growth engine for Digital Financial Services players. For Internet users among them, technology can bring down costs to serve and bridge the gap in data availability. Over the next few years, this segment will make up the main battleground as players from all four categories compete to win their trust. Consumer Technology Platforms, with their large and engaged user base, are well-placed to serve the needs of this segment.

Serving the unbanked consumers, on the other hand, is the most difficult undertaking. For a start, acquiring them is expensive when compared to the value they return in terms of service fees, interest rates and assets under management. Serving them sustainably has proven difficult even for digital financial players.

This means that, contrary to common belief, Digital Financial Services may not be a panacea to the unbanked population. Among all, Established Consumer Players are best placed to reach them economically through their existing physical distribution networks. Governments, however, will need to play an active role in unlocking the financial inclusion of this segment.

Supportive regulations play a critical role in unlocking Digital Financial Services

According to most experts we interviewed, a common ask among Digital Financial Services players is to keep policies consistent and predictable. Companies and investors must commit significant resources to start and scale businesses, yet the returns are uncertain and can only be reaped down the line. The biggest drag on investment levels is the uncertainty surrounding regulations and the risk that entire business models may suddenly become unviable.

There is a variety of supportive policies that governments and policymakers can adopt. Digital Identification Datas (Digital IDs) and e-Know Your Customer (e-KYC) can significantly uplift the opportunities associated with Digital Financial Services, including those for the unbanked population. Fostering common standards (“open rails”) for Payments and Remittance will be key in promoting interoperability between solutions. This will also boost competition, reduce merchant acquisition cost and lower overall infrastructure costs. These and other policies can be tested out in “regulatory sandboxes” to foster innovation in a secure environment, before allowing them to be scaled up.

Lastly, the governments of ASEAN countries should aim to align Digital Financial Services regulations across the region. This would facilitate the development of regional business models, and help channel resources towards investments in world-class technology and talent. In turn, such policies would push Southeast Asia onto a more level playing field with markets such as China, India and the US, where businesses can scale remarkably.

Embarking on these supportive policies will provide a strong foundation for the growth of Digital Financial Services in the region.

Funding remains healthy despite global headwinds



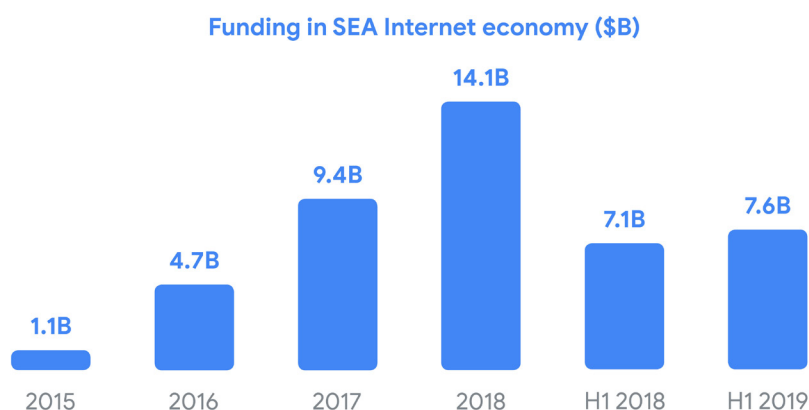
This year is a sombre one for the global economy. Buffeted by rising protectionism, economic growth has slowed significantly, with the outlook remaining cloudy.

The International Monetary Fund is forecasting a growth of 3.2% in 2019, down from 3.6% in 2018. Rising trade tensions between the US and China has further dampened demand and led to falling trade flows. These, in turn, have curbed investment spending and added to the risk of recession.

The spillover effect to funding in the Internet economy is evident. Global venture funding dropped 17.5% in the second quarter of 2019 from the same period a year earlier, according to data from Crunchbase.²⁰

But even as global tech funding takes a hit, Southeast Asia has remained a bright spot. Funding flows into the region continued to grow at a healthy pace, from the high base of a record-breaking 2018. The first six months of 2019 saw Internet firms raise \$7.6 billion, about 7% more than in the same period in 2018.

Investors remain bullish on Southeast Asia largely because of structural drivers in place that will continue to support the growth of the Internet economy: a young population, growing Internet connectivity and rising income levels.



In total, close to \$37 billion flowed into Southeast Asia's Internet economy between 2015 and the first half of 2019. We had estimated in our original report, "e-Economy SEA — Unlocking the \$200B digital opportunity in Southeast Asia", that to grow a \$200 billion Internet economy, the region will require between \$40 billion and \$50 billion in funding by 2025.²¹ Six years ahead of that estimate, the region is already close to meeting that mark.

The result is not surprising. The Internet economy has reached the inflection point and accelerated beyond earlier projections. This has attracted even stronger funding flows into the region, creating a virtuous cycle between greater opportunities and growing investor confidence.

²⁰ Crunchbase, The Q2 2019 Global Venture Capital Report

²¹ e-Economy SEA — Unlocking the \$200B digital opportunity in Southeast Asia

New sectors that have developed in recent years, such as Food Delivery, Subscription Music and Video Streaming, Vacation Rentals as well as Financial Services, have already attracted sizable investments by Internet economy companies and venture capital funds. Meanwhile, deal flow is gaining momentum in nascent sectors like Education and Healthcare. With an Internet economy now on track to reach \$300 billion by 2025, it is reasonable to expect that investors will continue to deploy capital in Southeast Asia.

Two in three dollars raised by e-Commerce and Ride Hailing players

e-Commerce and Ride Hailing have dominated the funding scene in Southeast Asia, attracting two in every three dollars raised since 2016. The reasons are clear: both sectors are growing at record pace as consumers embrace both types of services, marking a permanent shift in the way people view such conveniences.

Funds raised
for Ride Hailing
in 4 years

\$14B

Ride Hailing companies raised more than \$14 billion over the past four years as they continued to expand their presence across the region while investing in new services.

The two leading players, Grab and Gojek, have invested heavily into building competing Transport and Food Delivery businesses across multiple countries. Both are also venturing into Financial Services such as payment technologies, loans and insurance. The multi-billion-dollar late-stage financing rounds they have embarked on are among the largest of their kind, both in the region and globally. The two companies have also started to act as investors in the ecosystem, deploying their capital in bolt-on acquisitions of new ventures active in Financial Services, Logistics, Food Delivery and Preparation.

e-Commerce continues to ride the crest of a wave, attracting \$9.9 billion worth of investments since 2016. And the sector shows little sign of slowing down. After raising a record \$4.3 billion in 2018, another \$2.5 billion flowed to e-Commerce in the first half of 2019, close to the sizzling pace in the first half of last year. Unicorns have raised billion-dollar rounds to win over consumers through various strategies. This is particularly the case in Indonesia, where all four Southeast Asian e-Commerce Unicorns — Bukalapak, Lazada, Shopee and Tokopedia — compete.

Online Travel, the most mature sector in the Internet economy, saw an uptick in investment in 2018, when it attracted over \$600 million. A big part of this was due to Indonesian Online Travel Unicorn Traveloka. The company raised more than \$400 million as it looked to fund its regional expansion and develop services beyond flight and hotel bookings, such as lifestyle and insurance services.

Online Media enjoyed a record year in 2018, which brought in many new deals. They included Series D financing rounds of more than \$200 million for Bigo, the Singapore-based social Video Streaming platform, and of over \$100 million for ONE Championship, the mixed martial arts event and media company. Deal flow for Online Media companies remained strong in 2019, with almost 50 on record. But these deals were smaller in quantum compared to those from last year. As such, the sector has seen a decline in funds raised in the first half of 2019.

The Fintech sector, which is fast reaching the inflection point, continued to see healthy inflows of \$1.7 billion between 2018 and the first half of 2019. This is a sixfold increase from 2017. Most of the funding has gone to Payments and Lending businesses like Akulaku, Kredivo and Momo, which have raised rounds worth tens of millions in the last 18 months.

These figures are even more remarkable given that they do not include the investments by Ride Hailing platforms and e-Commerce players, which are aggressively expanding into Financial Services across the region. The numbers also exclude the expenditures by banks and insurance companies, as they develop their digital offerings. Although those investments are difficult to quantify, they are estimated to be in a similar ballpark of the funding that has gone into Fintech companies.

Unicorns and Aspiring Unicorns take center stage with funding

Funds that went
to SEA Unicorns
in 4 years

\$24B

Unsurprisingly, the bulk of funding has continued to flow to the region's biggest tech companies. Over the past four years, Southeast Asia's Unicorns²² attracted \$24 billion of the total \$37 billion raised.

In 2019, Bigo and OVO, the Indonesian Payments, Rewards and Financial Services platform, joined this exclusive group, bringing the number of Unicorns in the region to 11. The list now comprises Bigo, Bukalapak, Gojek, Grab, Lazada, Razer, OVO, Sea Group,²³ Traveloka, Tokopedia and VNG.²⁴

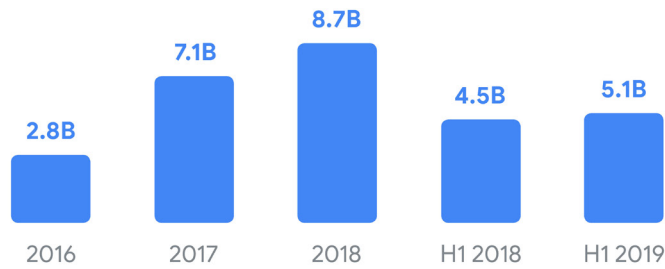
All of this is largely the result of investors doubling down on their bets on this group of successful companies with proven track records. Once the Unicorns achieve a certain size and scale, they are able to attract outsized investments from some of the world's largest private equity and institutional investors. These investors may not be interested in smaller tech startups, which are targeted by early-stage venture capital firms instead.

²² Unicorns refer to companies valued > \$1B. Definitions are based on publicly available information released by the companies that have disclosed amounts raised, valuation achieved and lead investors in their latest funding rounds. Definitions are purely illustrative and do not constitute an endorsement or a confirmation of the actual valuations achieved by the companies.

²³ Some of the Unicorns have since become public companies or have been acquired. We continue to refer to them as Unicorns for editorial purposes.

²⁴ The list does not include Trax, a Singapore-headquartered tech company that announced financing rounds valuing the company more than \$1 billion in 2019. Trax provides computer vision services to B2B customers (FMCG, retail) which are not included in the scope of our research.

Funding for SEA Unicorns (\$B)

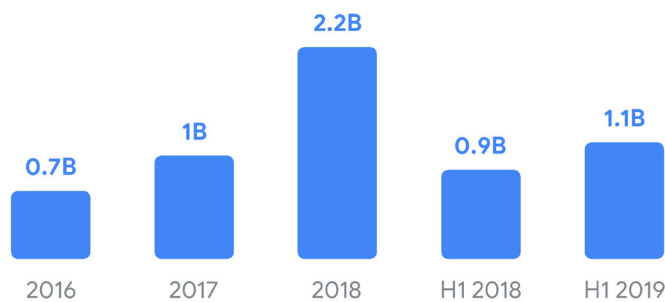


Unicorns



And then there is a group of nearly 70 companies valued at between \$100 million and \$1 billion. They drew about \$1.1 billion in funding in the first half of 2019, surpassing the \$900 million raised in the same period last year. Companies in this tier — what we call the “Aspiring Unicorns”²⁵ — have raised \$5 billion since 2016.

Funding for SEA “Aspiring Unicorns” (\$B)



“Aspiring Unicorns” (not exhaustive)



Aspiring Unicorns include companies like Carousell, the consumer-to-consumer e-Commerce marketplace, ONE Championship, the sports media property, and Zilingo, the fashion e-Commerce platform. There are also vertical marketplaces like Carro, which is dedicated to the automotive industry, and PropertyGuru, which specializes in real estate. e-Commerce marketplaces like Sendo.vn and Tiki.vn have decided to focus on the Vietnam market.

While Southeast Asia’s Unicorns aim to expand regionally and to diversify into multiple sectors, Aspiring Unicorns are still focused on building moats within their specific sectors or markets — a strategy that may well pay off in time to come.

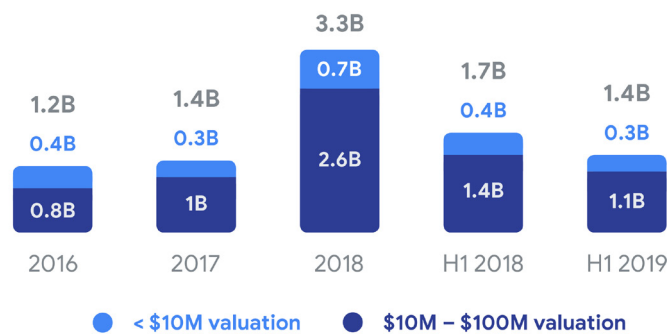
²⁵ “Aspiring Unicorns” refer to companies valued \$100M-\$1B. Definitions are based on publicly available information released by the companies that have disclosed amounts raised, valuation achieved and lead investors in their latest funding rounds. Definitions are purely illustrative and do not constitute an endorsement nor a confirmation of the actual valuations achieved by the companies.

Number of startups that received over \$7B in combined funding

3,000

Together, Unicorns and Aspiring Unicorns have likely soaked up most of the funding. Still, over \$7 billion in funding went to more than 3,000 Internet economy startups in the last four years. Many of these are validating their business models and testing their product market fit. They have little to show in terms of revenue and their monetization models are still unproven. In fact, many may not succeed and most will probably have to pivot from their original business ideas. But for those that do find the right formula, the rewards will be immense.

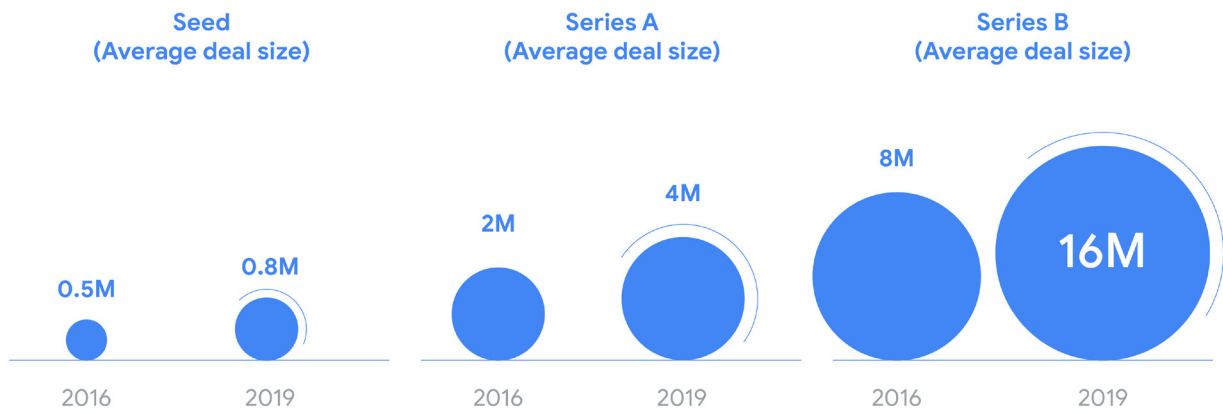
Funding for SEA startups (\$B)



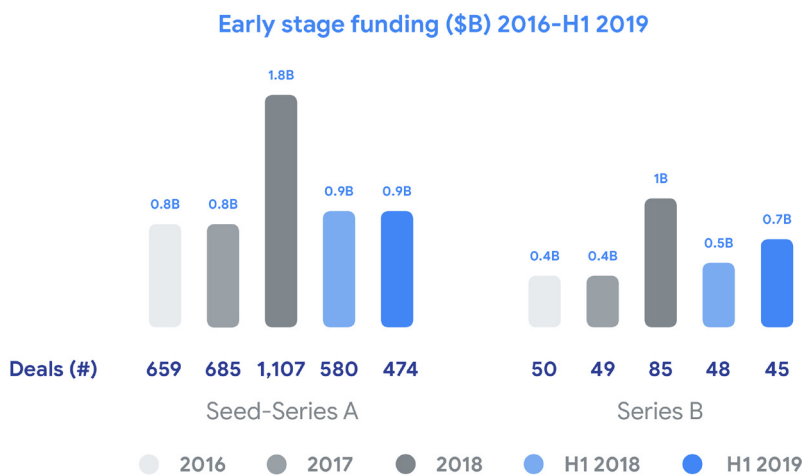
These startups are the bedrock of the Internet economy. While they remain risky endeavors, the fact that so many of them continue to receive funding sends a strong signal on the health and future of the Southeast Asian Internet economy, despite global economic headwinds. Many of them are founded in nascent sectors such as Education and Healthcare. This bodes well for the future of the ecosystem as it shows new engines of growth are being developed.

Investor confidence in Southeast Asia’s startups remains strong

The average deal size in early-stage funding, which has doubled over the last three years, is also a clear indicator of investor confidence in Southeast Asia’s maturing ecosystem. In 2016, the average deal size of seed funding stood at about \$500,000, but this has surged to an average of \$800,000 in 2019. Similarly, the average deal size at the Series A stage has doubled from \$2 million in 2016 to \$4 million in 2019.

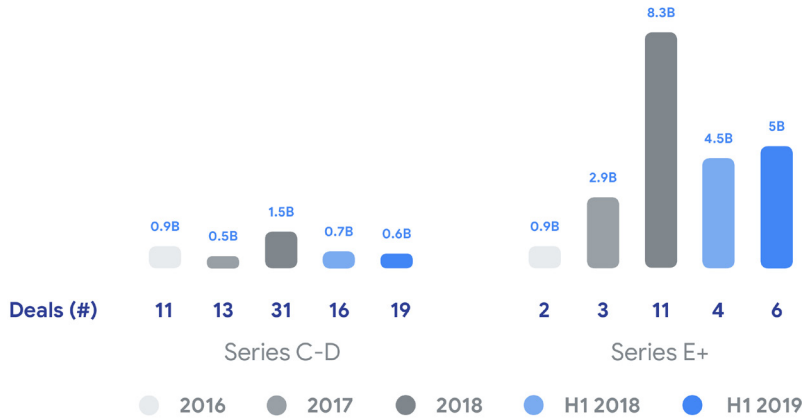


The larger checks deployed in early-stage rounds in 2019 have topped the record levels set last year. Seed and Series A deals amounted to almost \$1 billion in the first half of 2019, more than the amount raised in the same period last year. The same trend showed up in Series B rounds. More than \$700 million was raised in the first half of 2019, 40% higher than the \$500 million in the same period last year.



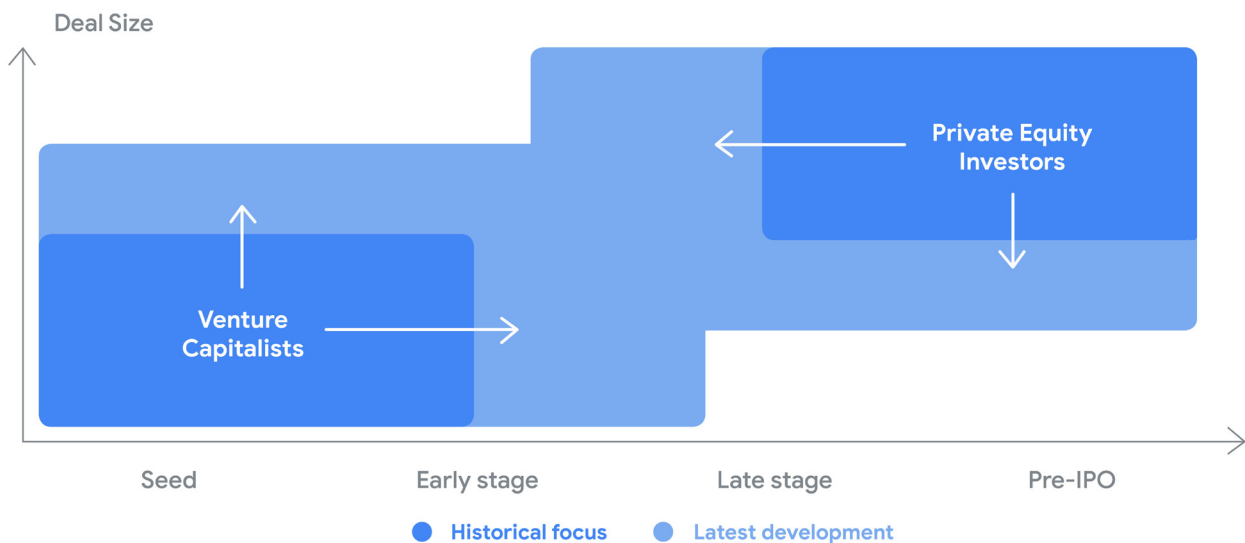
In the 2018 edition of our research, we identified a “financing gap” between Series B and Series C. That gap has now been bridged and, instead, shifted to Series C and D. Deals in the Series C and D bracket have risen in the first half of 2019 to make up 19 rounds, up slightly from 16 in the same period a year before. But the total amount raised has plateaued at \$600 million, down from \$700 million a year ago. This pales in comparison to the \$5 billion raised by Unicorns in Series E and above.

Late stage funding (\$B) 2016-H1 2019

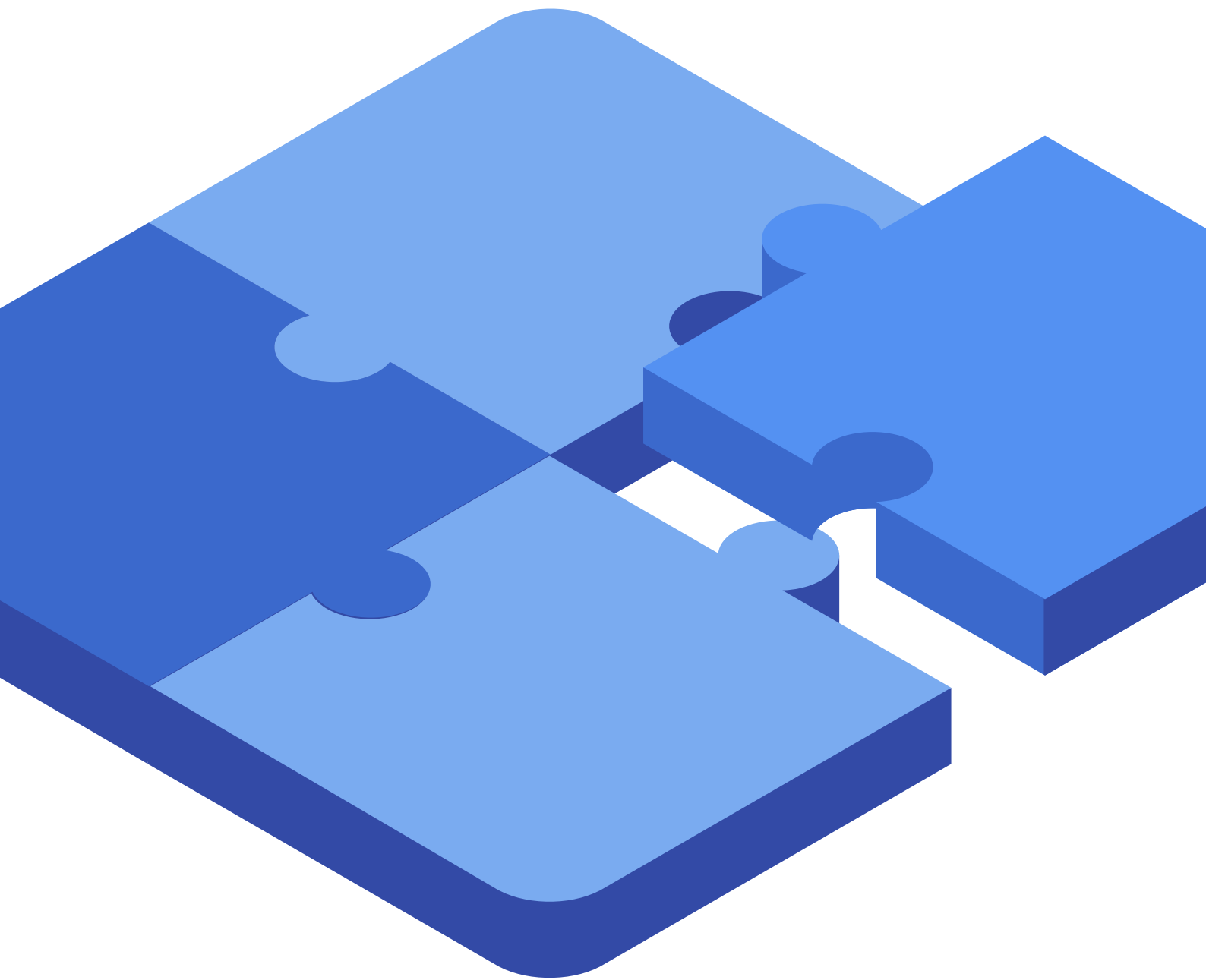


For Aspiring Unicorns to graduate, Southeast Asia needs more late-stage financing through investments that range from \$25 million to \$100 million and above, which are typically raised in Series C and D. But Aspiring Unicorns will first need to prove that they are able to rapidly grow their business either by successfully entering new markets, expanding to adjacent sectors or securing exceptional levels of user engagement and loyalty. In all cases, they have to demonstrate an ability to monetize their services and to operate with sustainable unit economics. For those that can hit these targets, a cadre of investors will be lining up to fill their coffers.

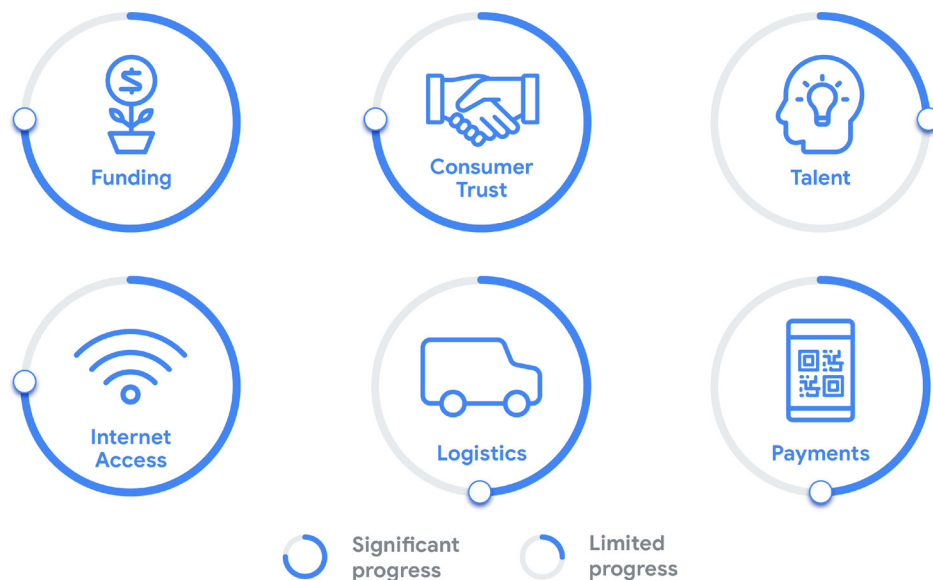
Meanwhile, venture capital investors are raising ever-larger funds to back their most successful investees for longer. Many shops — including Golden Gate Growth, Asia Partners, Vertex Growth and EV Growth — have set up “growth funds” with over \$200 million in capital to invest in this space. Private equity players like Northstar, KKR and Warburg Pincus remain active in the region’s Internet economy, while institutional investors are becoming more willing to enter earlier series. In short, more can be done to boost funding at Series C and D, but the unabated funding support for startups signals the strong potential the region holds for investors in the long term.



Ecosystem challenges are being resolved



In our previous e-Economy SEA reports, we identified six key challenges that had to be tackled in order to build a thriving Internet economy: Funding, Internet Access, Consumer Trust, Talent, Logistics and Payments. We have since been tracking the region's efforts in solving these challenges and have witnessed visible progress.



On Funding, investments in the region have clearly raced far ahead of expectations and remain healthy even in the current economic climate.

At the same time, the initial lack of Consumer Trust has been largely resolved. Today, over 180 million of Southeast Asians rely on Internet economy services for their daily activities, from transportation and travel to meals and entertainment. Over time, Internet economy companies have gained awareness levels comparable to storied household brands.

But most consumers remain unconvinced by other nascent online sectors, such as Education and Healthcare, which have yet to reach an inflection point. Startups from these sectors are hard at work on strategies to win consumers' confidence, often partnering trusted players of the traditional economy to develop and launch new services.

Three other challenges — Internet Access, Logistics and Payments — have turned into business opportunities for companies ready to tackle them. This points to the entrepreneurialism of the Southeast Asian Internet economy: when problems arise, companies find solutions to address them, generating new revenue sources.

One example is Internet Access. A few years ago, a major complaint among users in the region was that mobile connectivity was slow, expensive and poorly distributed. Today, access has improved even outside the big cities, and prices have dropped significantly as mobile speeds caught up. The launch of mobile virtual network operators (MVNOs) has played a big part in changing the landscape, stirring competition and driving down the prices of prepaid services. Telco companies have teamed up to boost usage of these services, bundling Music and Video Streaming apps in zero-rated mobile plans. Tech companies have also launched apps that are optimized for lower data consumption and can work offline or with patchy connectivity. This makes it easier for users to enjoy the services without burning through their data quotas.

The rise of Logistics startups like J&T and Ninja Van is another example of how a challenge can be turned into an opportunity. In line with rising e-Commerce demands, these companies have built processes primed for delivering millions of parcels. They rely on technology to do this well by optimizing their fleets and delivery schedules. This, in turn, has allowed them to compete effectively against the established players.

Now with nationwide deliveries as the norm, companies are racing ahead to offer next-day and same-day deliveries. Faster and more efficient deliveries translate to more satisfied customers. It is also an opportunity to transform the way consumers buy certain product types, such as groceries, and unlock more avenues for growth.

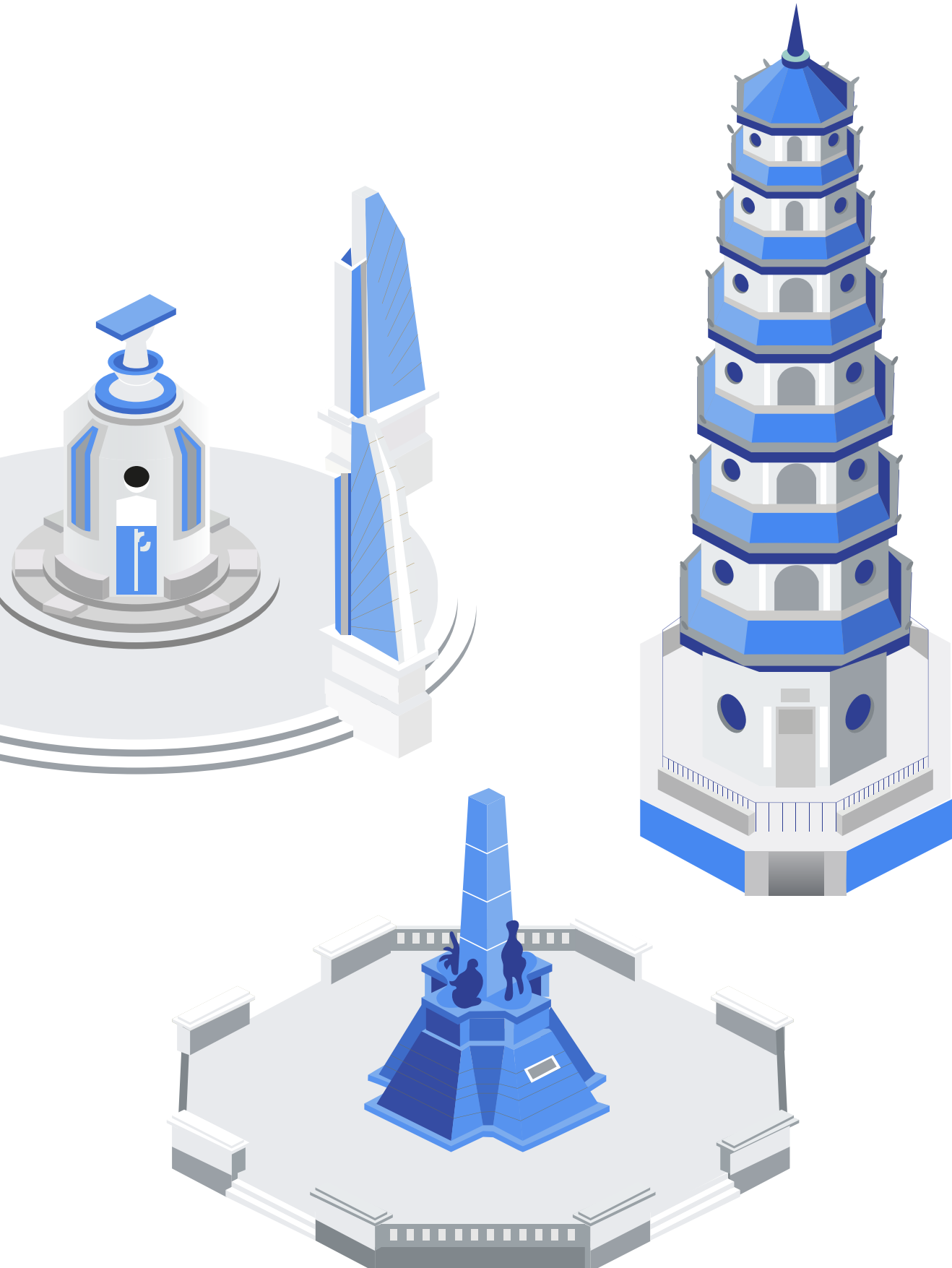
Consumer adoption and usage of Digital Payments, as discussed earlier in this report, have reached the inflection point. At the same time, merchant acceptance of these services is on the rise, both online and offline. A positive flywheel has finally started to spin across Southeast Asia. It is oiling the Internet economy, easing choke points in checkout processes and cutting costs in cash management and returns.

That said, the lack of readily available Talent remains an unresolved challenge for the ecosystem. Southeast Asian Internet economy companies have launched upskilling programs to “fill the gap” in digital skills amid tight labor markets. They have also hired senior professionals from the likes of banks, retailers and global technology companies to manage new business units and increasingly complex organizations.

The good news is that the Internet economy is maturing to a point where seasoned founders and early employees from the first wave of startups are emerging to lead new ventures and pass on their experience. Southeast Asians who moved abroad to study and start their careers are also responding to the call, with more heading home to join or found startups. This “reverse diaspora” — one that was unheard of only a few years ago — is yet another show of confidence in the future of Southeast Asia’s Internet economy.

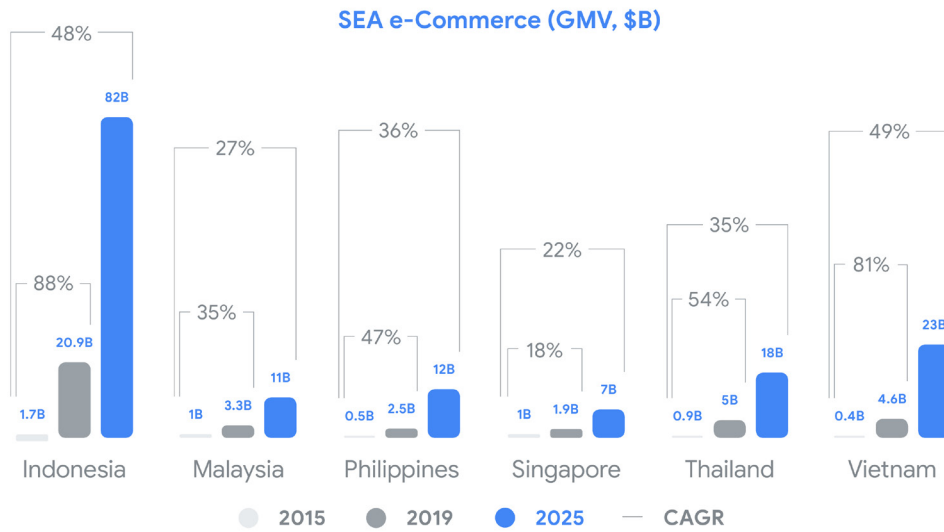
With increased Consumer Trust, steady investor confidence and critical enablers like Internet Access, Logistics and Payments being addressed, different pieces of the puzzle are falling into place. While the journey to the first \$100 billion may have been full of surprises, the best days of Southeast Asia’s Internet economy are clearly ahead.

Appendix

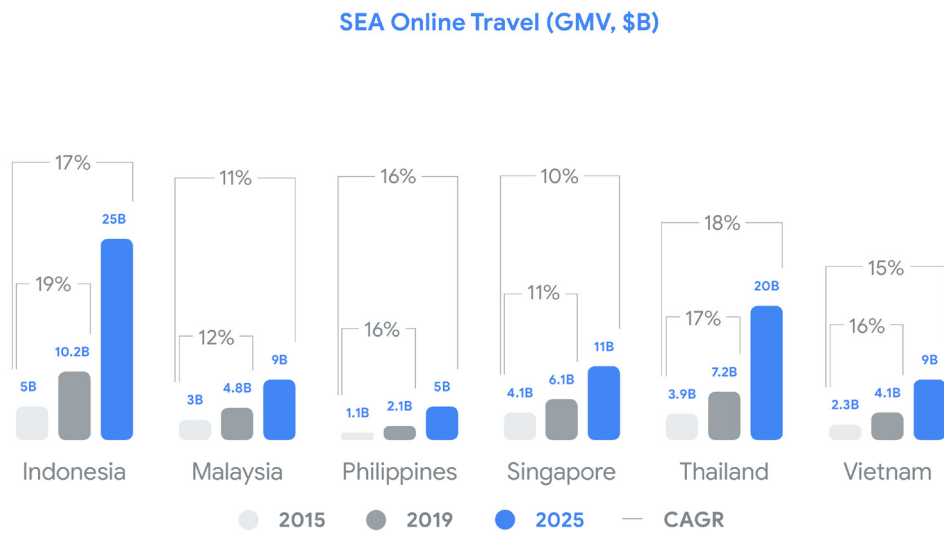




e-Commerce



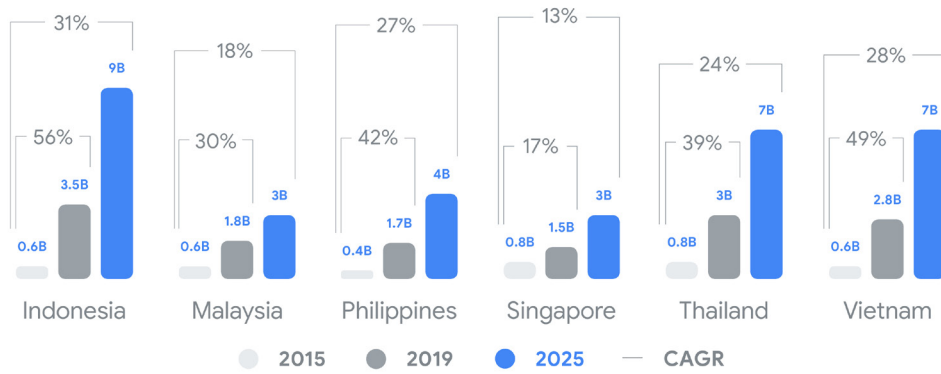
Online Travel





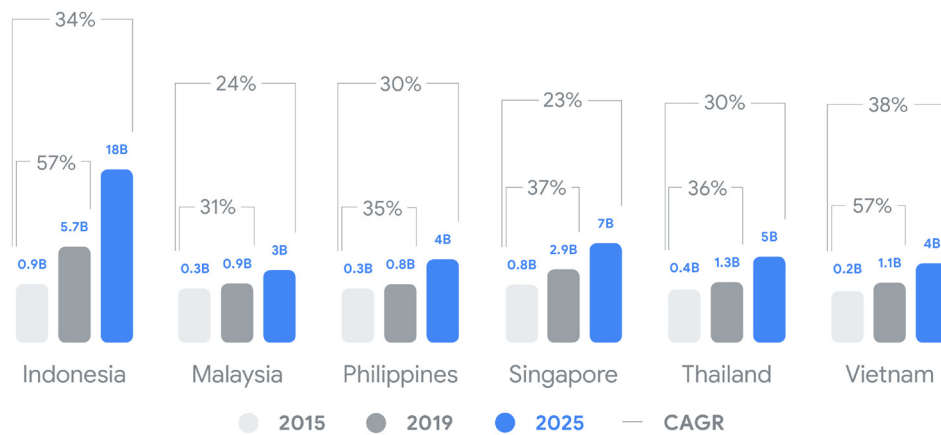
Online Media

SEA Online Media (GMV, \$B)



Ride Hailing

SEA Ride Hailing (GMV, \$B)



e-Conomy SEA 2019

Swipe up and to the right:
Southeast Asia's \$100 billion Internet economy