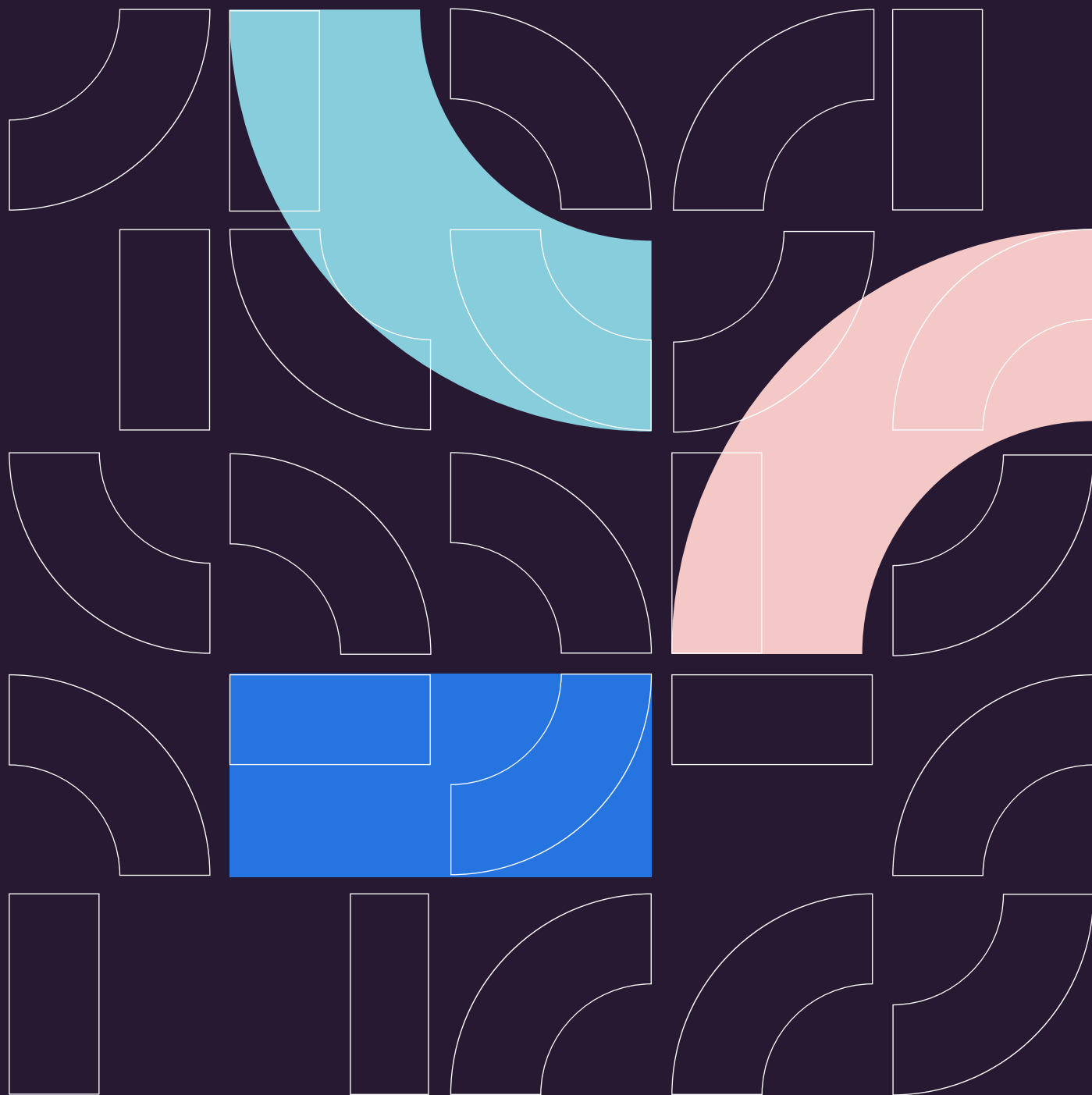


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Southeast Asia: The New E-commerce Frontier

Dive into expert insights from across the region

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Introduction

In a world thrown into uncertainty by the global pandemic, it's good to have some sureties to hang on to. One of these is the dynamism and robustness of Southeast Asia.

According to the Asian Development Bank (ADB), the region's economy will contract by just 3.8% in 2020 [1].

Compare this to other affluent markets — the OECD forecasts that the eurozone will contract by 7.9% in 2020, Britain's economy by 10.1%, and the world's by 4.5% [2] — and it becomes clear what a good result that is.

And by 2021, the region will be growing once more at a rate of 5.5% [1].

Even better, this economic buoyancy shows up clearly in the region's e-commerce market. Even before the pandemic, according to PPRO's own data, the region's top-5 e-commerce markets were growing at a rate of 27.3% [3].

In the next few pages, we take a look at five of the hottest e-commerce markets in Southeast Asia, with an emphasis on the e-commerce trends merchants most need to understand if you're going to provide Southeast Asian shoppers with a customer experience that will win trust and market share.



Indonesia: A Market Overview

Indonesia's e-commerce market is booming. At the start of 2020, it was worth US\$14 billion and was growing at a rate of 31% a year [3]. Unsurprisingly, the pandemic has accelerated the growth of online shopping. 55% of Indonesian consumers say they are now buying more online than they were before the pandemic hit [4].

While it's still too early to compile the country's definitive 2020 e-commerce metrics, one recent report estimated that the value of Indonesian e-commerce would soon surpass that of India's [5].

Given that Indonesia's population is roughly a fifth of India's, this would indicate an astonishing rate of growth. Unsurprisingly, an initial key driver of e-commerce expansion during the pandemic was the healthcare category. Online sales of products such as disinfectants, thermometers and vitamins increased by 1,000% or more [6].

Recent reports expect Indonesian e-commerce sales to surpass India's this year [5]

The pandemic has also given a massive boost to online grocery shopping, the volume of which is forecast to grow by 400% during 2020 [7]. And according to research by Kantar, during the pandemic, 21% of Indonesian consumers bought medicines online for the first time [8]. For cosmetics that figure is 18%, for food 17%, clothing 17% and for electronics 12% [8].

All these "firsts" represent disrupted brand loyalties — whether to brands or the retailers who sell them. And for e-commerce merchants, that's an opportunity.

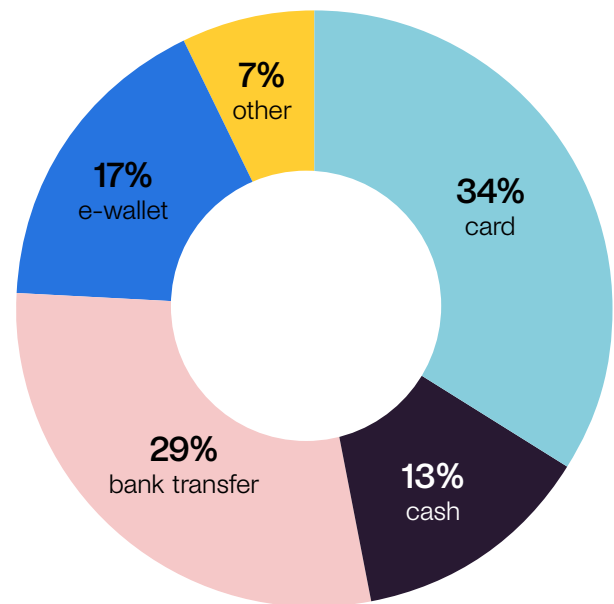


Less than 5% of Indonesians have a credit card

Indonesians pay for just one-third of online purchases with credit cards [3]. And most of those payments are made using local cards which most cross-border merchants won't support by default. Shoppers pay for the majority of transactions with bank-transfer apps, e-wallets, cash schemes and a range of minor payment methods [3].

Offering a range of local payment methods – specifically e-wallets, bank transfers, and cash-based payments – is vital if merchants are to connect with very large groups of Indonesian consumers.

Only by offering payments Indonesians trust, seamlessly integrated into the checkout experience, can merchants break into this lucrative market.



Indonesia: Popular Local Payment Methods



GoPay

Gojek's financial service app GoPay is the most used e-wallet in Indonesia, according to a recent study by iPrice and App Annie. It has been consistently on top since Q2 2019 in terms of monthly active users and downloads, and it currently has over 100 million users.



OVO

Founded in 2017, OVO is a hugely popular e-wallet offering lucrative cashback rebates for customers. During the pandemic, OVO has proven its staying power. According to The Jakarta Post, the e-wallet has seen a 267% increase in new users, with a 97% user retention rate.



DANA

Also founded in 2017, DANA has managed to boost its popularity rapidly, becoming the preferred e-wallet of e-commerce giants Lazada and Bukalapak. DANA is one of Indonesia's leading e-wallets, with over 50 million registered users and 3 million transactions per day. According to a recent study from iPrice and App Annie, OVO and DANA are amongst the top four e-wallets in Indonesia.



DOKU

DOKU offers vast e-commerce coverage with four payment types: e-wallet, internet banking, bank transfers and cash. Particularly popular is the DOKU e-wallet with over 2.5 million registered users – a number growing amongst Millennials. When customers prefer the cash payment option, participating convenience stores include the top two chains with 30,000 stores nationwide: Indomaret and Alfamart.



Malaysia: A Market Overview

The Malaysian economy is expected to contract by 5% in 2020, only to rebound in 2021 and expand by 6.5% [1].

Buoyed by the expectation of growth, Malaysians have a spring in their step; 63% have reported feeling confident about their future [10]. A recent report predicted a gradual growth of retail spending in the fourth quarter of 2020, continuing into 2021 [11].

Like most countries in the region, Malaysia saw massive growth in e-commerce during the height of the pandemic. Online sales in some categories — cooking utensils and latex gloves, for example — grew by 800% during lockdown [12]. Overall, the country's e-commerce volumes expanded by 149% during the first months of the pandemic [12]. The country's three most popular e-commerce sites during lockdown were Shopee Malaysia, Lazada and Food Panda [13].

Shopping habits also changed during the lockdown. Before, beauty products accounted for 6% of consumer goods imported into the country, during lockdown this doubled to 12% [14]. Clothes, toys and baby items, on the other hand, fell from 70% of all imports to just 60% [14].

“ Like most other countries in the region, Malaysia saw massive growth in e-commerce during the height of the pandemic. ”

Of all cross-border purchases made by Malaysians, over 60% come from China [3]. According to research by JP Morgan, 48% of the country's shoppers say they have already shopped from a cross-border site at least once [15].

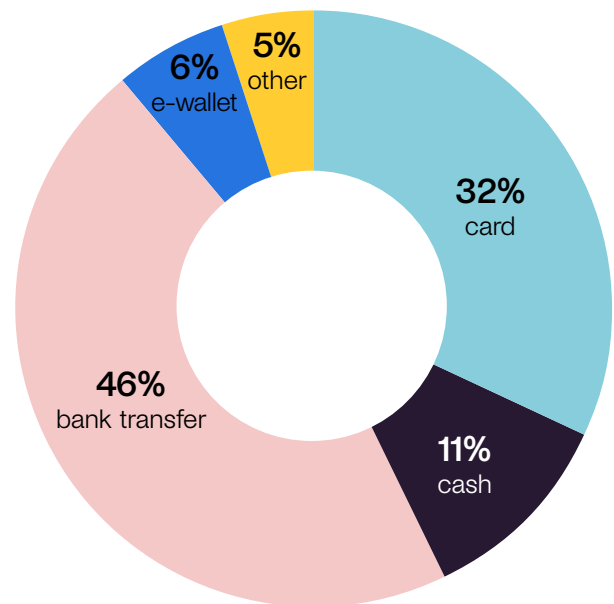
4 out of every 10 online purchases are made with merchants outside Malaysia [3].

Card transactions are less than a third of Malaysian e-commerce

Malaysians pay for almost half of their online purchases using bank-transfer apps [3]. E-wallets account for a further 6% of all online payments and cash a sizable 11% [3].

Unlike many countries in the region, all the cards in common usage are from international brands. Local card schemes do not have a significant presence [3]. A study carried out during lockdown suggests that further changes in the Malaysian digital-payment market may be underway. 40% of consumers say that they are using e-wallets more than they did pre- lockdown [16].

Before lockdown, e-wallets were only used in 6% of all digital payments, by volume [3]. If 40% of shoppers are using e-wallets more than they were pre-COVID, even if some are only using them for a small volume of purchases, that suggests a significant shift to digital payments over the last year.



Malaysians pay for just 32% of online purchases using credit cards.

Malaysia: Popular Local Payment Methods

The e-wallet landscape in Malaysia is crowded, but Boost, Touch 'n Go, and GrabPay have an edge; they were recently selected by the government as partners for a cash disbursement scheme to help push digital payments.



Boost

Boost is a popular lifestyle e-wallet which provides cash-back and rewards to consumers. It has seen explosive growth since 2017, particularly with younger consumers (ages 18-34), and is accepted by over 120,000 merchants in Malaysia.



GrabPay

GrabPay is an e-wallet, a part of the Grab super app – which is incredibly popular across the entire region of Southeast Asia. GrabPay, which has recorded 20 million downloads of its app in Malaysia, is accepted at more than 30,000 participating merchants.



Touch n' Go

Touch 'n Go is a digital wallet and online payment platform, established as a joint venture between Touch 'n Go and Ant Financial. Touch n' Go began as a contactless payment for toll roads, but it is now an e-wallet with 15 million users. This means roughly 1 in 2 Malaysians is using Touch 'n Go!



FPX

A popular bank-transfer method, Financial Process Exchange (FPX) allows Malaysians to pay at the checkout in just a few clicks. It offers wide consumer coverage; all major Malaysian banks participate in FPX.



The Philippines: A Market Overview

The number of vacant retail premises is forecast to rise by 12% in 2020, as brick-and-mortar shops either adapt to new conditions or close [18]. There are encouraging signs that many will successfully adapt. The number of registered online business has increased by a factor of forty [19].

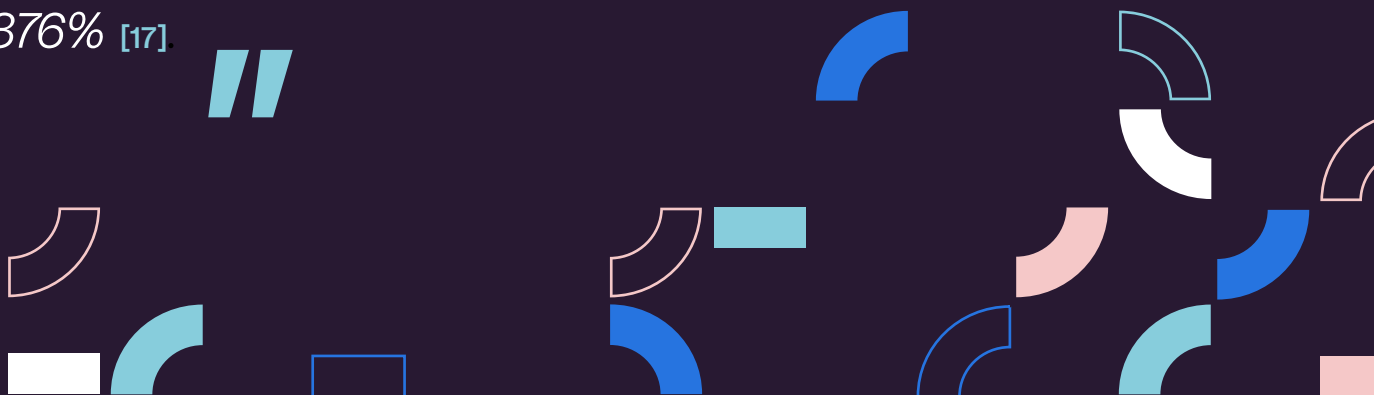
Almost 70% of Filipino shoppers bought groceries online during the pandemic [20]. Health products were next, bought online by 47% of male shoppers and 52% of female shoppers [20]. Surprisingly, both sexes bought household cleaning products online in exactly the same proportion, 34% [20].

// *During the first six months of 2020, the volume of Filipino e-commerce grew by 376% [17]*

The big differences emerge in the categories of technology (23% of male shoppers but just 13% of female) and beauty products (11% of male but 22% of female shoppers) [20].

A survey of Filipino consumer behavior during the pandemic found that women spend more time online than men. 60% of women spend seven hours or more online each day, compared to just 45% of men [18]. On average, locked down consumers were spending around three hours a day doing online shopping [18].

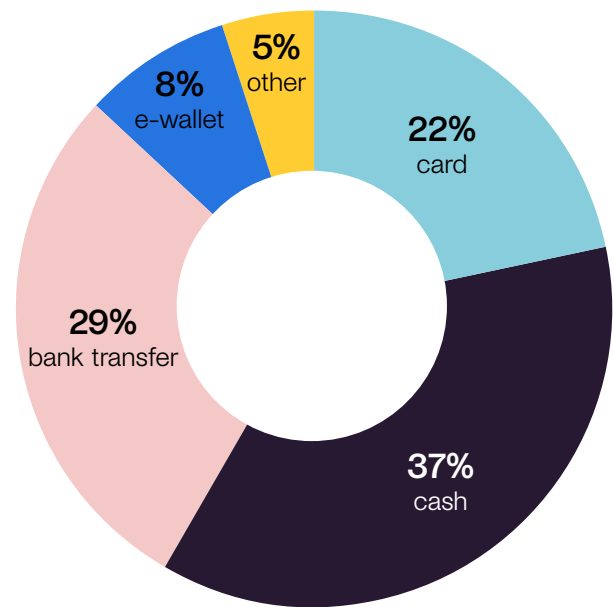
The pandemic has hit consumer sentiment in the country hard. The Bangko Sentral ng Pilipinas consumer confidence index hit -54.5% in the July-to-September period, the lowest value since the survey's inauguration in 2007 [21]. However, there is reason to be optimistic for 2021. The Asian Development Bank forecasts growth for the Filipino economy of 6.5% [1].



Cash-based payments are wildly popular in The Philippines

The most common form of payment in The Philippines, used in 37% of online transactions, was cash [3]. Customers use services such as Dragonpay to obtain a transaction code at the online checkout. They pay cash instore, at a participating retail outlet, using the code to match the payment to their online purchase.

Millions of Filipinos use Dragonpay and similar online cash-payment services. Without access to these payment methods, merchants will be locked out of much of the country's e-commerce market and will find it difficult to prosper in the Philippines. The same is true of access to the country's many local digital payment methods such as e-wallets and bank-transfer apps.



Local Payments 101: How do cash payments work online?

At online checkout, the shopper selects their preferred cash-based payment method. The payment method generates a transaction number or barcode the customer can take into a local convenience store, kiosk, ATM, or other location. Once the customer pays for their purchase in cash, the goods can be shipped.

Why consumers love cash:

It's perfect for anyone who doesn't have a bank account or credit card, or are concerned about privacy and security.

Why merchants love cash:

Payment guarantees, low risk of chargebacks, and it's often cheaper than accepting payments via international cards.

The Philippines: Popular Local Payment Methods

The Philippines is steadily adopting digital payments as part of a state-led drive to boost financial inclusion.



Dragonpay

Dragonpay should not be confused as an e-wallet. It's an online payment platform that allows merchants to accept payments via non-traditional methods, which is important in a market that still prefers cash. Dragonpay allows consumers to pay for online purchases with cash or check at physical, brick-and-mortar payment counters, ATM's, mobile wallets or through online bank debit.



GCash

Ant Group-backed GCash is the Philippines' top e-wallet, which saw 10 million downloads in the first nine months of 2020. GCash allows its users to pay for online purchases, pay bills, send money and more.



PayMaya

PayMaya is one of the Philippines' most popular mobile banking apps. It's experiencing high growth amidst the pandemic; per PayMaya's data, it processed 300% more payments in September 2020 compared to the same period in 2019.





Singapore: A Market Overview

The five biggest e-commerce platforms in Singapore saw their visitor numbers increase by 10% to 82% during lockdown [22]. During that time, the average basket value increased by 51% compared to the same period in 2019 [22].

According to research by Nielsen, almost 40% of Singaporeans have started doing more of their shopping online during the pandemic [23].

// 76% of Singaporeans say they do not expect to return to their pre- coronavirus shopping habits [23].

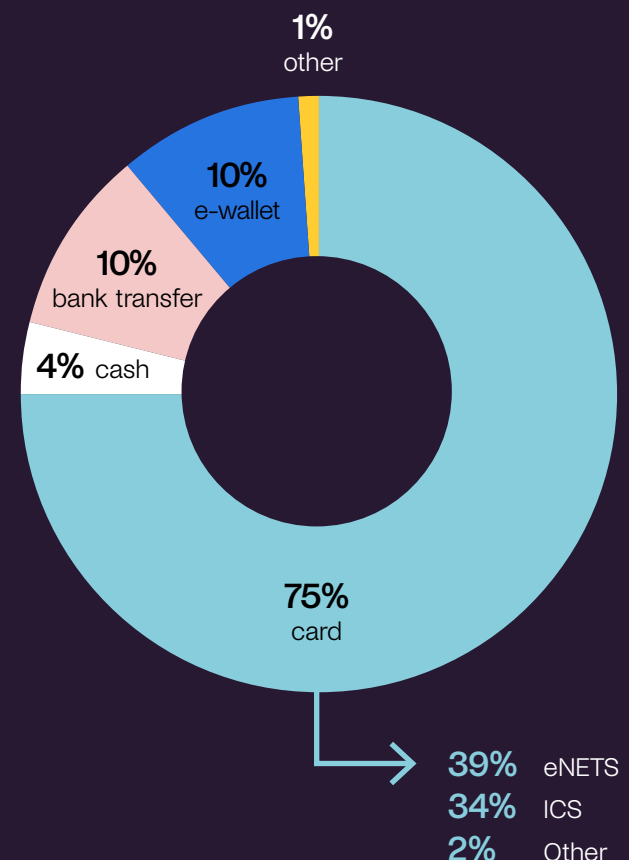


Grocery was a big winner from the change in consumer behaviors. 70% of Singaporean consumers now buy food and other household items online — something which Nielsen predicts will continue long term [23].

The Asian Development Bank predicts that the Singaporean economy will grow by 4.5% in 2021, following a contraction of 6.2% in 2020 [1].

This is something of a shock to the system for the city-state, which has not seen its economy contract — as opposed to simply seeing the rate of growth slow down — since 2001 [24].

The good news is that the country's government is not taking the situation lying down. In August it announced a package worth US\$5.8 billion to support the economy [25]. Added to other support measures, this brings the amount of state aid delivered during the pandemic to US\$100 billion [26].



Digital payments rising rapidly in Singapore

At first glance, Singapore looks like the exception in this report. Shoppers pay for 75% of all online purchases using credit or debit cards, in stark contrast to the other markets under review [3]. So, an easy market for cross-border merchants to enter? Not so fast.

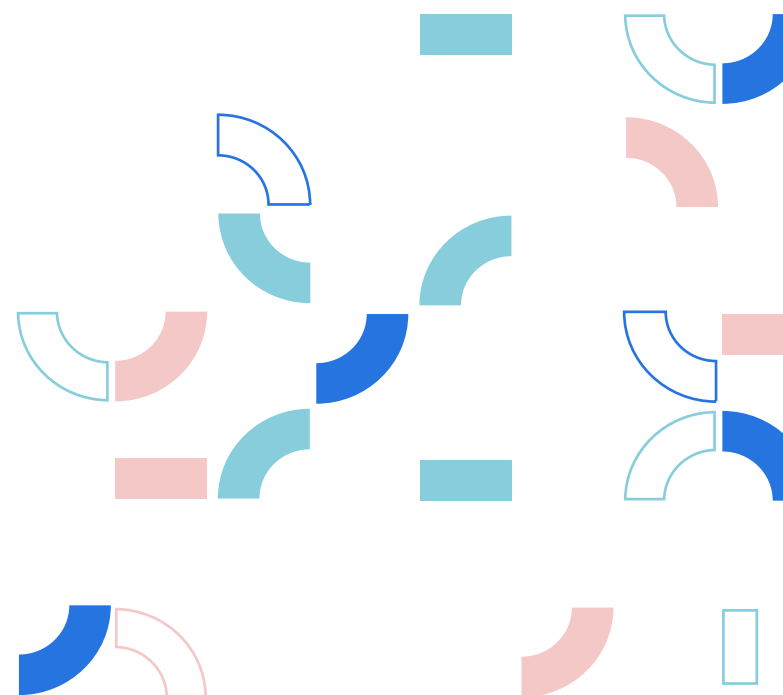
54% of the online purchases bought with a card, were paid for using something other than Visa, Amex or Mastercard. Usually, they were paid for using a local card of the kind non-Singaporean merchants won't normally support [3].

The value of the transactions paid for with these local cards is an estimated US\$2.3 billion [3]. Add to that the 25% of transactions paid for using local payment methods (e-wallets, bank-transfer apps and so on) and the value of e-commerce transactions not paid for using global-brand credit cards rises to US\$3.7 billion [3].

What's more, there are signs that the pandemic is already shifting consumer payment preferences. Showing a significant shift from cash and cards to digital payments, 78% of Singaporeans report they have no intention of going back to their old habits once the pandemic is over [27].

A recent study found that 3 in 5 Singaporeans have ditched cash for cards and digital payments during the pandemic [27].

This trend has been accelerated by targeted government policies, supported by US\$365 million, to encourage businesses to go cashless [28]. Any merchant planning to break into the Singaporean e-commerce market must be serious about integrating locally preferred payment methods.



Singapore: Popular Local Payment Methods



GrabPay

Covered in the Malaysia section as well, GrabPay is incredibly popular across the whole region. Online merchants have an opportunity to grow their reach in Singapore with GrabPay: there are over 4 million Grab users in Singapore, and 75% are already using GrabPay daily.



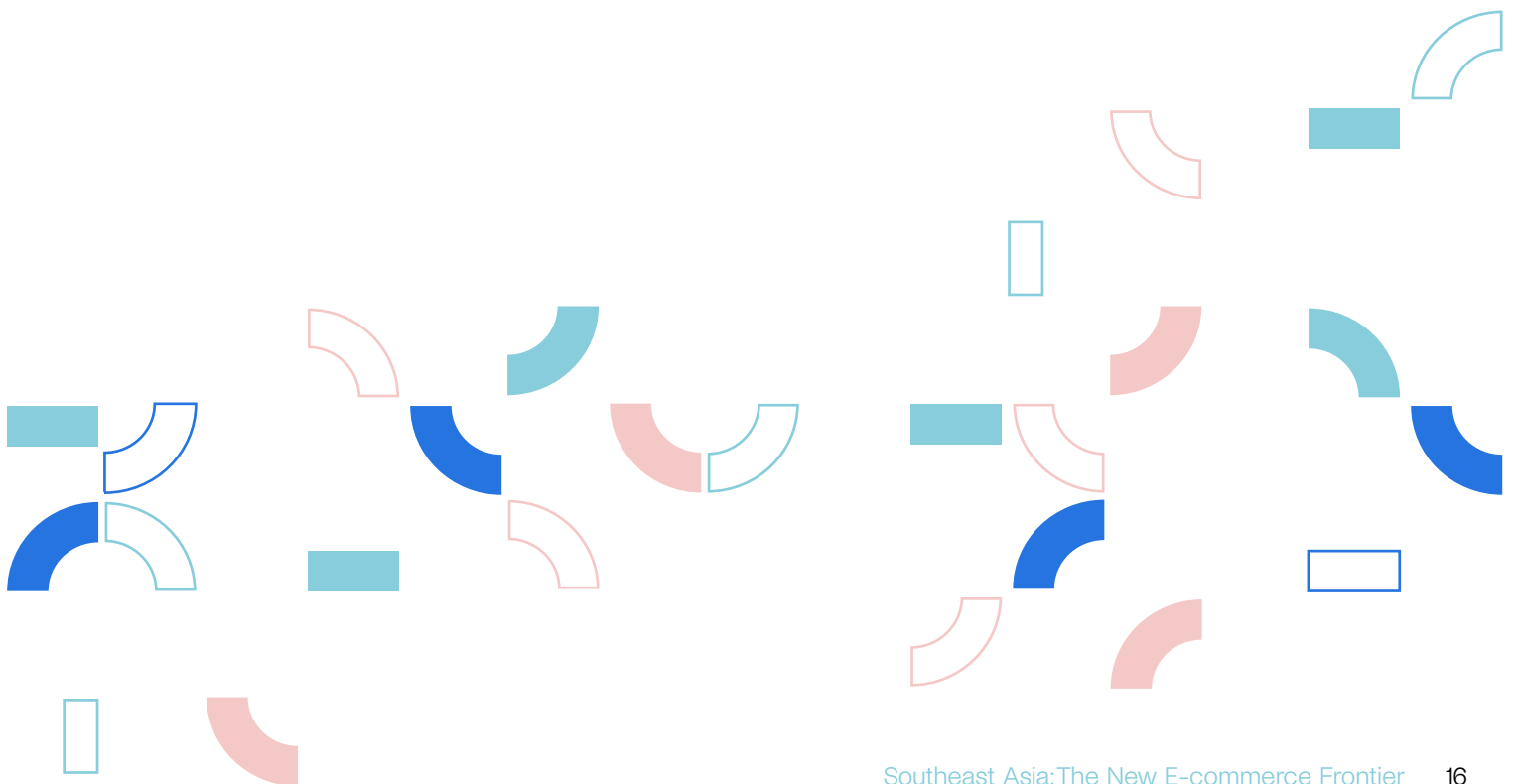
PayNow

PayNow is a real-time bank transfer payment method available to customers of 9 participating banks in Singapore. It has significant consumer coverage – bank penetration in the market is 98%.



hoolah

hoolah, is a Buy Now, Pay Later (BNPL) payment solution that offers consumers the option of completing their purchases in three separate interest-free monthly payments. Like many other BNPL payment methods, hoolah has seen triple-digit growth during the pandemic.





Vietnam: A Market Overview

Vietnam is a star performer of 2020: the only Southeast Asian economy in this report to grow in the year of the pandemic, by 1.8% [1].

In recent years, the country has successfully expanded its manufacturing base. American trade policies, which encouraged firms to diversify their supply chains, have helped Vietnam attract more investment and create more industrial jobs. And the results are there for anyone to see, with growth next year predicted at 6.3% [1].

Surprisingly, consumer confidence is down. Despite a successful effort to contain the virus — as of October 2020 — and a growing economy, only 5% of Vietnamese say they expect next year to be better than this year.

That's down from 70% when the same survey was conducted in January 2020 [29]. This relative gloom seems to be a result of falling demand for low-value-add goods made by many Vietnamese factories. Firms producing components for consumer electronics and complex consumer goods have seen orders continue to come in; companies making less complex products aren't as lucky [30].

As with other countries in the region, Vietnam has seen its e-commerce sector thrive during the pandemic. The average value of each order on Vietnamese e-commerce sites rose by 31% in the first half of 2020 [31]. The biggest rise was in the value of online grocery shopping, which increased by 42% [30] with cosmetics and healthcare a creditable second at 21% [31].

“ Even before the pandemic, the value of Vietnamese e-commerce was growing at a staggering rate of 26% a year [3]. ”

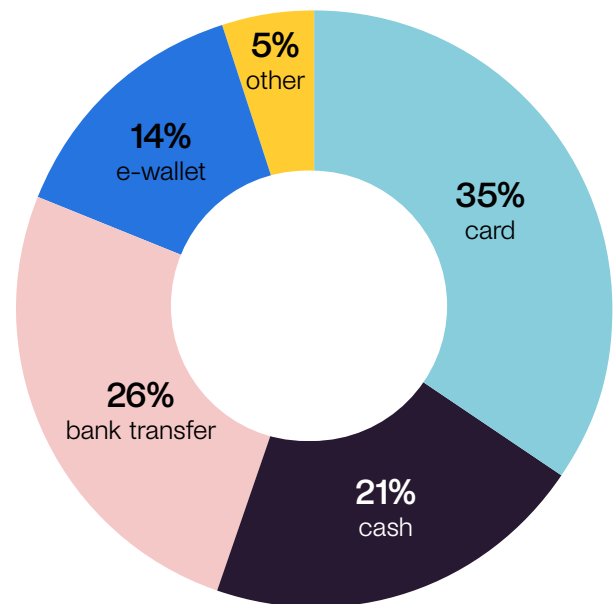
With the boost provided by lockdown, there's every reason to expect that this rate of expansion will increase substantially, at exactly the time when Vietnamese consumers are becoming more prosperous. In the last ten years, the average income in Vietnam has more than doubled [32].

Vietnamese e-commerce is dominated by local payment methods

65% of all online transactions in Vietnam are paid for using something other than a credit or debit card [3]. And of the 35% paid for by card, 90% are bought using something other than one of the global-brand credit cards with which most people are familiar [3].

Vietnamese consumers use e-wallets in 14% of transactions [3]. Local e-wallets such as VTC Pay and Bao Kim are important to the many Vietnamese shoppers who do not have standard credit cards but who wish to pay with speed and convenience (credit card penetration is just 4%). The same is true of local bank-transfer apps, which are used in 26% of online transactions [3].

Cash, used in 21% of online purchases, is also likely to remain important to the e-commerce sector for some time to come.



“ Only by accepting locally preferred payment methods can merchants hope to win over Vietnamese consumers and gain significant market share in this fast-growing digital economy.



Vietnam: Popular Local Payment Methods



VTC Pay

VTC Pay – one of the biggest payment methods in the Vietnamese market – offers 3 main ways to make payments online: bank transfer, e-wallet and international credit card. Native to Vietnam, VTC Pay lets over 3 million users pay directly online.



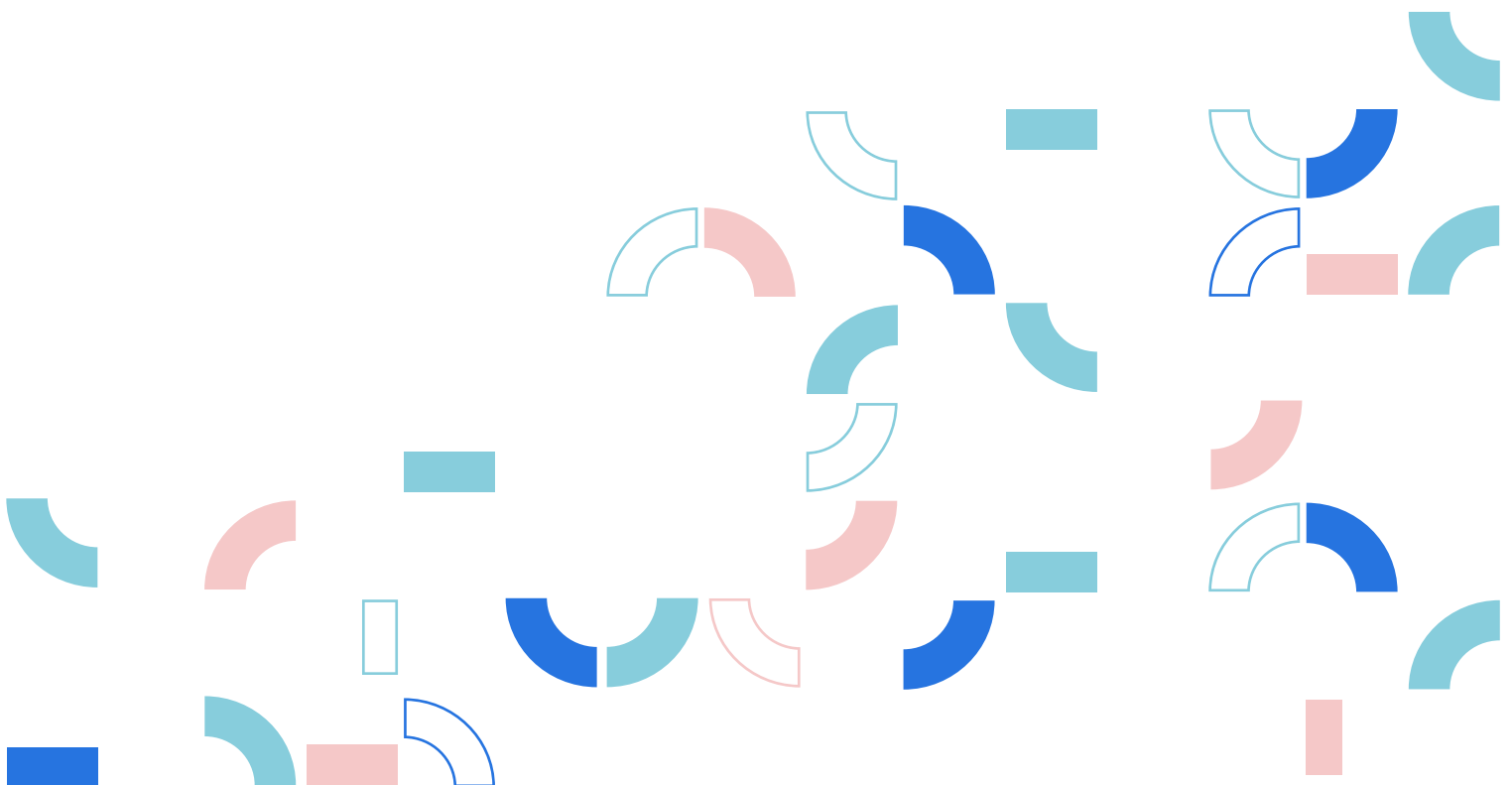
MoMo

MoMo is Vietnam's leading mobile e-wallet and over-the-counter remittance and payment platform. It processes millions of transactions for a large and growing customer base of over 2.5 million people.



ZaloPay

ZaloPay is a mobile e-wallet built on top Zalo, the top messenger app in Vietnam – even more popular than international players like WhatsApp.





Payments localisation in Southeast Asia is key

Any e-commerce merchant or PSP looking for the next booming online market for goods and services need to look no further than Southeast Asia. The area was already up and coming before the pandemic.

Now the after-effects of lockdown and changing geopolitical trends are likely to amplify its economic importance even more. The populations in the region are young, entrepreneurial, connected and already comfortable with shopping online.

But it's a mistake to think that merchants from outside the area can simply turn up and expect to make it big in Southeast Asia.

These are highly discerning shoppers with their own distinct preferences and cultural mores. Localisation is key.

And this is nowhere truer than in the type of payments a merchant offers. If they don't see their preferred payment option at checkout, many shoppers will simply abandon the purchase. Merchants, and the PSPs who serve them, need to be able to integrate Southeast Asian payment methods, seamlessly and at speed.



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