

**TNB***Aura*

Perspectives: Offering the latest intelligence on  
emerging industries and business models

Social Commerce  
Edition



# The Investment Case For Social Commerce in Southeast Asia

Within this edition, we focus on the topic of Social Commerce, and ask ourselves the following questions:

- i. Why now and how large is the opportunity in SEA?
- ii. What will it take for a Southeast Asia champion to emerge?

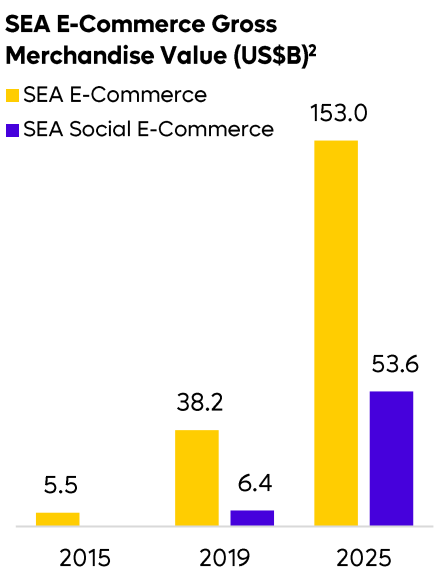


# Southeast Asia is primed for the emergence of Social Commerce

## The E-Commerce opportunity is shifting to 2<sup>nd</sup>, 3<sup>rd</sup> tier, and rural cities

Traditional E-Commerce have not been accessible to 2<sup>nd</sup>, 3<sup>rd</sup> tier, and rural markets due to low e-commerce literacy and trust, and the recent inception of Social Commerce has been a game changer for the underserved population.

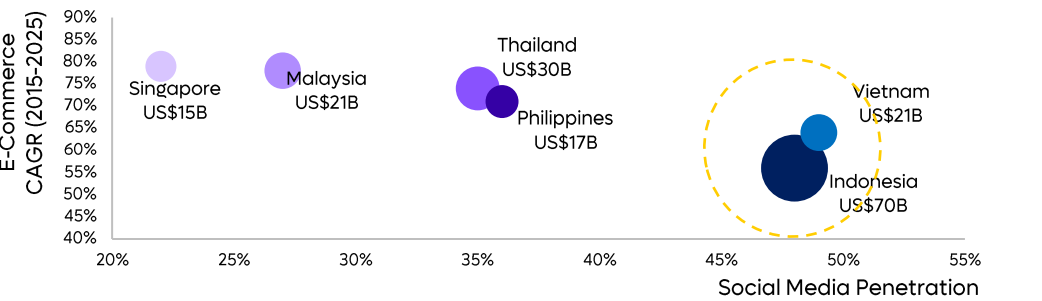
Observations from global precedents have shown that Social Commerce has been able to achieve faster growth<sup>1</sup> than overall E-Commerce by serving lower tier cities and rural areas.



## Huge Market Potential

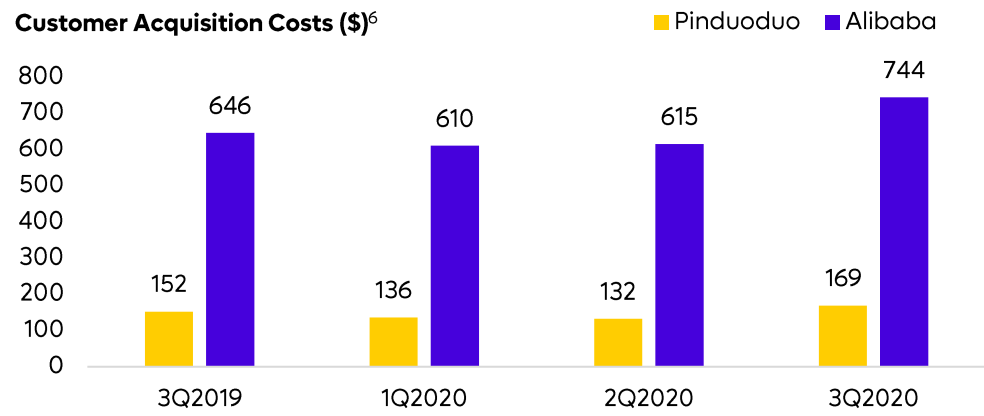
Across Southeast Asia, Indonesia presents the most potential with the largest E-Commerce market (US\$70B GMV in 2021<sup>3</sup>), along with high growth and social media penetration rates. With 2<sup>nd</sup>, 3<sup>rd</sup> tier, and rural areas still under penetrated yet representing >80% of the market<sup>4</sup> Social Commerce currently tackles an unmet Total Addressable Market (TAM) of US\$141B<sup>2</sup>.

Southeast Asian Markets, by GMV<sup>3</sup> against E-Commerce CAGR and Social Media Penetration



## Social Commerce offers better unit economics

A higher conversion rate of 6% - 10% in Social Commerce vs 0.3% - 0.4%<sup>5</sup> in traditional E-Commerce models thereby suggests greater margins for merchants<sup>4</sup> and comparatively lower Customer Acquisition Costs.

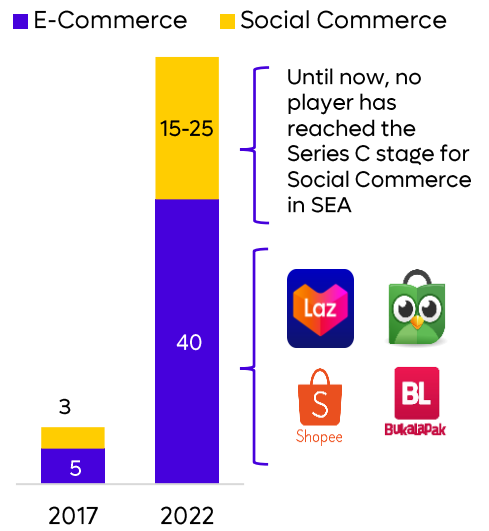


## Until now, a clear winner has not emerged

The Social Commerce market in SEA is rapidly emerging with only one player reaching Series C stage in SEA thus far, signaling that the market is primed for a winner.

With regional E-Commerce unicorns currently predominantly 1<sup>st</sup> tier cities in Southeast Asia, Social Commerce operates in a blue ocean and presents new opportunities from existing incumbents in E-Commerce.

Social Commerce and E-Commerce in SEA (Deal Count)



# Key Success Factors

## ● Hybrid Business Model

In Southeast Asia, business models in Social Commerce typically adopt one of 4 models of Group Buying, Community Buying, Membership-based, and Content Sharing.

**We believe a hybrid approach of both Community and Group Buying is required** to optimize players’ reach by lowering CAC, operations, and logistic costs while facilitating sufficient demand density in lower tier cities.

## ● Critical Mass

The market has reached an inflection point driven by the overall maturing of the E-Commerce market, social media penetration and GDP per capita.

**Building localised critical mass (e.g., by town / city) will be key in achieving economies of scale** necessary to address 2<sup>nd</sup>, 3<sup>rd</sup> tier, and rural markets which represent >80% of the Indonesian population<sup>1</sup>.

## ● Navigate Local Nuances

Relevant operational expertise in FMCG along with strong supply chain know-how are key to developing a winning model in the market.

Deep on-the-ground operating capabilities allow **hyper-localisation necessary to cater to local nuances.**



## Supply Chain Optimization ●

With a less mature logistics infrastructure (e.g., vis-a-vis China), successful players will **require self-managed warehouses combined with outsourced logistics to optimize supply chains**, such as through the Consumer to Manufacturer (C2M) approach.

Other capabilities include the optimization of concentrated orders and pre-order models, as well as leveraging on community leaders for last-mile fulfillment.

## Strong Unit Economics ●

With E-Commerce players mostly competing in 1<sup>st</sup> and selected 2<sup>nd</sup> tier cities, the CAC for traditional e-Commerce models has been increasing as growth of internet shoppers begins to flatten, yet marketing costs continue to accelerate.

By leveraging on community leaders to aggregate orders, the average order value increases, lowering the logistics cost in respect to GMV through deliveries made in bulk. **Strong product-market fit of Social Commerce in lower tier cities are crucial to minimise CAC and increase retention rates.**

**If you have enjoyed our insights on Social Commerce in Southeast Asia, please reach out to the team to get access to our full research sector sprints**

