DBS

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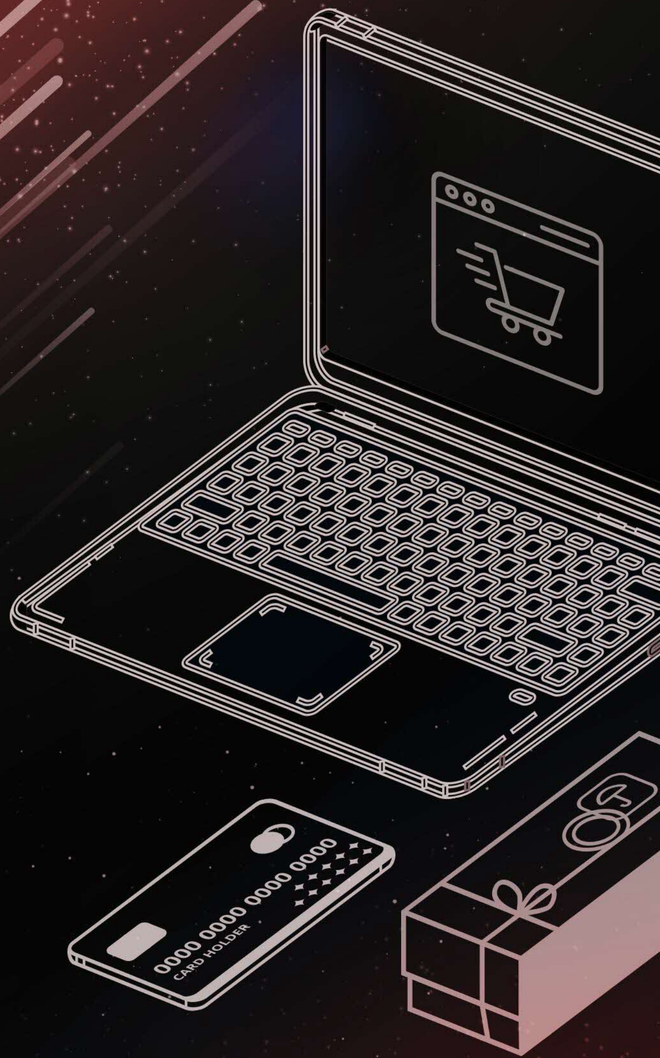

Accelerating growth in the age of e-commerce

How businesses can unlock strategic value in their e-commerce ambitions

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Executive summary

E-commerce is disrupting business models and growing at an exponential rate, especially in Asia-Pacific. This is largely due to changing consumer behaviours – in particular, accelerated demand for e-commerce since the pandemic.

The Asia-Pacific region is expected to drive 90% of global e-commerce growth between 2021 to 2026. Business leaders in the region looking to capitalise on this should now be investing in strategies that involve both sound partnerships and technology as critical elements.[1]

These leaders must also work with their treasury teams and other colleagues to collectively understand the nuances and applicability of different e-commerce strategies.

The foundation of a successful e-commerce strategy lies first in establishing robust risk management and appropriate cash management structures, to minimise payment friction for consumers and the broader business. This will require both internal and external collaboration.

One example might be to lean on treasury departments' relationships with financial institutions to create joint marketing campaigns that increase gross merchandise volume (GMV) transacted online. Similarly, businesses using e-commerce platforms can also engage with banks to help their merchants access financing via non-traditional parameters, such as inventory levels and sales deliveries.

Technology has an increasingly vital role to play in e-commerce-enabling cash management. For example, virtual accounts allow e-commerce merchants to open corporate wallets with the functionality to receive sales collections and make third-party payments.

These virtual accounts, coupled with application programming interfaces (APIs), can also enable the automation of payments, saving e-commerce users time and ensuring greater reliability.

The rise of data analytics is also proving to be an important e-commerce enabler. Businesses in Asia-Pacific have an ever-increasing volume of consumer payment and transaction data. This data can be used to generate insights that support the fine-tuning of e-commerce business and marketing strategies.

In this white paper, we discuss ways business leaders and their treasury colleagues can together define a commercially viable e-commerce strategy. Using real-world examples, we present the go-to-market models and regional payment preferences for e-commerce in Asia-Pacific. Additionally, we discuss how partnerships can elevate booming e-commerce businesses across sales and marketing, customer acquisition, and retention.

Introduction

E-commerce has been disrupting sales models for years, though its impact accelerated during the years following the onset of COVID-19.

Asia-Pacific is an e-commerce powerhouse;[2] the region will contribute 90% of global e-commerce growth[3] between 2021 and 2026. Consumer sales for this five-year period are expected to reach US$2.2 trillion globally, of which US$1.4 trillion will come from Asia-Pacific.

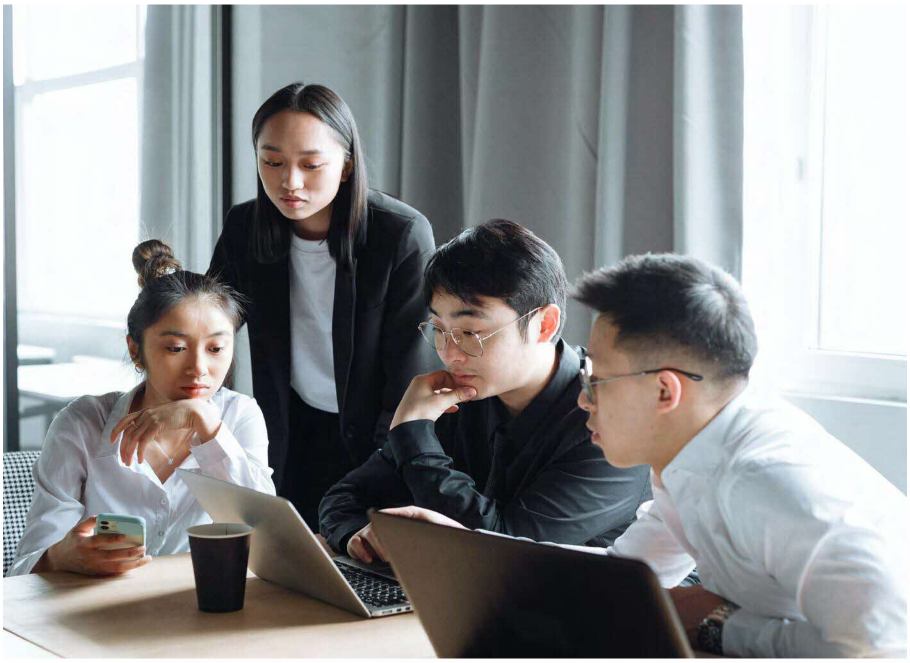
Within the region, individual countries are seeing varying levels of growth. India is projected to overtake the United States as the second largest e-commerce market in the world by 2034.[4] India's short-term e-commerce growth prospects are rapid: its market value is expected to reach US$111 billion by 2024, and US$200 billion by 2026.

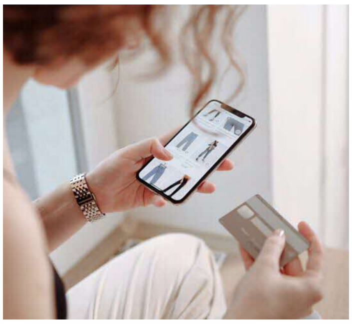
In Southeast Asia specifically, e-commerce sales grew five-fold[5] between 2016 and 2021, or approximately 40% annually. Within this region is the emerging powerhouse Indonesia, which recently became the ninth-largest e-commerce market in the world,[6] valued at US$43 billion in 2021.

And, of course, there's China: the largest and fastest-growing e-commerce market in the region.[7] China accounted for 64% of absolute value growth in 2020. And with a market value of more than US$99 billion, no other regional e-commerce market comes close.

In seeking e-commerce growth amidst the dynamic and fast-growing backdrop, regional business leaders and their treasury colleagues should work closely together, yet also look to their commercial partners. Such partnerships – often most naturally driven and supported by treasurers – could play a central role in driving seamless e-commerce growth.

Understanding the e-commerce landscape





Among the booming growth in e-commerce comes specific trends that businesses in Asia-Pacific – treasurers especially – should look to respond to.

"The emergence of new online business models and channels, such as social commerce, subscription services, and going direct to consumer (D2C), presents an excellent opportunity for treasury departments to be close partners to their business units in navigating these shifting trends," says Jason Zhou, Head of Digital Transformation Advisory, Global Transaction Services, at DBS.

Asia-Pacific's expected contribution to global e-commerce growth between 2021 and 2026[8]

E-commerce entry models

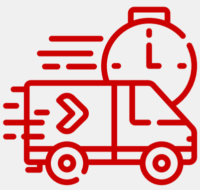
In the Asia-Pacific region, we see three distinct models currently being adopted by our clients as they explore the booming e-commerce market. Here, we highlight the pros and cons of each.

	THIRD-PARTY MARKETPLACES	DIRECT TO CONSUMER (D2C)	SOCIAL E-COMMERCE
HOW	Selling on established e-commerce platforms, such as: • Lazada • Shopee • Flipkart • Bukalapak.	Selling directly to consumers via: • Proprietary in-house web stores • Acquiring successful digital brands.	Selling through influencers or user networks on platforms such as: • Instagram • TikTok • Facebook.
PROS	• Quickest route to market • Enables faster growth due to the established presence of marketplaces with existing user or consumer bases.	• Allows companies to personalise the customer experience • Enables first-party data gathering while limiting customer data exposure • Builds customer loyalty.	• Functionality that enables accelerated sales periods (e.g., live streams, live selling, etc.) • Allows small and medium enterprises to more easily compete with established brands • Encourages repeat sales.
CONS	• May weaken brand identity • Limited pricing power and opportunities to deepen consumer relationships compared to other models • Possible reconciliation and settlement challenges.	• Slower route to market • Requires investment in payment and fraud-control technology.	• Experience caters mainly to retail consumers • Exposes sellers to potentially negative feedback that goes viral • Time-consuming[9] (i.e., need for constant content generation).

Spotlight on the D2C model

This model is an emerging force in e-commerce. The shift is happening gradually, given the significant investment needed from companies to get started. Yet, while only approximately 20% of D2C manufacturers are currently selling in Asia-Pacific[10], an additional 17% are poised to enter the region by the end of 2023.

Despite the steep curve at first, the advantage of following a D2C model is undeniable. According to Google Consumer Insights[11], D2C can drive sustainable growth and future-proof organisations in Asia-Pacific. The insights also highlighted that:



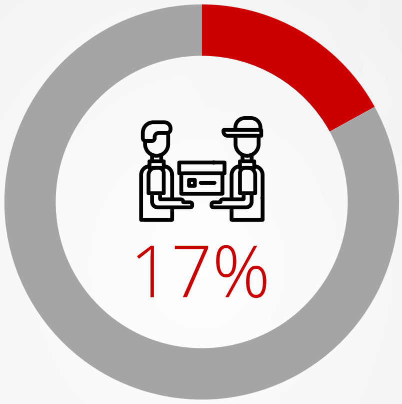
D2C builds brand trust and loyalty by offering authentic and differentiating experiences. For example, when Sephora customers in China complained about long delivery times for its online sales, the company quickly launched a one-hour delivery service that mimicked the instant gratification of an in-store experience.

D2C allows companies to gather timely first-party data and enhance data-driven e-commerce strategies. OnePlus, a consumer electronics brand with a widespread presence in Asia-Pacific, saw a 130% increase in revenue when it opened its D2C store. This influx of new data enabled it to improve its user experience.

China had a head start in the D2C space, providing a crystal ball lens[12] for how D2C could transform the region. Global brands such as Nike and Louis Vuitton use D2C strategies in China for communication and distribution for their brand-owned channels. The country is also seeing influencers combine D2C and social commerce, further disrupting traditional commerce models.

With D2C set for growth, the emergence of social commerce, and the proliferation and increasing preference for digital payments, financial structures across the region are under evaluation. Business leaders and their treasury colleagues should combine their insights and experience to build structures that drive long-term growth while managing financial risks.

The good news is that they don't have to do it alone. "Companies in the region have an opportunity to work with trusted partners to achieve the sound, strategic direction needed to optimise their e-commerce approach," says Mark Troutman, Group Head of Sales, Global Transaction Services, at DBS.



The percentage of D2C manufacturers set to enter Asia-Pacific by 2023-end[13]

The foundations of a successful e-commerce strategy

Understanding the payment preferences and nuances in a region as diverse as Asia-Pacific is an ongoing challenge. Yet, it's one that regional business leaders and their treasury colleagues should prioritise to build commercially sound e-commerce strategies. Equally important is establishing a robust approach to managing e-commerce FX risks in the region.

Key considerations when defining e-commerce strategies

CASH MANAGEMENT

- **Assessing relevant payment methods** in different markets
- Minimising payment and checkout process frictions
- Handling transactions at scale (i.e., consumer refunds)
- Managing system integrations.

RISK MANAGEMENT

- Managing financial partners
- **Managing FX risks**
- Regulatory risk management.

Assessing relevant payment methods in different markets

While digital payments are the preferred payment method in the region, given its diversity, preferences for digital wallets and online payment solutions are fragmented. Below are just a few examples of how markets within the region vary:

Digital wallets

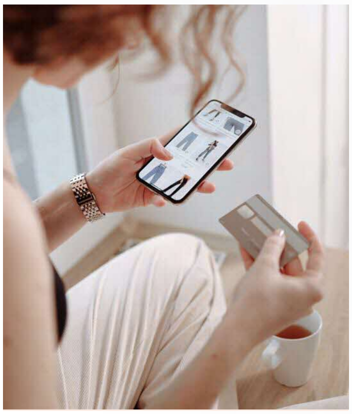
- The number of active daily users is rising fast. There are 39 million users of Paytm in India[14], generating an average of 5 million transactions daily. In comparison, there are 4 million active users in Singapore – a 70% adoption rate[15] in a country with a population of approximately 5.7 million.
- More than 70% of consumers in both China and Indonesia prefer digital wallets – Alipay and WeChat Pay in China[16] and GoPay in Indonesia.[17]

Cards

- Credit cards are still the preferred payment solution, especially in financially mature markets. In Singapore, cards were used to pay for 41% of e-commerce transactions in 2022.[18] Hong Kong has a penetration rate of 3.4 payment cards per person, accounting for 59% of all point-of-sale transactions in 2021.[19]

Knowing the most-used payment method by target market – and then integrating these frictionlessly into platforms of choice – will be essential for regional businesses. And as they learn and adapt, especially with the help of trusted partners, they'll be better able to improve customer experience and, ultimately, drive growth.

Managing FX risks



When selling internationally, providing customers the ability to pay in their preferred currency reduces the risk of cart abandonment.

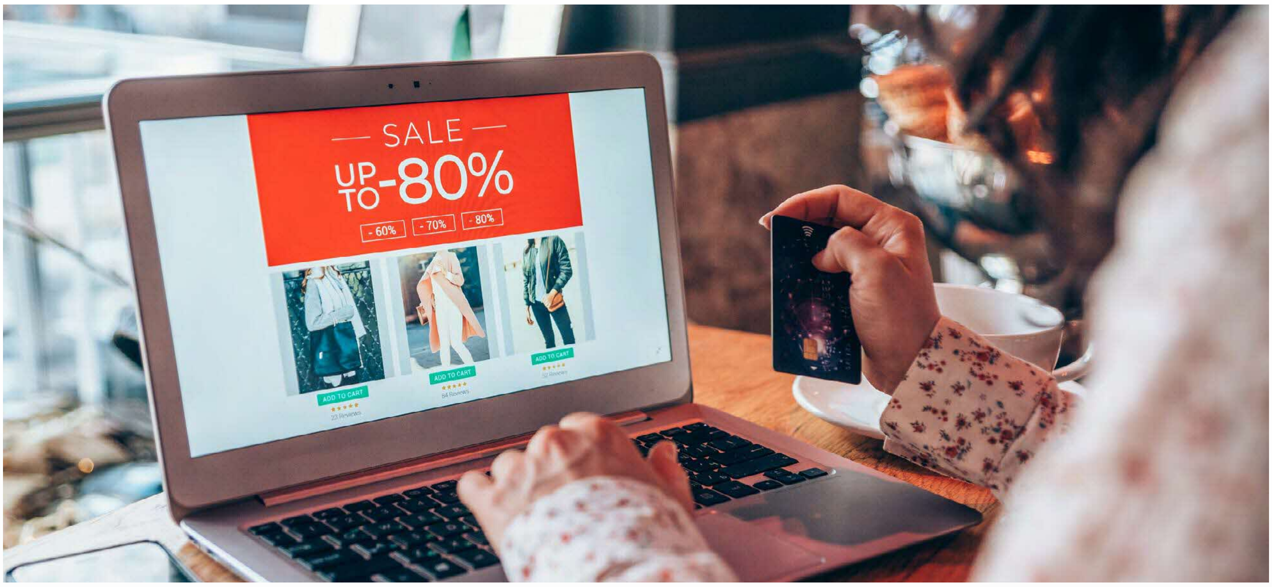
Consequently, business leaders and their treasury colleagues must decide on currency conversion and hedging strategies, in addition to partnering with their e-commerce business teams, to identify where FX costs can be optimised in the lifecycle of an online purchase.

Businesses should consider API solutions that can automate the discovery, publishing, and execution of FX rates and transactions related to their sale. This will help mitigate FX risks, and lower overall costs associated with cross-border sales.

The role of partnerships

The success of venturing into e-commerce in Asia-Pacific will hinge, in most cases, on the forging of strategic partnerships – particularly with technologically-advanced banking partners.

Marketing partnerships to increase traffic and sales



Treasurers' existing relationships with financial partners can open doors for marketing and promotional partnerships that drive customers to e-commerce websites.

For example, working with banking partners allows companies to offer discounts to their customers when they shop using their bank card, or to run targeted campaigns. These are typically win-win situations; both the company's e-commerce store and the banking partner acquire more consumers and transactions, respectively.

There are also ways to innovate beyond promotions. Electrolux, which pivoted to D2C in 2019,[20] partnered with a bank and a digital payments platform to build an appliance subscription platform in Singapore called Levande.[21] The platform allows customers to pay for home appliances via a fixed monthly subscription and includes maintenance services.

Customers can upgrade appliances, cancel their subscriptions, or opt for a refurbished model, reducing appliance waste due to damage or obsolescence. Such innovation supports the sustainability, brand authenticity, and customer engagement trends described in Google's D2C research.[22]

Embedded financing to grow e-commerce sales

Banks can also play a pivotal role in facilitating the financial needs of e-commerce merchants selling on regional platforms, which helps strengthen platform viability.

Regional businesses can partner with banks to develop use cases for their e-commerce platforms that facilitate platform-based and alternative data-led financing for their merchants. This will allow these merchants to access working capital faster, which has often previously been more onerous to achieve offline.

With access to additional working capital, e-commerce merchants can expand their operations, fuel sales growth on the e-commerce platforms they sell on, and ultimately drive higher GMV.

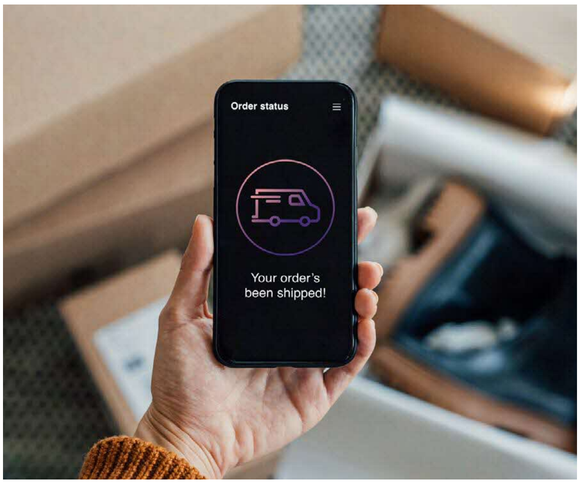
JD Logistics (JDL), the supply chain and logistics arm of JD.com, one of China's largest online retailers, partnered with DBS in 2020[23] to provide financing to Hong Kong-based small and medium-sized enterprises (SMEs) to fund their cross-border e-commerce import businesses.

These merchants place their e-commerce inventory in JDL's warehouses, and use JDL for sales fulfilment to end-customers. These then become real-time data points for DBS in assessing credit facilities for merchants.

Through this embedded financing solution, SME merchants can submit financing applications via the JDL platform, view available balances and outstanding loans, and initiate loan drawdowns, all in just a few clicks. This allows these merchants to better meet customer demands and capitalise on sales opportunities, especially during major online shopping events.

Technology-based solutions for e-commerce growth

Unsurprisingly, given Asia's rapid emergence as a global technological leader,[24] technology is set to play a leading role in successful e-commerce strategies in the Asia-Pacific region.



"Businesses can also generate growth by assessing new technologies that, through streamlining or speeding up financial transactions, can create new business models to propel business expansion," says Mark Troutman, Group Head of Sales, Global Transaction Services, at DBS.

Virtual accounts

A relatively new solution for e-commerce platforms is to enable corporate users or merchants to create virtual accounts. These virtual accounts act like bank accounts that can receive sales collections and send payments.

For example, in 2021, Mitra Bukalapak began working with DBS to co-create a virtual account solution, to provide millions of unbanked consumers in Indonesia with access to e-commerce platforms. [25]

These consumers can make cash payments into Mitra Bukalapak's virtual accounts via the country's more-than 15 million micro-and-small business owners (known locally as *warungs*) for their e-commerce purchases – without the need for credit cards or digital payment access.

This solution is helping Mitra Bukalapak address an untapped consumer segment while advancing its financial inclusion agenda.

Co-creating new solutions

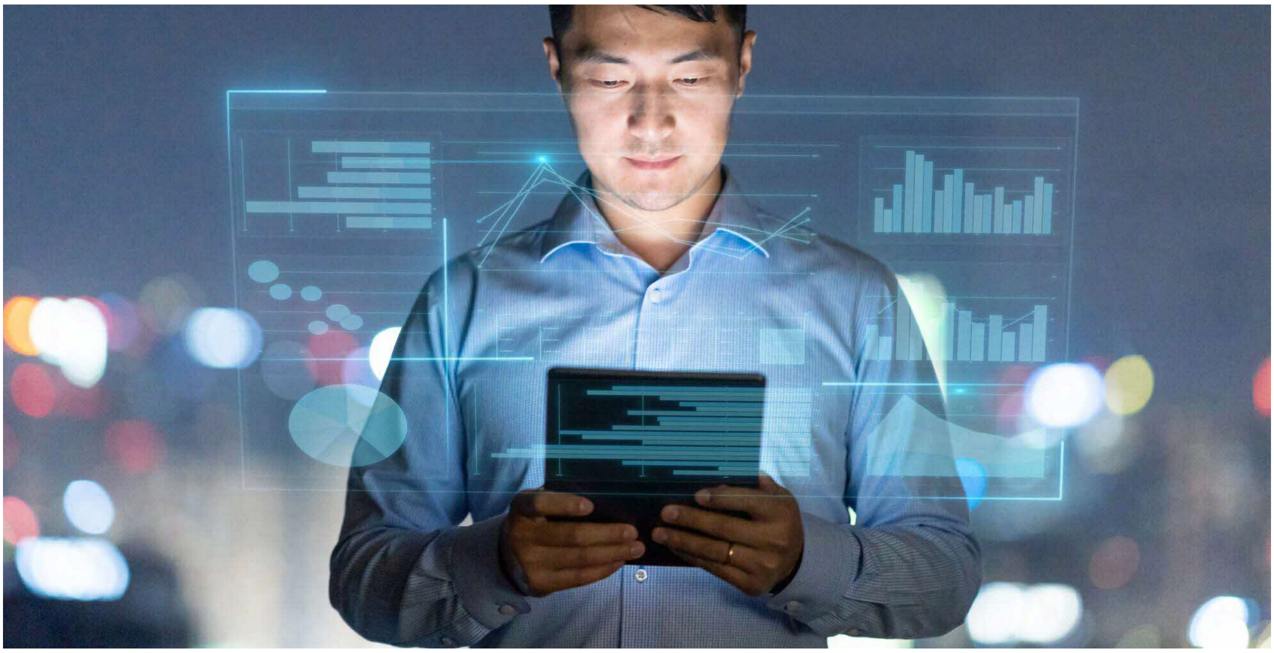
Banks are also co-developing and piloting new solutions with regional businesses to power the e-commerce economy even further.

For example, many SME merchants selling on multiple e-marketplaces globally find it hard to manage transaction volumes and FX/counterparty risks, reconcile sales, and get paid on time.

In response, regional e-commerce players are increasingly working with major banking providers to co-create digital solutions that allow a platform's merchants to outsource their global collections to their banking partners. This speeds up the receipt of funds, typically via virtual accounts and APIs, generating merchant stickiness and leading to greater online GMV.

Treasurers are well-positioned to lead such collaboration with close banking partners to design new solutions that address nascent problems.

Data insights for e-commerce growth



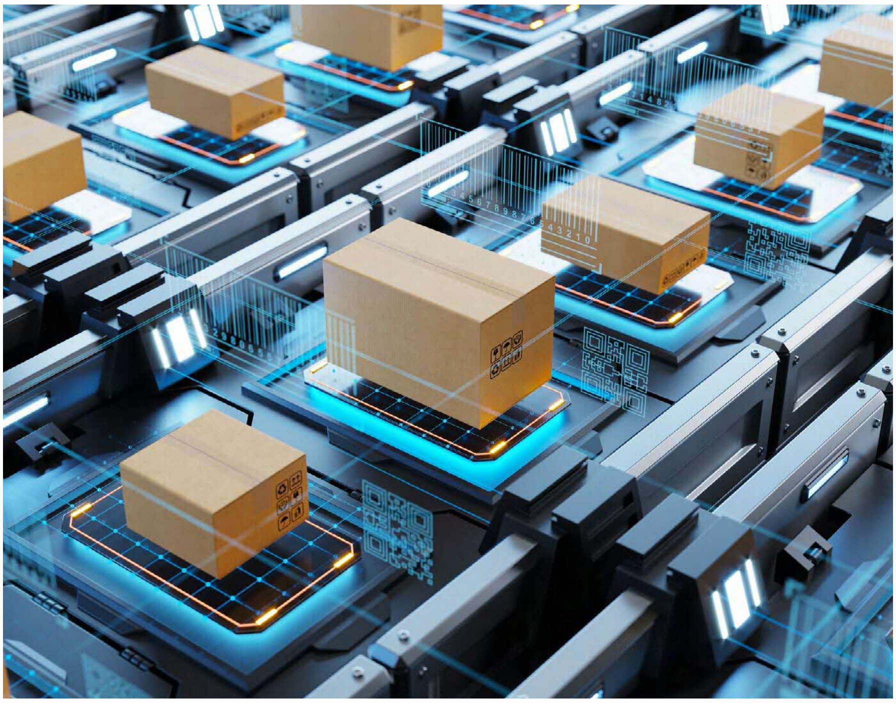
Regional businesses have an advantage in the form of a first-hand view of their customers' financial behaviour. Payment and transaction data, in particular, is a rich resource of insights that could help regional businesses drive and fine-tune e-commerce business and marketing strategies.

In fact, various companies in Asia-Pacific are currently looking to create connected ecosystems, harnessing advanced technology and analytics to support real-time decision-making.[25] "Many treasury departments are digitising and increasingly using data analytics, robotic process automation, and visualisation tools to quickly generate insights on cash and liquidity, working capital, and risk management," says Zhou.

"Treasury departments are increasingly using data analytics, robotic process automation, and visualisation tools to quickly generate actionable insights," says Jason Zhou, Head of Digital Transformation Advisory, Global Transaction Services, at DBS.

Connecting all these together cohesively are APIs. These link banks and business partners with treasury departments, enabling real-time insights that can generate revenue, while saving time and money.

DBS: An e-commerce growth enabler



DBS continues to collaborate with businesses in the Asia-Pacific region, exploring the explosive growth of e-commerce, and developing omni-channel solutions to propel their e-commerce ambitions and optimise operations.

Powered by a market-leading suite of API solutions that enable real-time payments, collections, multi-currency support, embedded merchant financing, and hosted check-out pages, we partner with business leaders and their treasury colleagues to solve critical problems and innovate new e-commerce use cases and models.

Learn more about our market-leading solutions, and supercharge your e-commerce growth.

Mark Troutman

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Global Transaction Services, DBS

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About DBS

DBS is a leading financial services group in Asia with a presence in 18 markets. Headquartered and listed in Singapore, DBS is in the three key Asian axes of growth: Greater China, Southeast Asia, and South Asia. The bank's "AA-" and "Aa1" credit ratings are among the highest in the world.

Recognised for its global leadership, DBS has been named "World's Best Bank" by Global Finance, "World's Best Bank" by Euromoney and "Global Bank of the Year" by The Banker. The bank is at the forefront of leveraging digital technology to shape the future of banking, having been named "World's Best Digital Bank" by Euromoney and the world's "Most Innovative in Digital Banking" by The Banker. In addition, DBS has been accorded the "Safest Bank in Asia" award by Global Finance for 14 consecutive years, from 2009 to 2022.

DBS provides a full range of services in consumer, SME, and corporate banking. As a bank born and bred in Asia, DBS understands the intricacies of doing business in the region's most dynamic markets. DBS is committed to building lasting relationships with customers, as it banks the Asian way. Through the DBS Foundation, the bank creates impact beyond banking by supporting social enterprises: businesses with a double bottom-line of profit and social and/or environmental impact. DBS Foundation also gives back to society in various ways, including equipping communities with future-ready skills and building food resilience.

With its extensive network of operations in Asia and emphasis on engaging and empowering its staff, DBS presents exciting career opportunities. For more information, please visit www.dbs.com.

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