DBS nextwave

SOUTHEAST ASIA EDITION

A New GOLDEN AGE?

What's next for Southeast Asia tech after e-commerce reaches profitability

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EXECUTIVE SUMMARY

E-commerce was the first 'killer app' in Southeast Asia tech. Its emergence pulled forward the region's digital infrastructure and venture investment ecosystem and paved the way for new digital business models.

Now, ten years on and profitable, e-commerce brings important validation and momentum to Southeast Asia's tech sector at large. We believe this to be an important moment for start-ups, scale-ups, and investors alike.

In this whitepaper we discuss the evolution of e-commerce in Southeast Asia, its newfound profitability, and the sector's current and future implications for the region's wider tech economy:

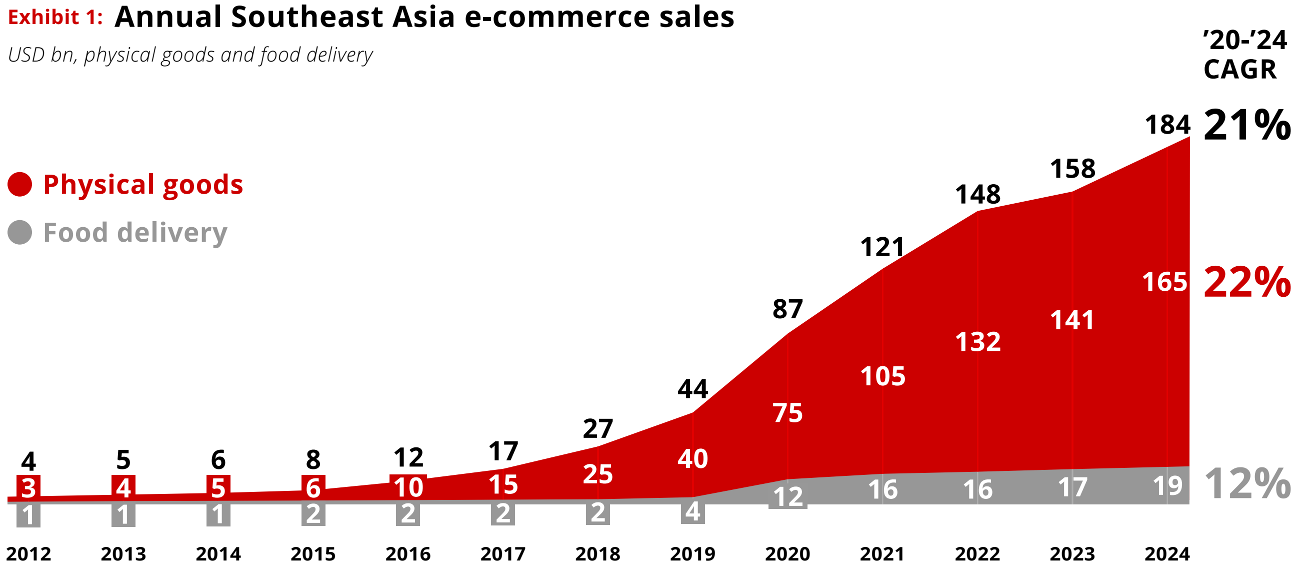
- **Southeast Asia e-commerce has reached profitability in 2024, marking an important moment of validation and maturity for the region's wider tech sector.**
- **Online growth is stabilising but deepening, and regional e-commerce sales are forecast to more than double to US$410bn by 2030.**
- **Consolidation will benefit "Generation 1 winners" like Shopee and Grab; the extent will be determined by their strategic focus and whether new market entrants appear.**
- **The capital structure of Southeast Asia tech is evolving; the next generation of founders will need to pair fundraising and financing to drive sustainable growth.**

FROM DISRUPTION TO DOMINANCE

The Decade that Built SEA's E-commerce Scene

Exhibit 1: **Annual Southeast Asia e-commerce sales**

USD bn, physical goods and food delivery



Source: Cube, MomentumWorks

E-commerce sales have grown from US$4bn to more than US$180bn between 2012 and 2024

Over the past decade, hundreds of millions of consumers in Southeast Asia went online to purchase products and meals for the first time, and regional annual e-commerce sales ballooned from US$4bn in 2012 to more than US$180bn in 2024.

Looking back, it all happened at just the right time. E-commerce became the biggest beneficiary of existing efforts to build out Southeast Asia's nascent digital infrastructure in areas like 4G/5G connectivity, and the fast-growing online shopping market willed new solutions in digital payments and logistics.

E-commerce became the first 'killer app' of digital growth in Southeast Asia – a force that would go on to drive sustained innovation even beyond e-commerce in areas like fintech, online gaming, and other digital markets.

It was, however, not a period of homogeneous online growth. The evolution was particularly stark in the region's e-commerce channel landscape, where what began as an unruly but varied set of online channels, including online retailers and conversational commerce through apps like WhatsApp, gradually consolidated with the largest platforms – such as Shopee, Lazada, and Grab, becoming more and more dominant. Several factors drove this consolidation:

- Platforms were able to provide the most varied and complete assortment, especially as well-known merchants and brands joined them.
- Platforms offered the most attractive promotions and subsidies for new and returning users, fuelled by investment capital.
- Platforms created the most convenient and frictionless shopping experience, combining great software with physical infrastructure that often did not exist before.

These factors created a flywheel effect that increasingly shifted the region's online spending to large platforms. These platforms are now firmly the dominant type of e-commerce in Southeast Asia, commanding more than 70% of total online sales.

Start-up formation and investments in the sector have evolved in response. While dozens of e-commerce retailer or marketplace start-ups[1] were founded between 2012-2018, majority of the start-ups later established in the sector have been in adjacent business models such as e-logistics, e-commerce enablement, and e-commerce fintech.

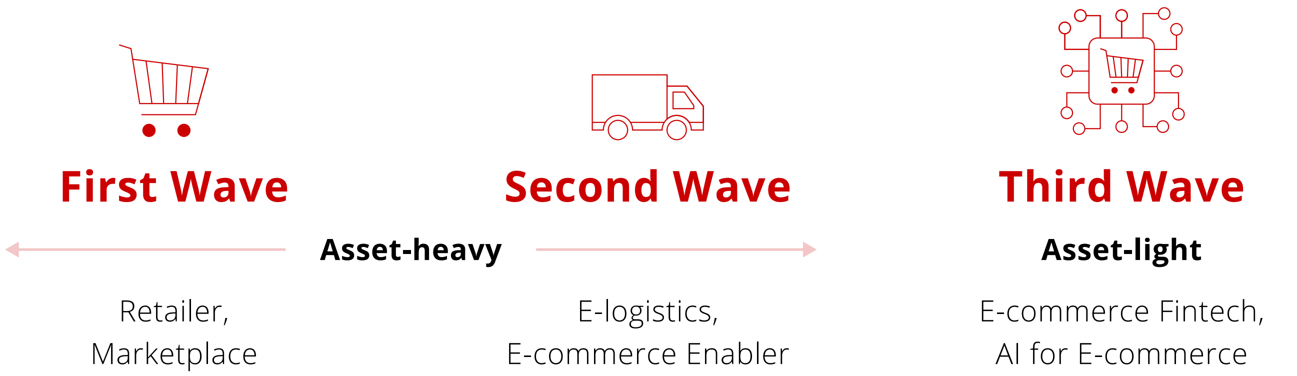
Exhibit 2: **Adjacent sectors transformed by the rise of e-commerce**

Illustrative

Sector	New needs driven by e-commerce	Effects
Logistics	• Rapid growth in consumer parcel volume • Demand for pick-and-pack warehouses	**Emergence of e-logistics players, air shipping build-out, digital transformation of incumbent logistics players**
Consumer goods distribution	• Solutions for manufacturers to trade with consumers • Infrastructure to manage large-scale goods returns	**Emergence of e-commerce enablers and specialist returns management providers**
Payments	• Demand for cash payments for online transactions • Convenient online payments • Consumer credit for e-commerce transactions	**Cash-on-delivery build-out in early years; Fintech and Buy-Now-Pay-Later innovation in later years**

Exhibit 3: **Waves of start-up formation/investment in e-commerce, 2012-2024**

Illustrative



[1] For example, Luxola, Zalora, and RedMart. Lazada, one of today's regional e-commerce leaders, was also founded as a start-up in 2012

Exhibit 4: **E-commerce platforms in Southeast Asia that have shut down**
2022-2024

2022	2023	2024
BANANAS	GO SHOP	Qoo10
elevenia	JD.ID	tokopedia NOW!
happyfresh [1]	tumbasin	bukalapak [2]

1: Malaysia 2: Physical goods e-commerce unit Source: Desktop research

The first victims of e-commerce consolidation were alternative online channels; more recently, several multi-category marketplaces have also shut down

Profitability became the key focus area for Southeast Asia's e-commerce platforms when global interest rates started to rise in 2022, and in 2024 several leading platforms finally reached this milestone. News media reported July 2024 as the first profitable month of operations for Lazada, and both Grab and Shopee-owner Sea Ltd. announced profitable quarters[2] for their e-commerce businesses. Four key factors contributed to these "Generation 1 winners" reaching profitability:

1. Increased consolidation among top platforms

In recent years, the largest marketplaces have gained share from their smaller competitors, and several e-commerce marketplace platforms have even shut down (see Exhibit 4 above). This has benefited the largest players.

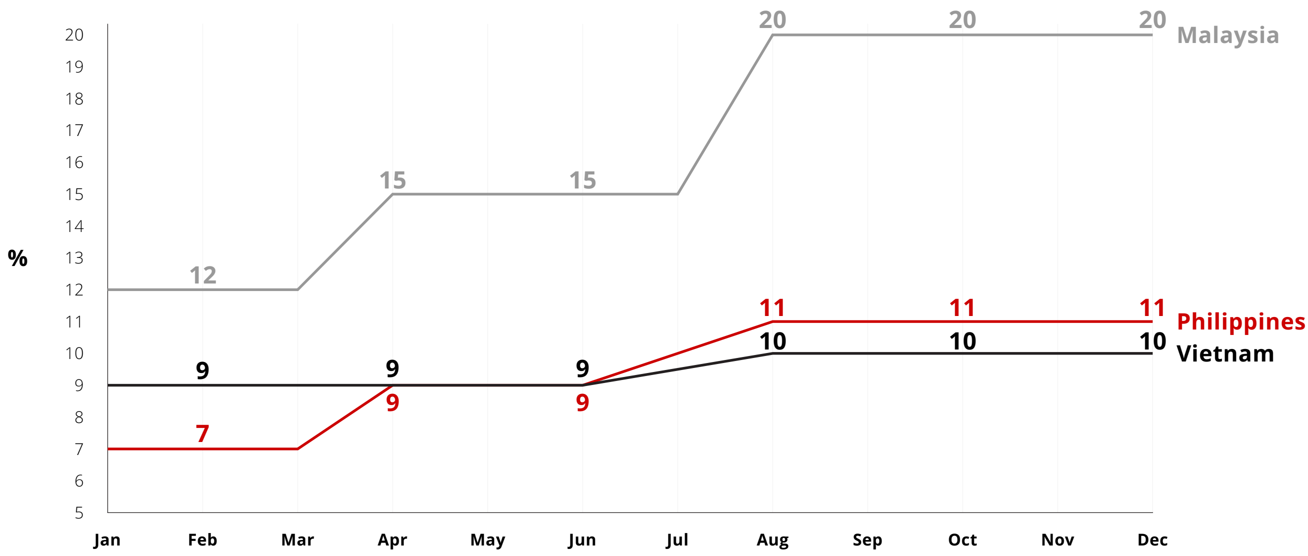
2. Rising take-rates

In the past, e-commerce platforms increased their selling fees slowly to avoid sellers defecting. In 2024, Shopee was the first large platform to impose sharp fee increases of several percentage points, and its key peers followed suit. This immediately aided platform profitability.

[2] Adjusted profitability for Grab 'deliveries' segment

Exhibit 5: **Shopee Mall commission rate, fashion category, 2024**

% of net sales



Source: Desktop research, Shopee

Shopee was the first e-commerce platform to initiate drastic commission rate increases in 2024; its peers followed

3. Operational efficiencies and focused investments

The last two years saw leading e-commerce platforms pare back investments in exploratory pursuits[3] in favour of 'tuning' their core business. For example, Shopee's recent bet on logistics fills a previously missing puzzle piece in its business, and Grab's focus on QuickCommerce is a natural adjacency to its existing food delivery business.

4. Limited disruption from new market entrants

While recent years have seen the rise of some new players, their impact on "Generation 1 winners" has been limited so far. For instance, TikTok Shop has mainly posed a challenge in the beauty and fashion categories, and Temu's value-for-money focus has limited appeal as much of its merchandise is already available on other platforms.

While the newfound sector profitability marks a positive development for Southeast Asia e-commerce and tech at large, this new era of consolidation is tougher news for start-ups with 'e-commerce-adjacent' business models, who are increasingly finding themselves competing with the very platforms that they have been serving and growing with. The e-commerce logistics sector is a good example of this rising tension between platforms and start-ups.

In the early years, e-commerce platforms like Lazada and Shopee invested only sparingly in warehousing and last-mile delivery solutions across Southeast Asia. Traditional postal and delivery companies were not set up to meet the growing consumer parcel delivery demand, so start-ups joined the market.

[3] For example Shopee's expansion to Europe and India, and Grab's cloud kitchen unit

Over the years, however, this dynamic started to shift. E-commerce platforms began to invest in their own last-mile delivery assets to improve customer service and reduce costs, relying on third-party providers more for parcels that were particularly cumbersome or expensive to deliver. At Shopee, for instance, in-house logistics unit SPX now handles more than half of parcels.

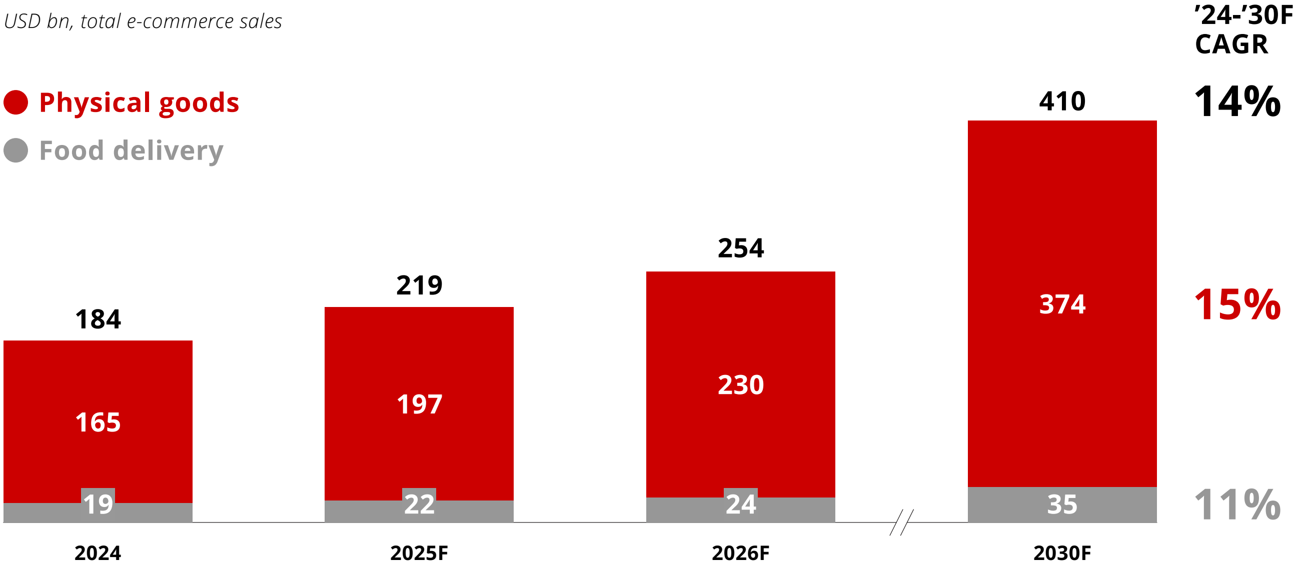
The direct consequence is that many e-logistics players are facing challenges, but more widely it has also resulted in a chilling effect for funding of new companies in the e-commerce space.

However, it is not all doom and gloom. Start-ups focusing on other e-commerce adjacencies, such as fintech/payments and e-commerce enablement, have fared better. More recently, a new class of AI-native start-ups has also started to make waves in areas like e-commerce analytics and customer service automation.

Building start-ups in the ecosystem of large e-commerce platforms remains a 'high-risk, high-reward' proposition. The best opportunities will be found in the areas where platforms find relatively low strategic importance in the short term and where incumbents' inherent capabilities are limited at the moment.

Exhibit 6: **Southeast Asia e-commerce sales forecast**

USD bn, total e-commerce sales



Source: Cube

Southeast Asia e-commerce sales are set to more than double by 2030

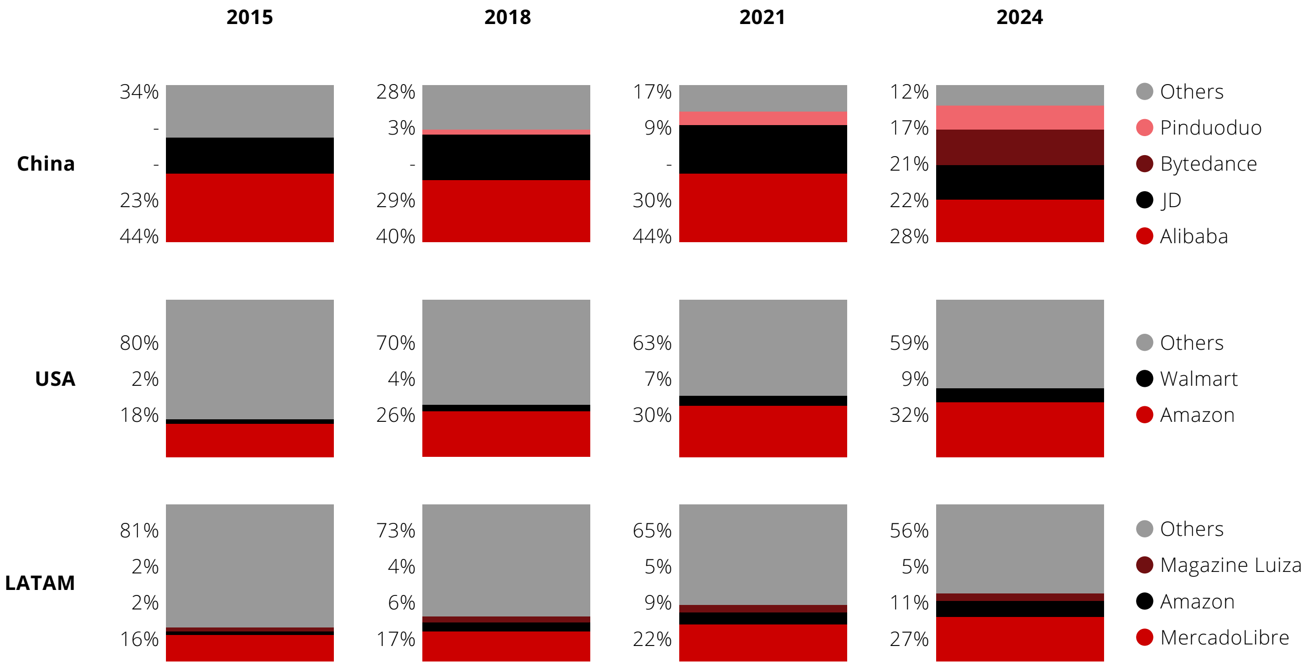
The e-commerce industry has entered a stage of more mature growth, trading high growth rates for more gradual expansion – but from a much higher base. Southeast Asia's e-commerce market is set to more than double to US$410bn by 2030, making it an attractive target for both regional and global players.

How will this new growth stage affect market structure, and which players will emerge as winners? Our outlook is framed by a set of core beliefs:

- Forward growth will be slower, as most addressable consumers have already started shopping online. Wallet share gains from offline consumption will be the primary source of growth and online sales growth will trend closer to overall consumer spending growth.
- The higher level of platform take-rates is here to stay, and there is further room for growth especially through retail media and other value-added services.
- Customer experience innovation will be a key battleground. Several popular e-commerce models remain absent or nascent, and declining promotion intensity will make customer experience differentiation more important.
- AI will become an important new dimension of competition. At first it will primarily generate indirect value (such as aiding product tagging to improve search) but later we also expect AI to enable brand-new customer experiences.

Exhibit 7: **E-commerce platform market share shifts**

Share of sales by year, physical goods e-commerce



Source: Cube, Euromonitor

E-commerce platform concentration has been growing over time across major global markets

Overseas markets also offer clues about what may happen next. In exhibit 7, we have selected China, the United States, and Latin America as comparisons. All these markets have seen growing e-commerce consolidation, but in different ways:

- In **China**, "Generation 1 winners" Alibaba and JD have faced stiff competition from players like ByteDance and Pinduoduo who popularized new and more social ways of shopping online. Top platforms are commanding higher market share as a group, but the share of "Generation 1 winners" have declined.

- In **Latin America**, which shares demographic traits with Southeast Asia, "Generation 1 winners" such as MercadoLibre, and Magazine Luiza have gained share over time. They have invested heavily in logistics and digital payments to build a 'consumer experience moat'.

Amazon entered Latin America very early and has grown its share over time. While not in Southeast Asia yet[4], it is worth considering whether Amazon – or a similar well-funded and capable overseas leader – could find success in Southeast Asia.

- The **United States** is a more mature e-commerce market where advanced digital infrastructure and consumer preferences have shaped a more diverse online landscape. Convenience-focused platforms Amazon and Walmart share the market with a long tail of omni-channel players and specialized e-tailers. The US market offers a clue that Southeast Asia's consumers may seek a more diverse set of e-commerce experiences over time.

[4] Outside Singapore

Framed by these principles and learnings from overseas, three likely scenarios emerge for Southeast Asia's e-commerce market structure in the coming five years:

Scenario	Key developments	Sector profitability outlook
Low disruption	• Current winners maintain leadership and continue consolidating market share from other types of e-commerce • Some challenges from overseas leaders and start-ups, but incumbents stay focused and respond quickly with new features • Incumbents maintain focus on their current strongholds, and level of subsidies and promotions stay low	**High**
Medium disruption	• Current winners maintain dominance, but overseas leaders with distinct business models conquer hard-to-serve[5] market segments • Incumbents sharpen competition for remaining stronghold e-commerce segments, resulting in a moderate increase of subsidies and promotions	**Medium**
High disruption	• Current winners are attacked on their core business by new players and/or each other, and a new price war erupts • The level of subsidies and promotions increases again, reaching levels seen in pre-COVID years	**Low**

The posture and focus of current winners like Shopee and Grab will be the biggest determinant as to which scenario materialises. It is in some respects their market to lose, but that does not mean it will be easy. Today's winners are expected to continuously pursue new opportunities to grow, either vertically into new business models or horizontally by expanding to new geographies. Spreading themselves too thin will risk the base and should be avoided.

No matter what, the role of e-commerce in Southeast Asia's wider tech sector is evolving. From serving as an important early catalyst of growth and a magnet of risk-willing capital, e-commerce will now not only grow profitably and bring more stability and confidence to the region's wider tech industry but play the crucial role as a conduit for the next wave of Southeast Asian innovation.

[5] For example, community group buying, QuickCommerce, or content-driven commerce; similar to TikTok Shop's strategy of winning in live commerce before expanding to other types of e-commerce

CAPITAL SHIFT

Fundraising and Financing Shifts in Southeast Asia's Evolving Tech Economy

The evolution of Southeast Asia tech is also observed in the sector's capital structure, which has evolved from a dominant focus on equity investment to a more balanced and mature approach with a greater emphasis on credit-backed growth.

Historically, Southeast Asia tech companies have relied heavily on equity financing, fuelled by venture capital and private equity. This influx of capital enabled rapid scaling and market share capture. However, the current environment, characterized by a greater emphasis on profitability and a more cautious investor sentiment, requires alternative funding sources. Several factors have contributed to this shift:

- **Limited Exit Opportunities**
  The relative lack of significant exits (IPOs or major acquisitions) in the region's tech sector has made investors more cautious. This impacts their willingness to deploy capital, particularly in later-stage funding rounds. Investors are seeking clearer pathways to realize returns on their investments.

- **Increased Scrutiny of Business Models**
  Investors are now conducting more rigorous due diligence, placing greater emphasis on profitability, unit economics, and sustainable growth potential. Companies with unrealistic growth projections or unsustainable business models are finding it harder to attract funding.

- **Shift in Investor Focus**
  There has been a noticeable shift in investor focus towards companies demonstrating tangible results and a clear path to profitability. Investors are increasingly favouring companies in sectors with strong growth potential and proven business models.

In this new stage, credit offers several advantages for tech companies seeking to optimize their capital structure:

- **Lower Cost of Capital**
  Credit typically carries a lower cost compared to equity. Interest payments are tax-deductible, and lenders generally accept lower returns than equity investors. This enhances profitability and improves return on invested capital.

- **Preservation of Equity**
  Credit allows companies to fund growth initiatives without diluting existing shareholders' equity. This is particularly critical as companies consider future exit strategies like IPOs.

- **Financial Flexibility**
  Credit can be structured to align with a company's specific needs, offering flexible repayment terms and covenants. This provides valuable financial flexibility in navigating dynamic market conditions.

As a result, we expect the capital structure of start-ups and scale-ups to evolve going forward. New founders will need to pair fundraising with financing and consider several new financing tools to drive growth. These include:

- **Term Loans**
  Typically used to finance specific projects or acquisitions and have fixed repayment terms.

- **Revolving Credit**
  Provide companies with access to a line of credit that they can draw on as needed. They are often used to finance working capital needs.

- **Venture Debt**
  Particularly useful for companies with strong growth potential but limited current profitability, as it allows them to access capital without significant equity dilution. Given the higher risk profile, lenders typically require higher interest rates and / or equity participation to compensate.

It is tempting to reminisce about the past years' low-interest rate environment and easier access to growth capital, but a more balanced capital structure is a good fit for Southeast Asia's maturing tech sector. It will support promising and sustainable companies on the way up and help them prepare for exits with a more varied and versatile set of funding tools.

CONCLUSION

Ten years after the birth of modern e-commerce in Southeast Asia, the milestone of reaching sector profitability marks an important moment of validation both for e-commerce and for Southeast Asia tech more broadly. It also signals the beginning of a more stable, structural, and self-sustaining chapter of growth, notwithstanding the uncertainties of the current geopolitical environment.

This chapter will be very different from the previous one:

- **There is now a class of profitable and entrenched winners who guarantee greater stability while simultaneously making it harder for new entrants to compete.**
- **The environment is tougher for small players but not closed off. There is still room for innovation and opportunities, especially in niches and adjacencies.**
- **Tech capital structure has evolved for good, and growth companies will need to combine equity fundraising with a wide array of credit-based alternatives.**

There will undoubtedly be curves and surprises along the way, but the next stage of growth in Southeast Asia tech will be an exciting one. In the long run, greater maturity sets the foundation for a more confident, investable and competitive digital economy that will benefit companies and consumers alike.

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DBS' Digital Economy Group provides comprehensive capital solutions uniquely tailored to enable new economy companies to flourish across their lifecycle.

As an Asia born and bred bank, DBS leverages its deep connections across the region and its extensive understanding of the new economy ecosystem to help fledgling innovators break ground and stay ahead.

DBS' Digital Economy Group provide access to relevant venture capital, institutional, and sophisticated high net worth investors across the region to harness the potential of new economy companies more effectively.

Find out more at www.dbs.com.sg/corporate/industries/digital-economy-group

ABOUT CUBE

Cube is a market data and insights firm focused on e-commerce in Southeast Asia and beyond. Cube supports many of the world's leading consumer goods companies, investors, and internet platforms with data and insights about what's selling online.

Cube regularly publishes research reports about e-commerce and adjacent topics through its website, www.cube.asia

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