



Profitable Pathways: *Rethinking Growth Strategies in eCommerce*



The search for quality eCommerce growth *in Southeast Asia*



How are consumer brands balancing sales growth versus profitability in 2024?

eCommerce in Southeast Asia has grown from infancy to maturity in record time. Online sales in the region are set to reach a staggering \$190 billion in 2024, up more than 20 times in 10 years. At the same time, consumer brands are raising their expectations from eCommerce – while delivering

continued sales growth, online sales must now also reach profitability and become a good, net margin and brand-accretive business. This search for ‘quality growth’ puts new demands on industry leaders to balance top-line growth and profitability to succeed in 2024 and beyond.

But what does success look like in this new era of eCommerce? And what does it take to win? In April 2024, we conducted in-depth surveys with 51 eCommerce leaders in Southeast Asia to find out. Read on to discover our key takeaways.

eCommerce leaders have varied expectations for growth in 2024

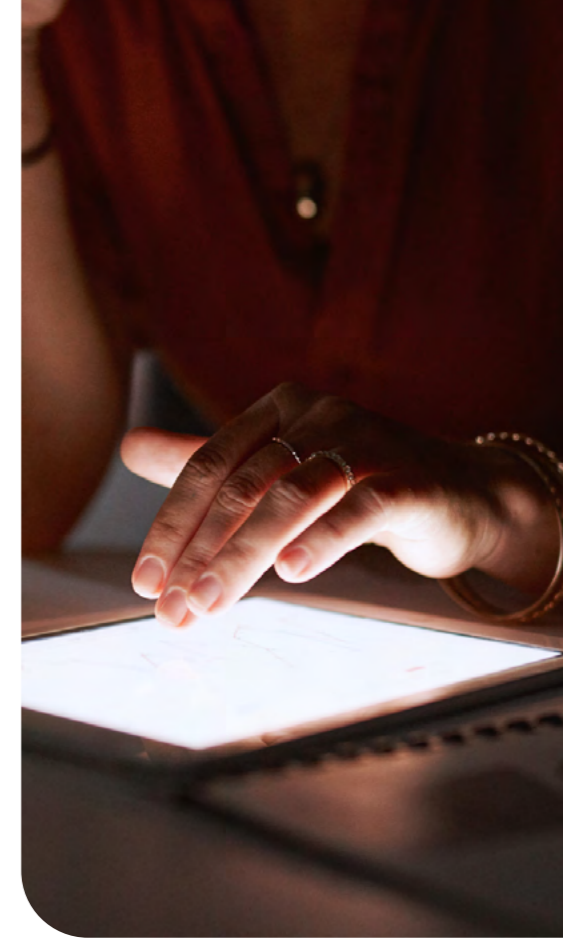
Nearing 700 million inhabitants, Southeast Asia represents 8.5%¹ of the world’s population and presents a compelling opportunity for eCommerce. However, high levels of unbanked and under-banked communities mean that many transactions are still cash-based. While the region’s reliance on physical currency is the main obstacle to digital adoption, it simultaneously underscores the huge potential of further digitalization.

Southeast Asia’s eCommerce market grew at a staggering 45% compound annual rate between 2012 and 2021 but entered a new and more mature stage after the Covid-19 pandemic. Average annual growth to 2027 is projected at a more muted range of 12–16%, though from a much higher base.

Our survey indicates that eCommerce leaders’ growth expectations for 2024 are more optimistic, with an average 21% forecasted sales growth this year. Target growth for 2024 does still vary considerably, as Exhibit A shows.

The optimism putting this growth rate aspiration higher than the market could be due to several reasons.

Firstly, while the headline eCommerce growth rate will

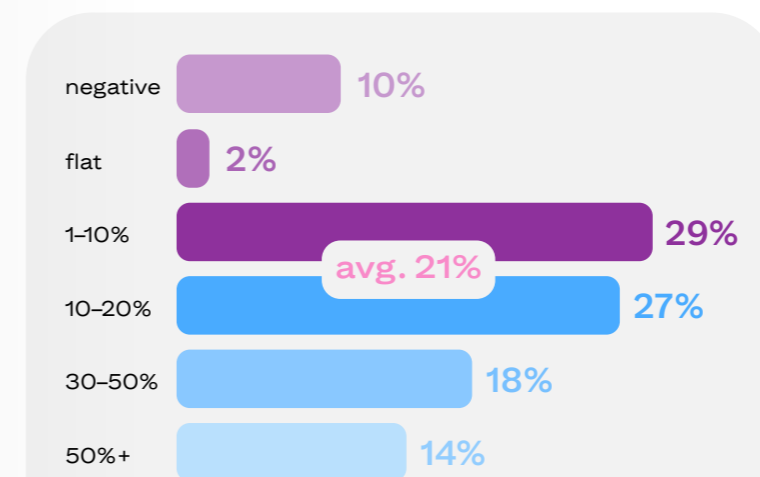


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Almost every company feels that they can do better than their competition.”

EXHIBIT A

How much do you expect your eCommerce sales to grow in 2024 versus 2023?



Source: Cube Asia

be 12–16%, the landscape is incredibly fragmented, with sub-categories and segments where growth will be faster. Secondly, many companies saw their online sales rates soar in the recent Covid-fuelled years, and there is a legacy mindset holding them back from readjusting their aspirations. Finally, almost every company feels that they can do better than their competition, so even if the market only grows at 15%, they aim to grow faster and win share from their peers.

One-third of online businesses are not yet profitable

The varied state of the industry is also evident in brands' current eCommerce profitability. Just two-thirds of surveyed eCommerce businesses were profitable in 2023, with most seeing marginal profit of 0–5% at the EBITDA level. More than half of surveyed businesses that were not profitable in 2023 had at least one profitable online channel. See Exhibit B.

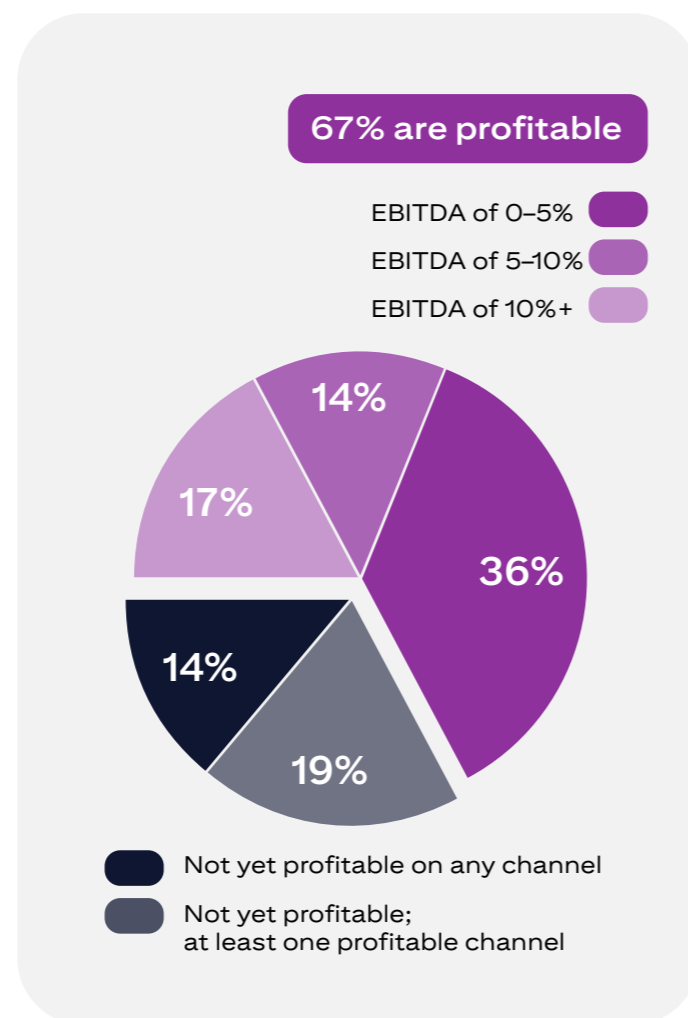
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Many would focus on top-line growth if given the choice.”

Varied as it may be though, the picture represents a shift from three to five years ago when the share of profitable businesses would have been

EXHIBIT B

How profitable was your eCommerce business in 2023 (EBITDA level)?



Source: Cube Asia

much smaller. There is a growing demand from top management that their online businesses must continue to grow, and do so in a profitable manner.

This is clear in the consensus among surveyed eCommerce leaders on how they are balancing the requirements for sales growth and profitability in 2024. Over 90% of respondents indicated a strategic posture that seeks to achieve

a compromise between the two, and 59% are evenly balanced between top-line focus and profit focus. See Exhibit C for the full picture.

eCommerce leaders deviate from a balanced strategic posture for different reasons:

Among the ‘defensive’ crowd, who have opted to focus on profitability, leaders cite limited access to new investment or an imminent need to reach ‘break-even’ as common



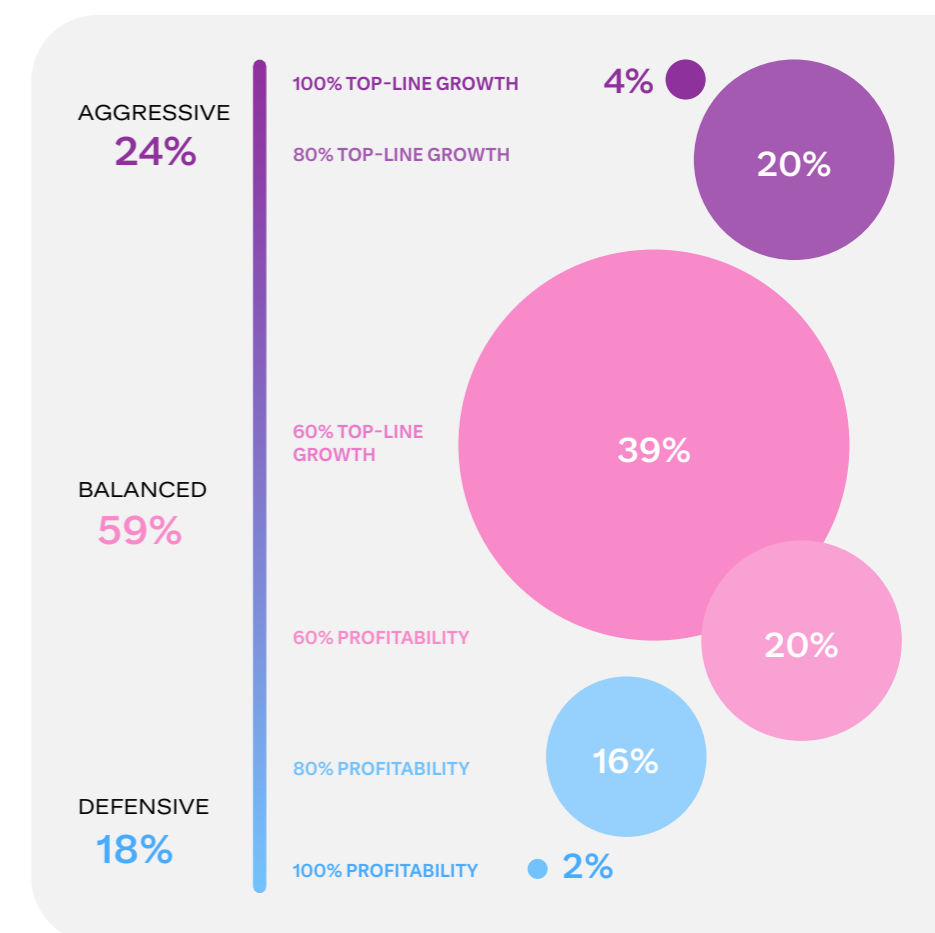
constraints. Many say they would focus more on top-line growth if given the choice.

Many leaders in the ‘aggressive’ segment hold a defiant view that eCommerce profitability should only be prioritized once their business reaches a higher revenue scale. They assert that pivoting to profitability too soon could result in not reaching the highest possible market share.

This picture is also highly dynamic. An astounding 93% of respondents have shifted their strategic posture in the last two years, with groups of equal size moving further towards top-line and bottom-line focus. Adaptability and resilience are critical to achieve success in this complex market environment.

EXHIBIT C

What is your strategy between profitability and top-line sales growth in 2024–2025?



Source: Cube Asia

As eCommerce leaders face ever greater challenges, best practices for ‘quality growth’ are emerging

eCommerce has risen in prominence in recent years, becoming a more complex business area to manage. Gone are the days when eCommerce teams could focus fully on market-led sales growth. Now, teams need decisive leadership and clear strategies across diverse areas from marketing and growth strategy to operations and organization.

Industry leaders’ key challenges for 2024 reflect this

complex operating environment. Increasing marketing costs and intensifying competition are the major issues impeding sales growth while rising operating costs are holding back profitability, as found in our survey. Learn more in Exhibit D and E.



So how are leaders in Southeast Asia responding to these challenges in 2024? Four key approaches stood out across the wide array of geographies, categories and business types in our survey.

1 Step-changing digital marketing

Digital marketing has always been a critical capability for eCommerce management. Leaders cite marketing cost increases, the proliferation of new eCommerce channels

and intensifying competition as reasons for doubling down in 2024.

A key challenge faced by many is the rising ‘take rates’ of popular eCommerce platforms, an industry term covering the aggregate fee and services revenue that marketplaces extract from sellers. Take rates have seen a consistent upward trend, forcing brands and other sellers to find efficiencies across the board.

For many, this means piloting and scaling new advertising channels, such as TikTok ads and affiliate marketing, while more than 30% of eCommerce leaders name advanced targeting and marketing analytics as key priorities in 2024. One eCommerce leader explained that, “to generate high-quality growth, we must advance our segmentation and targeting capabilities”. A common objective this year is to reduce marketing investment in consumer segments that are not profit accretive.

2 Tuning online assortment for quality growth

With internal and external operating costs growing for

many eCommerce brands, it is no surprise that leaders are focusing on ‘trading up’ in 2024 to secure more sustainable unit economics. Some 46% of surveyed leaders list assortment planning as a key strategy for the year.

Leaders will seek to prune their online assortment to focus on the products that

generate larger orders, higher lifetime value and less need for markdowns. New entrants like Temu and TikTok Shop will present challenges with their smaller baskets than existing eCommerce channels. While ‘premiumization’ strategies can be powerful, they require advanced analytics capabilities that are rare today. Not all will succeed.

EXHIBIT D

What are your key top-line challenges in 2024?

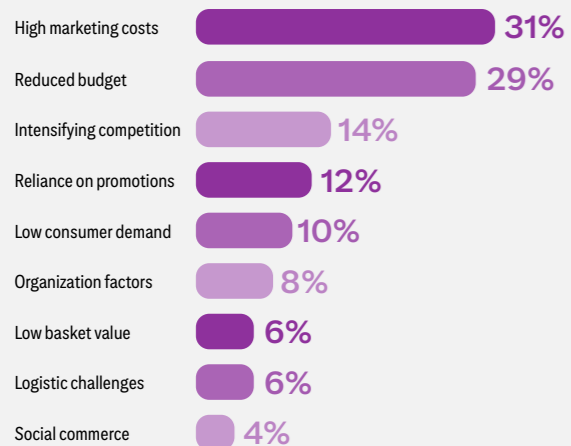
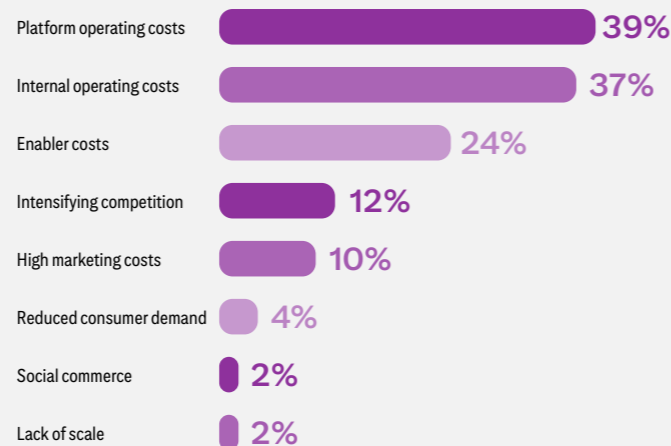


EXHIBIT E

What are your key profitability challenges in 2024?



Source: Cube Asia



3 Evolving the online channel mix

Southeast Asia's eCommerce sales have historically been concentrated on the region's largest online marketplaces, such as Shopee and Lazada, where more than half of online sales happen. Over 80% of survey respondents sell on at least one of these platforms.

In 2024, however, channel mix evolution is a key topic for many. Some leaders are driven by frustration with the rapidly rising costs of selling on these platforms. Given that "Shopee and Lazada keep raising their commission and logistics rates", they feel forced to diversify. Others are more driven by the promise of new fast-growing channels such as TikTok Shop, which

has become a credible player in Southeast Asia in record time. The platform relies heavily on influencer and affiliate marketing – capabilities that many brands don't yet master.

An inflection point for direct-to-consumer (DTC) eCommerce in Southeast Asia also seems to be moving closer. Some 45% of respondents already have at least one DTC channel (either brand website or social commerce), although many are still largely dormant. In 2024, 57% of all respondents expect to invest moderately or heavily in DTC

“*Most Southeast Asian consumers prefer shopping on marketplaces.***”**

and get lean; it will also force us to adopt new technologies like chatbots and generative AI faster than we would have done otherwise” said one.

AI technologies can be used for other important missions, such as helping to reduce inventory aging, driving recommendation engines and determining adequate pricing levels dynamically. While these advances bring great promise, they will require organizations to take on the long-term costs of staffing teams that can maintain and upgrade technology to distill value from data models.

channels, including 31% of respondents who do not currently have any.

But driving faster-than-market growth on DTC channels remains challenging. Most Southeast Asian consumers prefer shopping on marketplaces, attracted by the diverse product assortment and many deals offered. At the same time, the marketplaces themselves are becoming more sophisticated and, led by TikTok Shop, increasingly looking to incorporate more social elements into their user experience. This will be hard for single-brand DTC channels to beat.

So while a diverse eCommerce landscape fosters innovation and competition, it will also add new strain on eCommerce teams who will need to work across multiple complex channels. The gap between winners and losers is likely to widen.

Many eCommerce leaders are searching for efficiency in eCommerce enablers, with 75% currently partnering to manage services like logistics, shop and promotion management and marketing. While many leaders cite their frustrations with the growing costs of enablers, almost half of current users expect to rely more on enablers in 2024 and 2025 to further trim reliance on their internal teams. A similar-sized group, on the other hand, expects to rely less on enablers and in-source more eCommerce tasks. Time will tell which group ends up looking right.



“The next decade will see lower online growth rates, but higher absolute value growth and a new focus on profitable growth; we are entering a pivotal era for eCommerce in Southeast Asia”

Simon Tarring
Co-Founder, Cube Asia



“Promoting omnichannel behavior is key, as customers who shop both online and offline are the most valuable ones. We focus on creating a seamless customer experience and leveraging first-party data to personalize and enhance customer engagement.”

Roel Van Crielinge
Head of Omnichannel Experience and Innovation, Southeast Asia and Latin America, IKEA

“For many companies, marketing is one of the biggest cost drivers. One way for marketing to shift to being a profit driver is to target high-value customers. The path to finding such users requires building robust testing plans at scale and working with finance teams to measure results in a consistent way.”

Jaideep Jhangiani
Director, Ads Marketing, Southeast Asia, Google



4 A hunt for cost efficiencies

Rising operating costs and intensifying competition are forcing eCommerce leaders to do more with less, putting cost reductions high on the list for many this year. While these reductions are frustrating, some leaders see them in a more promising light: “Cost cutting forces us to really focus on customer feedback

“Rising interest rates have had a direct impact on eCommerce; it is now necessary to grow responsibly and profitably. That is the key challenge to unlock in the years to come.”

Scott Damassa
Global Sales Head, eCommerce, Technology and Communications, Treasury and Trade Solutions, Citi



“In this era of slowed investment, companies are focusing on profitable growth by integrating digital strategies throughout the business. Getting this integration right increases their chances of future success.”

Fox Chu
Partner, McKinsey & Company

The road ahead: Only eCommerce leaders with the ‘full-P&L’ mindset will unlock quality growth in 2024 and beyond

The next stage of eCommerce growth in Southeast Asia will be as exciting as it will be challenging. While the region’s online market is set to grow a remarkable \$95 billion by 2027, securing this growth will be harder than ever.

Thinking globally, Southeast Asia’s eCommerce ecosystem is still nascent and dynamic

compared to more mature markets like China. Brands’ online performances vary widely, as do aspirations for growth and the strategies to make them happen. Best practices are emerging but not yet set in stone.

The demands from eCommerce leaders and eCommerce teams will only grow, but so will their

influence in the organizations they work in. This will be the era of the ‘full-P&L eCommerce leader’ who can deftly balance top-line growth and profitability needs, and mobilize change across the wider organization to deliver the elusive ‘quality growth’.



Sources

1 Worldometers.info

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