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SOUTHEAST ASIA: RESETTING EXPECTATIONS

Report | September 2024

OVER THE PAST DECADE, SOUTHEAST ASIA HAS BEEN ONE OF THE HOTTEST REGIONS IN TECHNOLOGY.

Tens of billions of dollars have been invested in this space based on the narrative of young, digitally-savvy, growing mobile internet users and the emergence of a powerful middle class.

From the perspective of Southeast Asia, there is a lot of progress to celebrate—the daily lives of hundreds of millions of Southeast Asians have undoubtedly been transformed by the technology industry and, most importantly, quite often serviced by companies that were born here as well. Despite that, the financial performance of companies that have either gone public or have raised later-stage capital has fallen significantly short of expectations.

This report is primarily aimed at founders, builders, and operators. In it, we explore why the region has disappointed and offer a realistic picture of the Southeast Asian technology market. We continue to be excited about Southeast Asia's long-term promise but argue that the euphoria of the past decade has led to unrealistic expectations, and a grounded reset of what the market actually is would benefit both founders and investors.

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KEY TAKEAWAYS

1. The frequent comparisons between SEA & India/China are misguided

2. Thinking regional from Day 1 is needed for large outcomes

3. Be realistic about who can pay, where they are, and how to serve the rest

4. Singapore is SEA's most important market

5. Advertising is a viable form of additional monetization in SEA

6. It is possible to build a business that is valuable at scale, but both founders and investors must reset expectations

CHAPTER 1

SOUTHEAST ASIA IS NOT THE NEXT CHINA OR INDIA

As a fast-growing region of 670 million people comprised almost entirely of developing economies, Southeast Asia has often been portrayed by business publications and research reports as the next China and India over the last decade. This compelling narrative resulted in tens of billions of dollars invested in the region's technology industry with the expectation that the large winners would create companies akin to the giant companies in China and India.

Ten years in, we have found that Southeast Asia has not delivered on this expectation; the following chapter shows what has happened instead.

In recent years, Southeast Asia has frequently been touted as "The Tech Frontier" after India and China...

Tech giants start to treat Southeast Asia like next big thing: After decades of playing second fiddle to China, the region is drawing more tech investments

BUSINESS TIMES, MAY 2024

Funds flock to SEA startups as China loses sheen: SEA startups seeing a boom in fundraising by venture and buyout funds

REUTERS, SEPTEMBER 2022

3 Reasons SEA is a hot market for tech startups: Many are keeping an eye on Southeast Asian countries. This is a diverse but very strong prospective market

FORBES, MAY 2022

Why now may be the 'golden age' for Southeast Asia startups: The startup scene is heating up with many opportunities

CNBC, JUNE 2021

Asia's busy investors seek opportunities beyond China: Pragmatic regulation, especially on fund management and venture capital, has helped Singapore

FINANCIAL TIMES, MAY 2020

SEA startups gain global VC spotlight: Low profile startups in the region gain attention of global VCs

NIKKEI, AUGUST 2019

...a position that is backed by remarkable GDP growth over the last two decades

Southeast Asia is the 3rd fastest growing region over the last two decades

As a block, the region has grown from the 9th largest to the 5th largest today

ANNUAL GDP GROWTH RATE
2000 – 23, % p.a.

REGION	GROWTH RATE
China	8.4%
India	6.1%
ASEAN	**4.8%**
Russia	2.9%
Brazil	2.2%
United States	2.0%
United Kingdom	1.5%
France	1.2%
Germany	1.1%
Japan	0.6%
Italy	0.3%

GDP OF MAJOR GLOBAL ECONOMIES
2000 and 2023, USD Trillion

REGION	GDP (2000)
United States	13.7
Japan	4.0
Germany	2.8
China	2.7
United Kingdom	2.3
France	2.1
Italy	1.8
Brazil	1.2
ASEAN	**1.2**
India	0.8
Russia	0.8

REGION	GDP (2023)
United States	21.8
China	17.2
Japan	4.6
Germany	3.6
ASEAN	**3.3**
United Kingdom	3.2
India	3.2
France	2.6
Italy	2.0
Brazil	1.9
Russia	1.5

Note(s): ASEAN Includes Brunei, Cambodia, Indonesia, Philippines, Laos, Malaysia, Myanmar, Singapore, Thailand, Vietnam
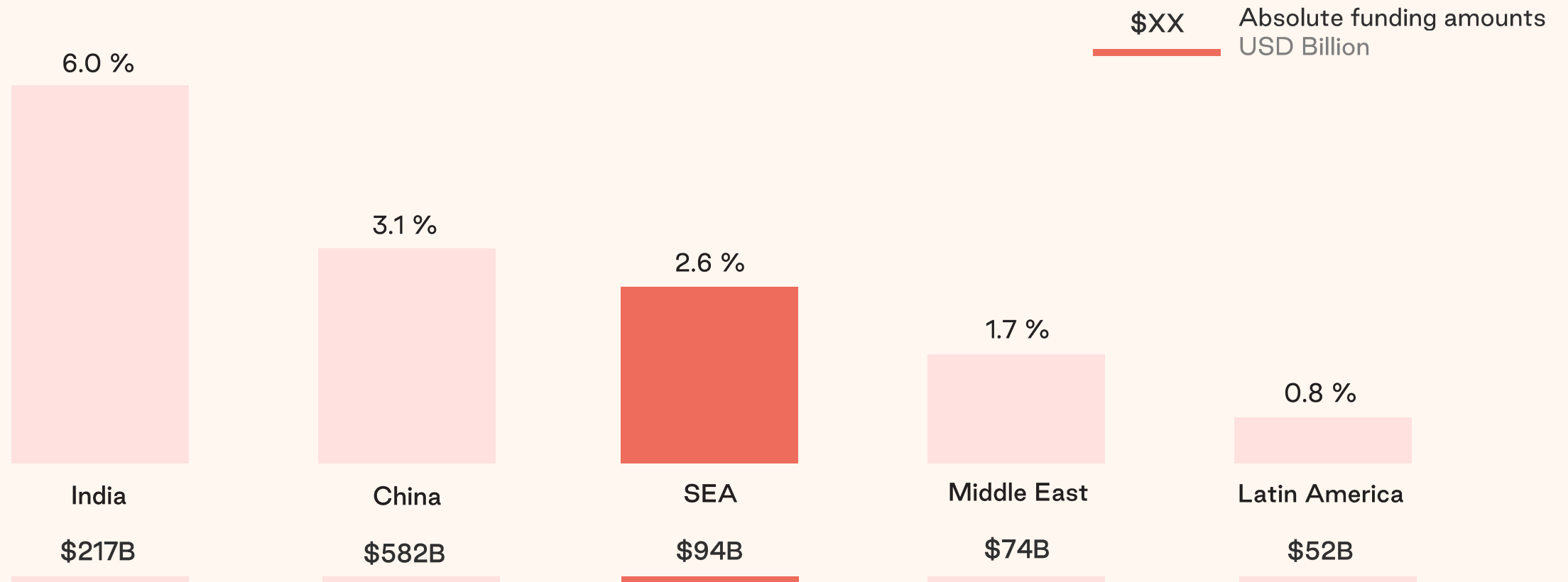Source(s): World Bank

Investors have pumped **$72 billion dollars into Southeast Asian tech companies** over the last 5 years — 3 times more than the preceding 5 years

VENTURE FUNDING OVER THE DECADE IN SOUTHEAST ASIA

$22 BILLION

$72 BILLION

$25 B

$17 B

$11 B

$10 B

$10 B

$7 B

$10 B

$3 B

$2 B

$1 B

2014   2015   2016   2017   2018   2019   2020   2021   2022   2023
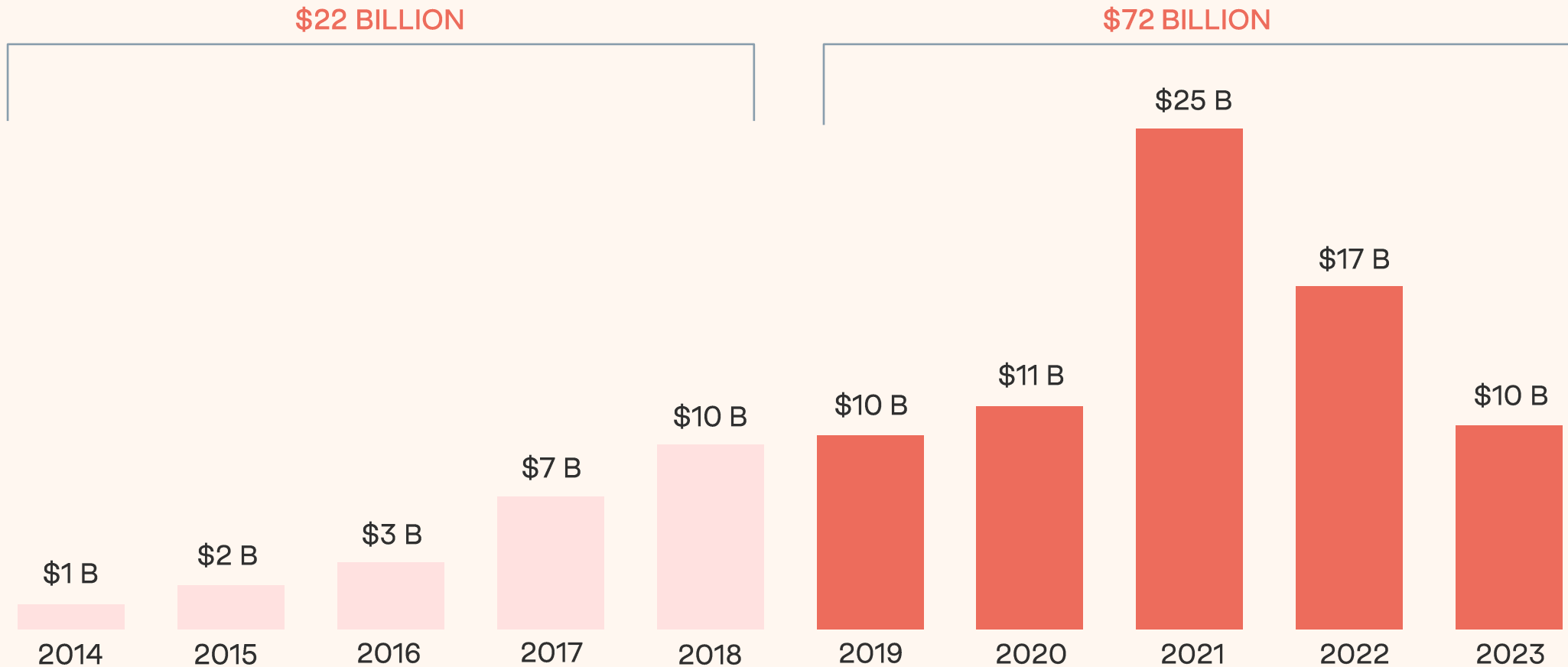
As a proportion of the economy, Southeast Asian funding levels resemble China — implying a belief that the sector could be as influential and valuable

STARTUP FUNDING ACROSS EMERGING REGIONS

2014–2023, % of GDP

$XX — Absolute funding amounts USD Billion

India	China	SEA	Middle East	Latin America
6.0 %	3.1 %	2.6 %	1.7 %	0.8 %
$217B	$582B	$94B	$74B	$52B

However, outcomes in Southeast Asia have been significantly less capital efficient — only half the value is created per dollar invested compared to China

TOTAL STARTUP FUNDING VS AGGREGATE VALUE OF UNICORNS CREATED[1]

2014 − 2023, USD Billion

Legend:
- Total startup funding
- Aggregate value of unicorns

China: 582 → 1402 (2.4x)
India: 217 → 337 (1.6x)
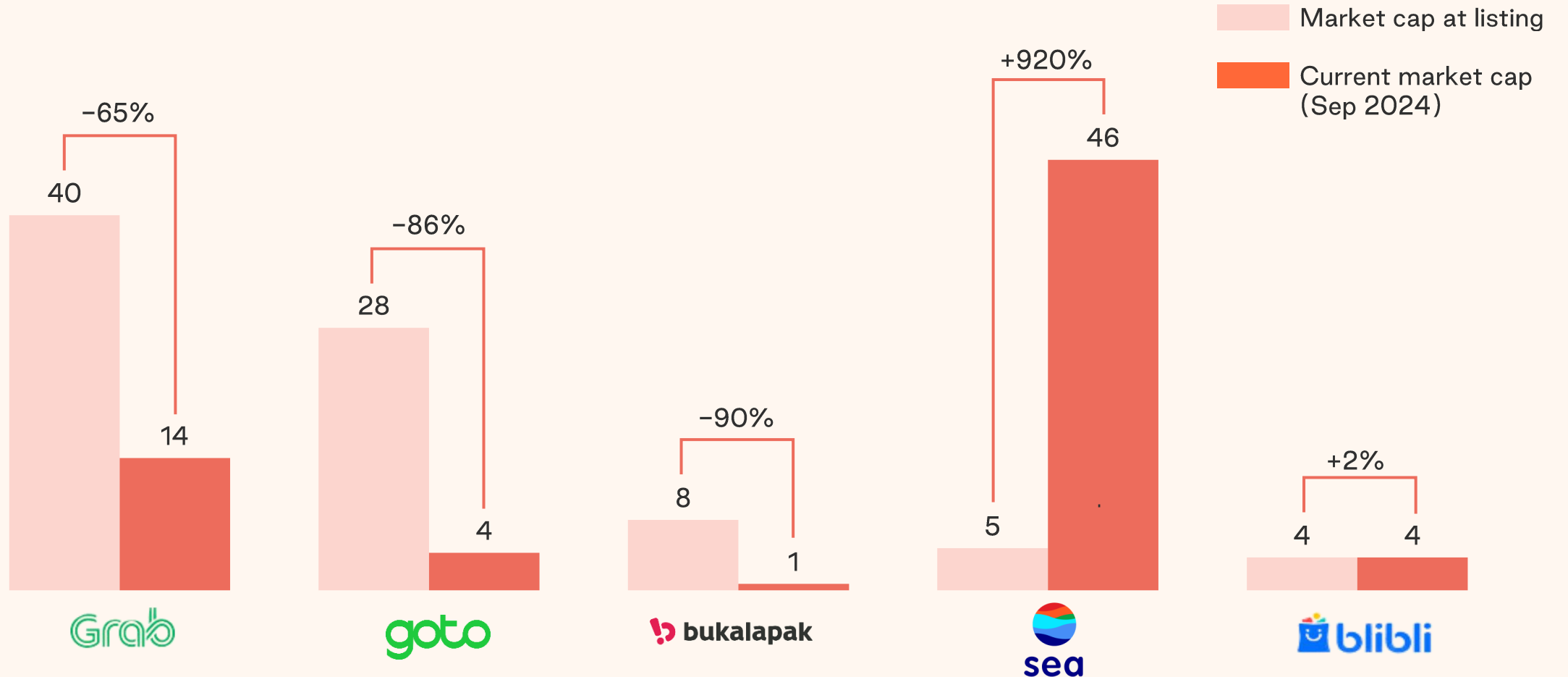SEA: 94 → 121 (1.3x)
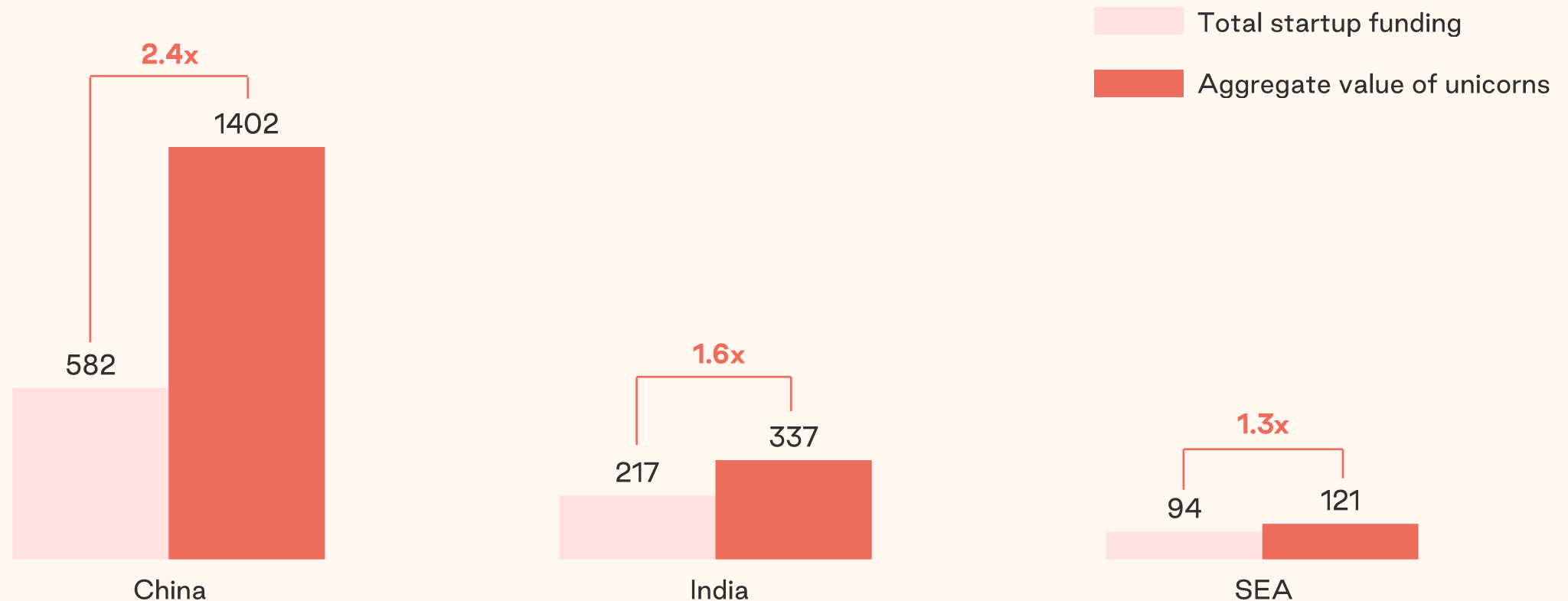
1. Methodology: Startup funding is based on Tracxn's funding database from 2014 − 2023. Unicorn valuation is based on unicorns minted during this period with valuation taken as of 2Q 2024, where public companies are valued based on market capitalization, while private companies are valued based on last round valuation

Southeast Asian tech companies have lost significant value upon going public, except for SEA Limited which went public significantly earlier than its peers
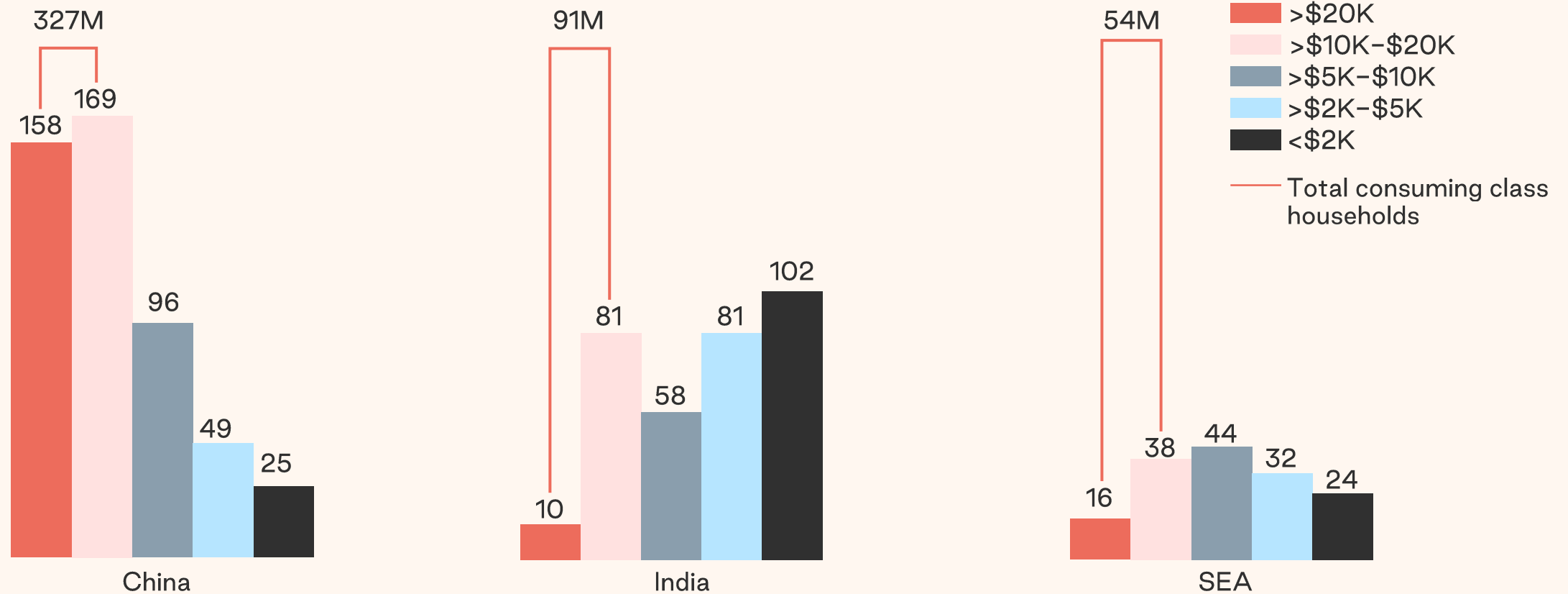
MARKET CAPITALIZATION OF COMPANIES

USD Billion

Market cap at listing

Current market cap (Sep 2024)

−65%

40

14

Grab

−86%

28

4

goto

−90%

8

1

bukalapak

+920%

46

5

sea

+2%

4   4

blibli

The reality is that there are far fewer consuming class households in Southeast Asia compared to India and China
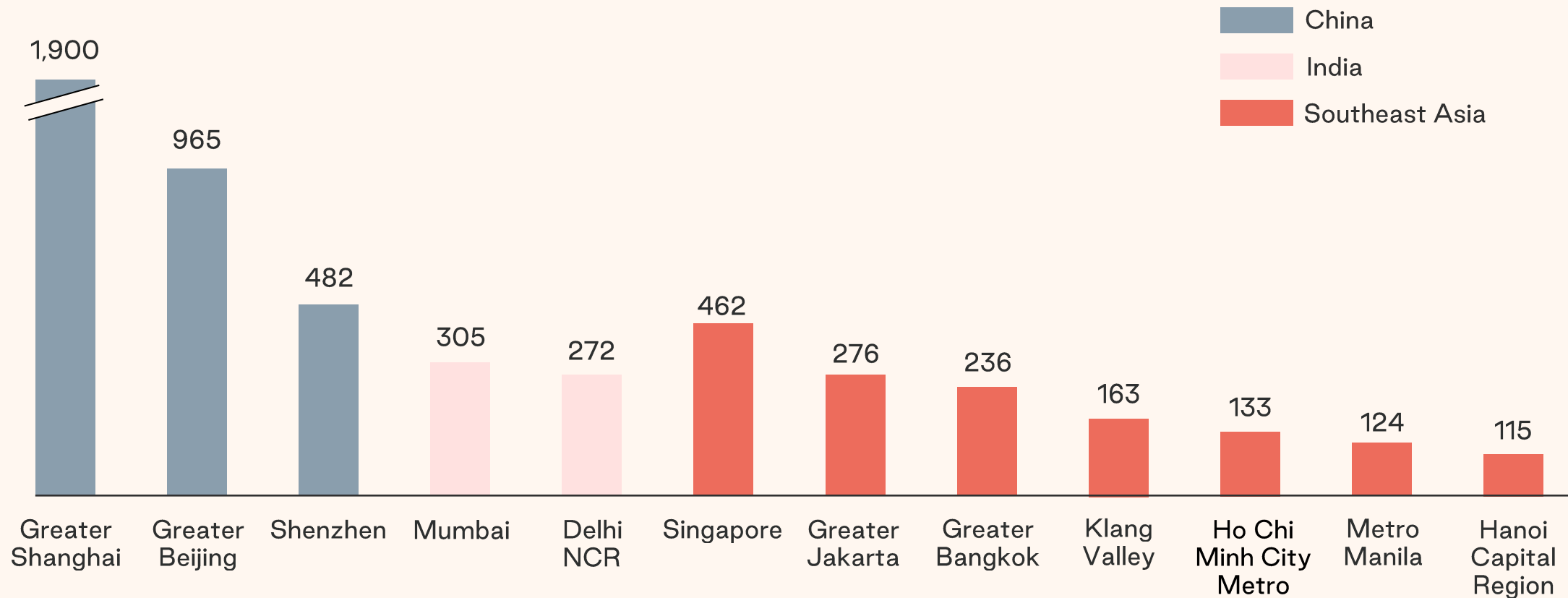
HOUSEHOLDS GROUPED BY ANNUAL INCOME – INDIA, CHINA, SOUTHEAST ASIA

Number of households, In M 2023, Total consuming class households in bubble

Legend:
- >$20K
- >$10K–$20K
- >$5K–$10K
- >$2K–$5K
- <$2K
- Total consuming class households

China (327M)
- 158
- 169
- 96
- 49
- 25

India (91M)
- 10
- 81
- 58
- 81
- 102

SEA (54M)
- 16
- 38
- 44
- 32
- 24

Southeast Asia's economic centers also pale in economic size compared to their Indian and Chinese counterparts, making network effects harder to build

METRO AREA GDP IN CHINA, INDIA AND SOUTHEAST ASIA

2023, USD Billion

Legend:
- China
- India
- Southeast Asia

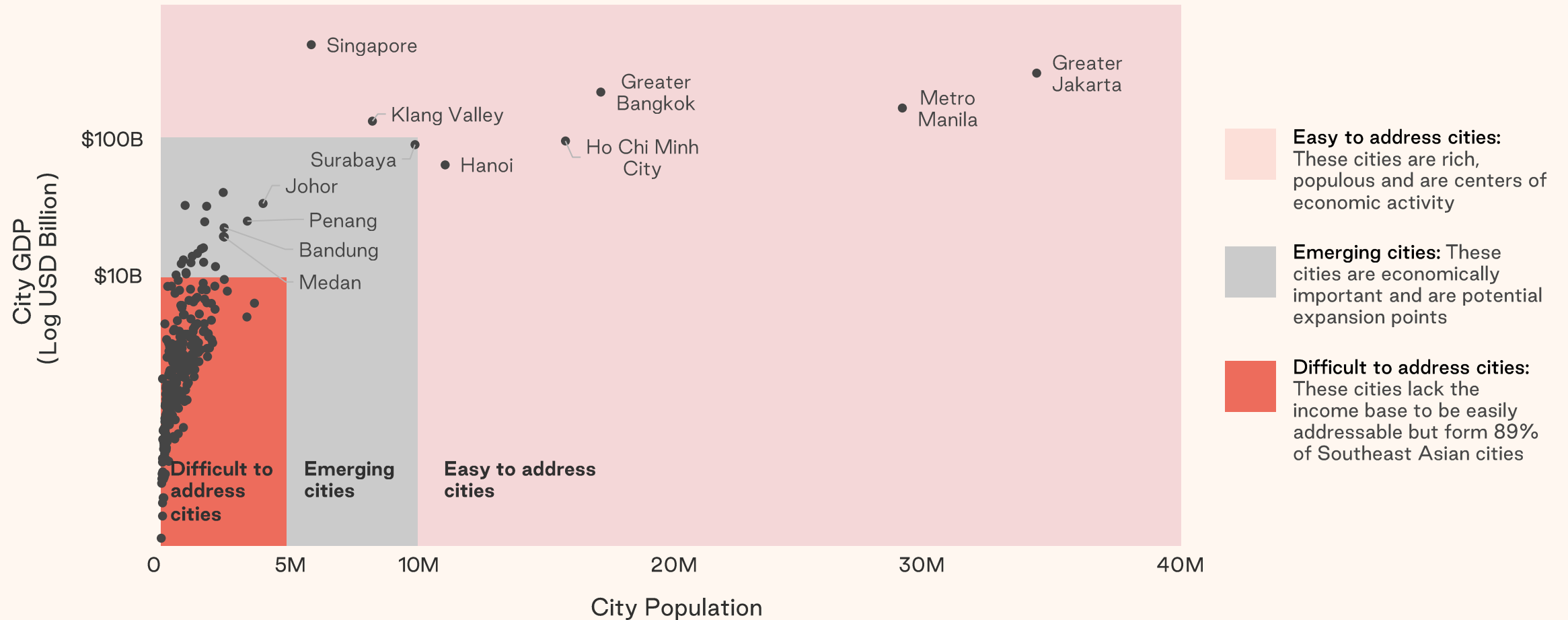| Metro Area	GDP (USD Billion)
Greater Shanghai	1,900
Greater Beijing	965
Shenzhen	482
Mumbai	305
Delhi NCR	272
Singapore	462
Greater Jakarta	276
Greater Bangkok	236
Klang Valley	163
Ho Chi Minh City Metro	133
Metro Manila	124
Hanoi Capital Region	115

CHAPTER 2

THE SOUTHEAST ASIAN CONSUMER

Using China and India as a proxy for Southeast Asia is misguided because the underlying demographics are fundamentally different. Most consumer technology companies need large urban centers and a thriving middle class with spending power—something that China and India have at a much greater scale than Southeast Asia as of 2024.

The following section illustrates that difference and examines why monetizing Southeast Asian consumers at scale has been challenging.

The lion's share of Southeast Asia's economic value is in its capital cities; almost all the region's monetizable users are in the top twenty cities

CITY GDP AND POPULATION

2022

Easy to address cities: These cities are rich, populous and are centers of economic activity

Emerging cities: These cities are economically important and are potential expansion points

Difficult to address cities: These cities lack the income base to be easily addressable but form 89% of Southeast Asian cities
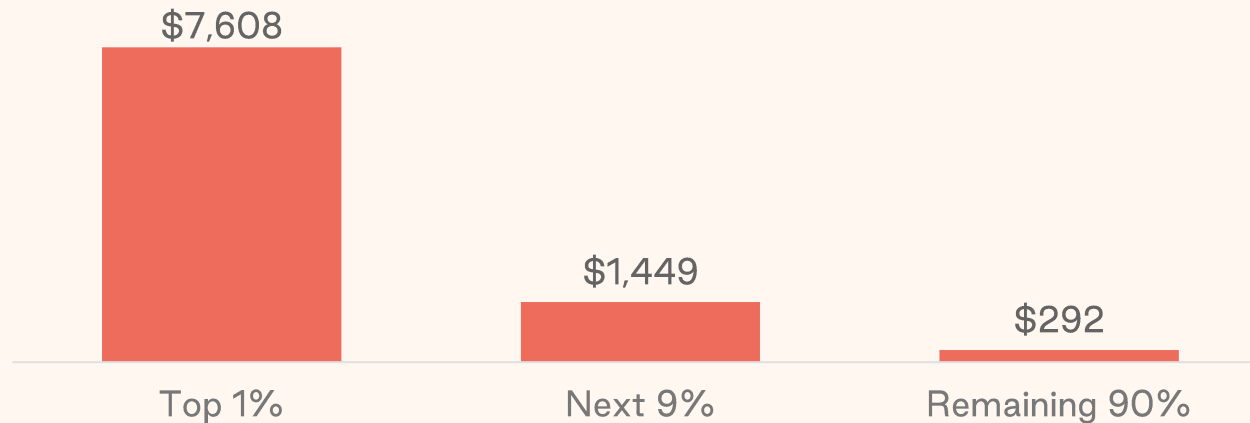
Note(s): List of emerging cities can be found in the Appendix
Source(s): National Statistical Organizations

Per capita averages are very deceiving in Southeast Asia...

AVERAGE MONTHLY INCOME IN SOUTHEAST ASIA
USD, 2022

$469 — Regional Mean
$320 — Regional Median
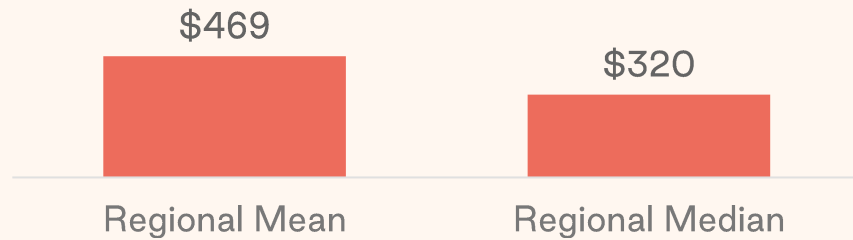
AVERAGE MONTHLY INCOME BY PERCENTILE IN SOUTHEAST ASIA
USD, 2022

$7,608 — Top 1%
$1,449 — Next 9%
$292 — Remaining 90%

The average isn't high: As the first chart illustrates, an entrepreneur who builds for an audience with $400 monthly income will be excluding at least 50% of the population
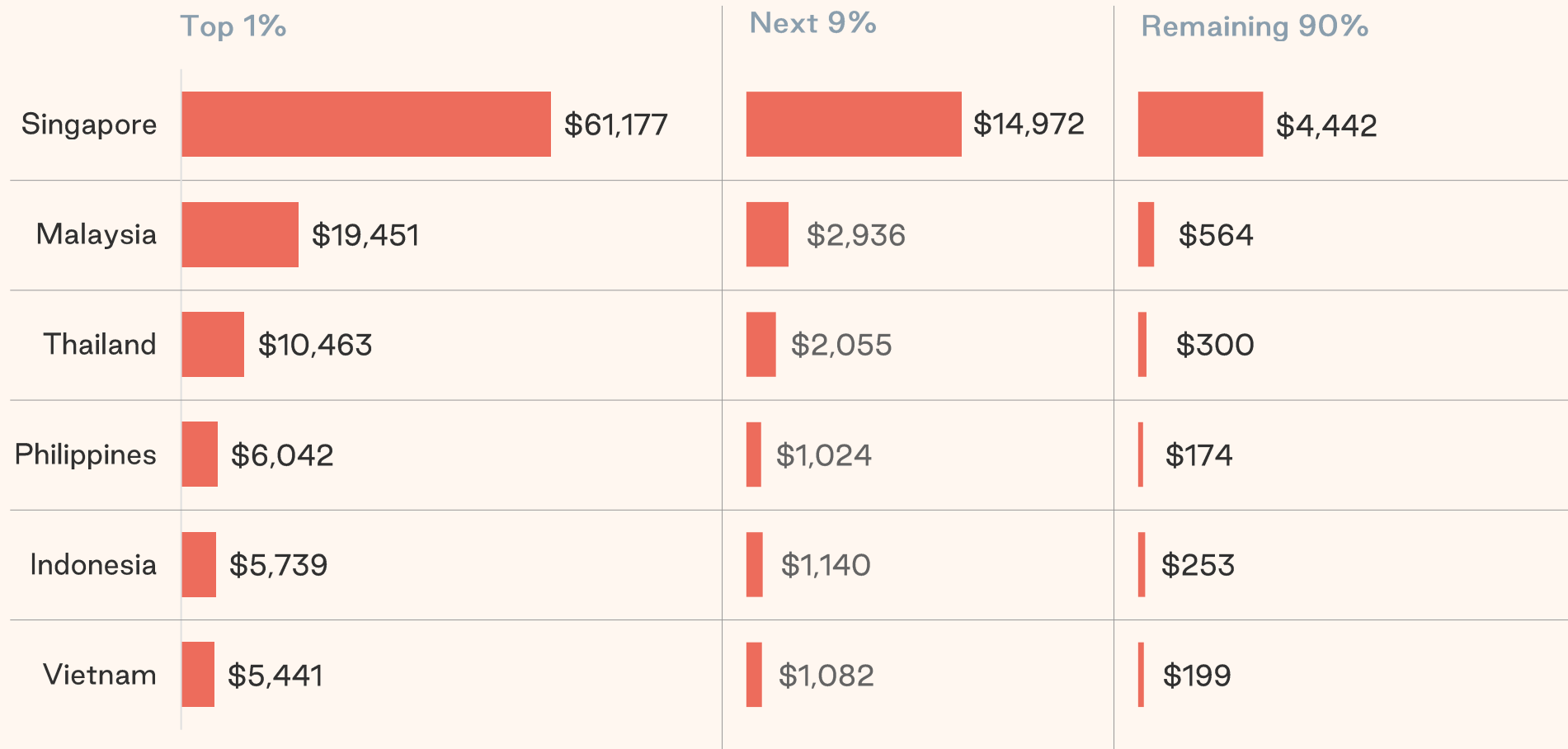
Economic concentration at the very top: As the second chart illustrates, these average are distorted by the top 1% and the drop-offs by percentile are severe

This is made worse by inter-country disparities, where the standard deviation in average incomes between ASEAN countries is over seven times that of EU member states

...because income differences are stark between countries and within countries

AVERAGE MONTHLY INCOME BY PERCENTILE

USD

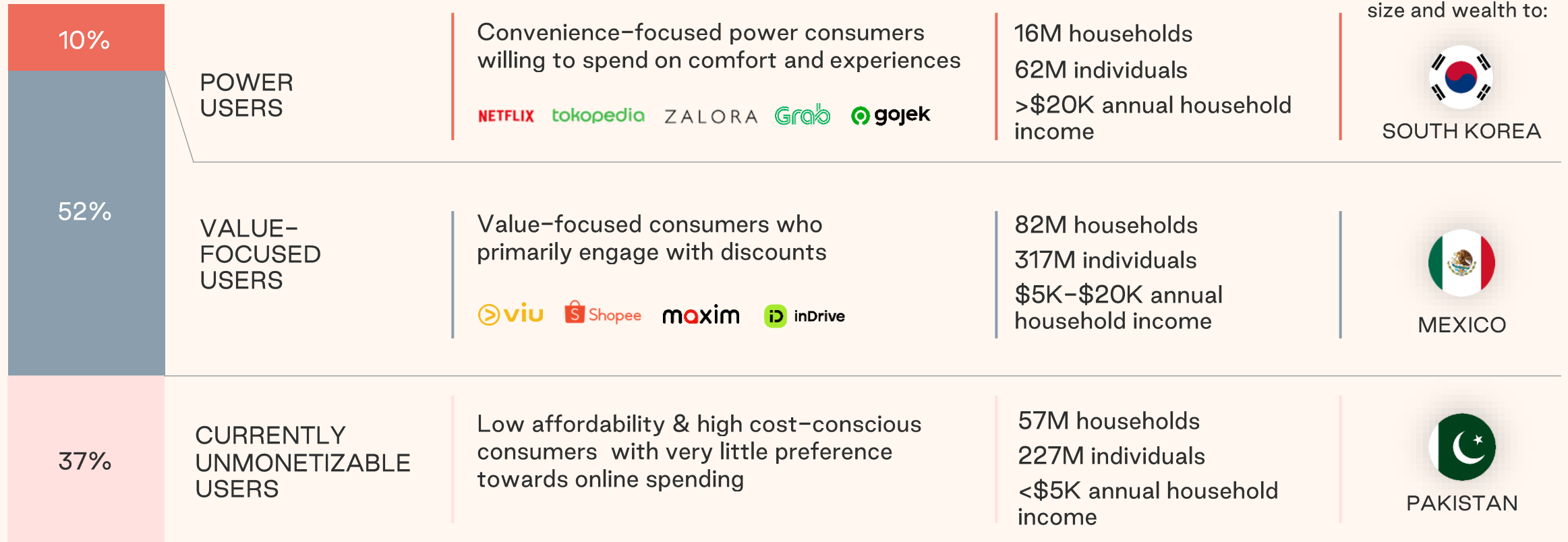|	Top 1%	Next 9%	Remaining 90%
Singapore	$61,177	$14,972	$4,442
Malaysia	$19,451	$2,936	$564
Thailand	$10,463	$2,055	$300
Philippines	$6,042	$1,024	$174
Indonesia	$5,739	$1,140	$253
Vietnam	$5,441	$1,082	$199

Most Southeast Asians are value-focused users of online services who focus on value rather than convenience; valuable cohorts are small relative to population...

SPLIT OF SOUTHEAST ASIAN HOUSEHOLDS BY MONETIZABILITY[1]
% households

Segment is similar in size and wealth to:

10%	**POWER USERS**	Convenience-focused power consumers willing to spend on comfort and experiences NETFLIX tokopedia ZALORA Grab gojek	16M households 62M individuals >$20K annual household income

SOUTH KOREA

52%	**VALUE-FOCUSED USERS**	Value-focused consumers who primarily engage with discounts viu Shopee maxim inDrive	82M households 317M individuals $5K-$20K annual household income

MEXICO

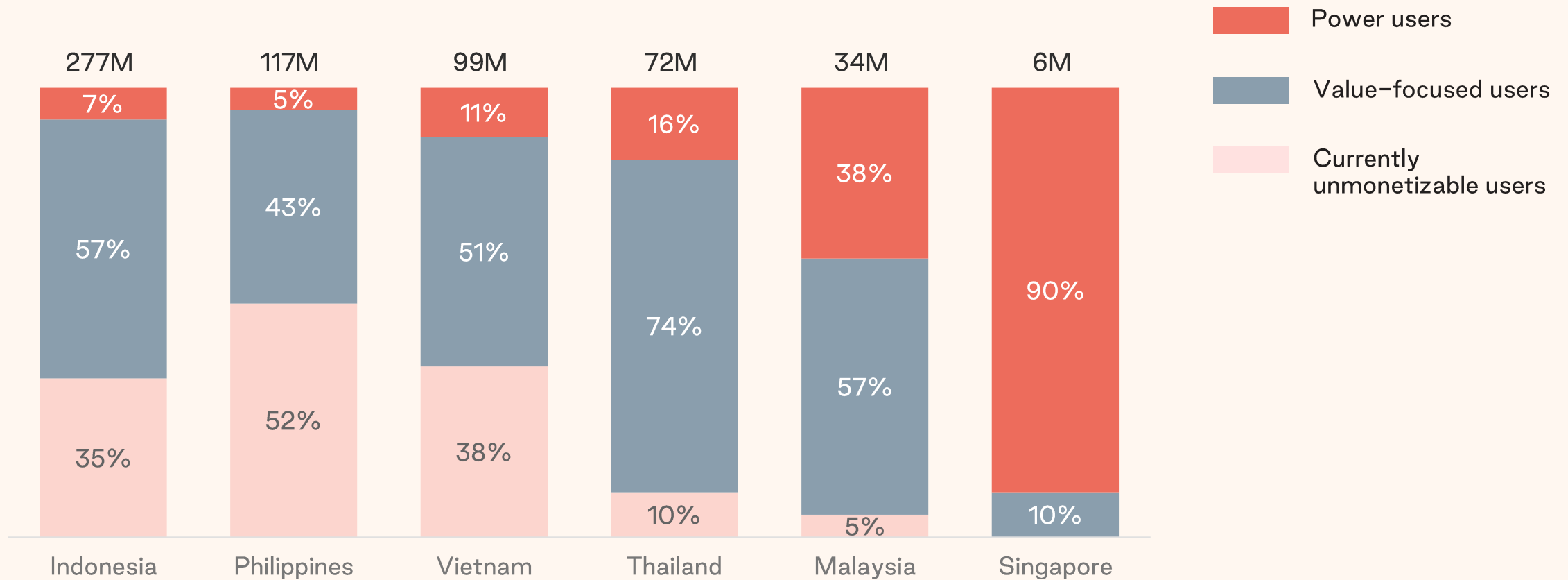|			
37%	**CURRENTLY UNMONETIZABLE USERS**	Low affordability & high cost-conscious consumers with very little preference towards online spending	57M households 227M individuals <$5K annual household income

PAKISTAN

1. Definition of monetizability:
Power users: Households who have more than $20K annual household income
Value-focused users: Households who have between $5K − 20K annual household income
Currently unmonetizable users: Households who have less than $5K annual household income

...thus, founders should have different objectives and employ different strategies due to the discrepancy of monetizable users in each SEA country
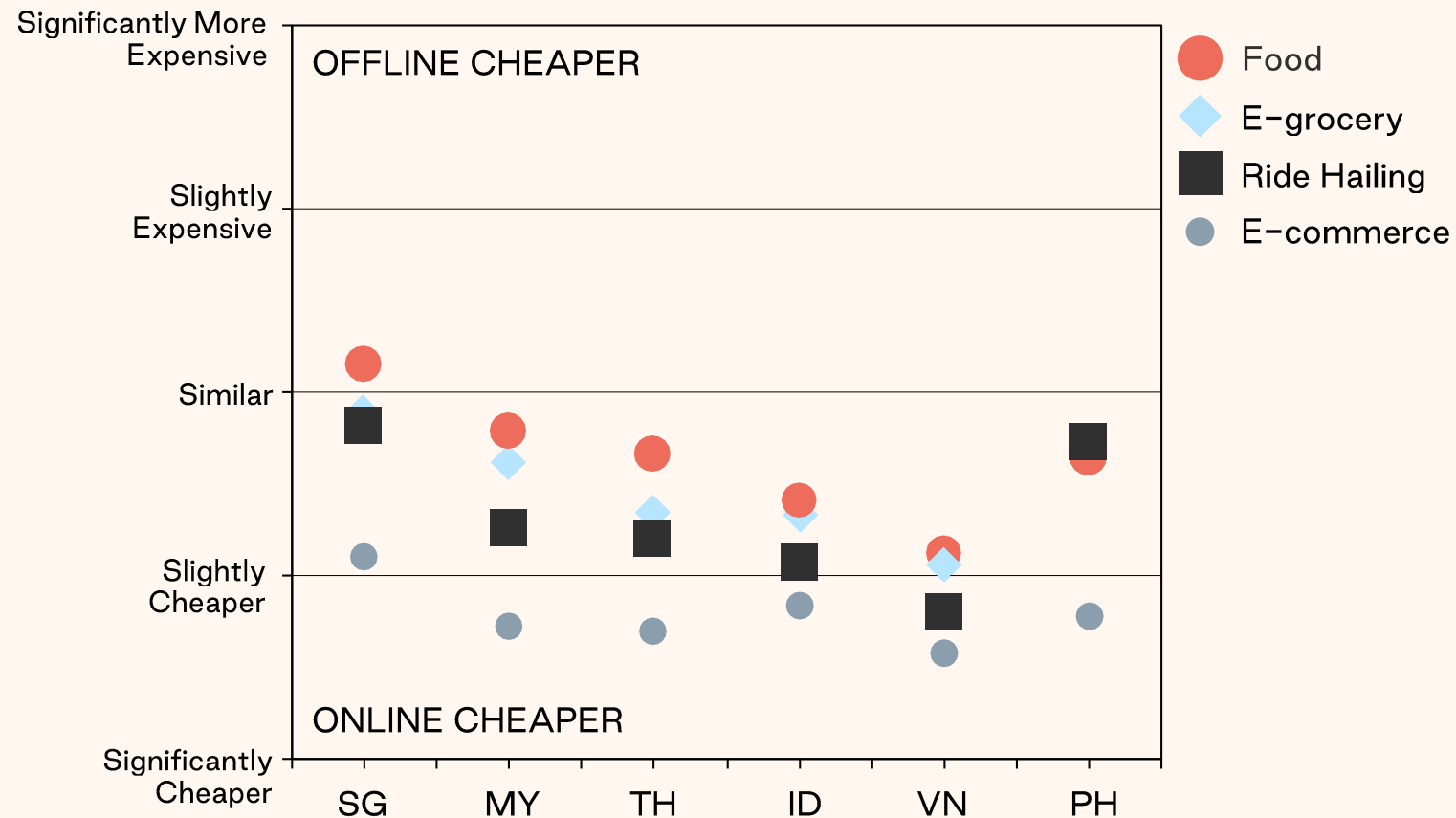
SPLIT OF HOUSEHOLDS BY MONETIZABILITY

2023

Legend:
- Power users
- Value-focused users
- Currently unmonetizable users

	Indonesia	Philippines	Vietnam	Thailand	Malaysia	Singapore
Total	277M	117M	99M	72M	34M	6M
Power users	7%	5%	11%	16%	38%	90%
Value-focused users	57%	43%	51%	74%	57%	10%
Currently unmonetizable users	35%	52%	38%	10%	5%	

After years of aggressive subsidies, consumer technology companies have implanted the idea that digital services are cheaper than their offline counterparts...

OFFLINE VS ONLINE CHANNELS – PRICING PERCEPTION

Q: Do you think online channels are cheaper than offline channels? (N = 6,000)

Legend:
- ● Food
- ◆ E-grocery
- ■ Ride Hailing
- ● E-commerce

Chart y-axis (top to bottom): Significantly More Expensive, Slightly Expensive, Similar, Slightly Cheaper, Significantly Cheaper

Chart labels: OFFLINE CHEAPER (top), ONLINE CHEAPER (bottom)

Chart x-axis: SG, MY, TH, ID, VN, PH

Across categories & countries, **consumers generally feel that online services are cheaper** than offline alternatives

Vietnamese consumers have the highest tendency to believe that online channels are cheaper compared to consumers of other countries

On-demand services in Singapore are perceived to be similar in price to offline alternatives

E-commerce is perceived to be of a higher bargain when compared to other services

...leading to consumer engagement driven by discounts and promotions. This will take time to change and will be important for profitable customer cohorts

DISCOUNT/PROMOTION DRIVEN DEMAND

Q: If discounts and promotions were to stop, how would it affect your usage? (N = 6,000)

Legend:
- 🔴 Food
- 🔷 E-grocery
- ⬛ Ride Hailing
- ⚫ E-commerce
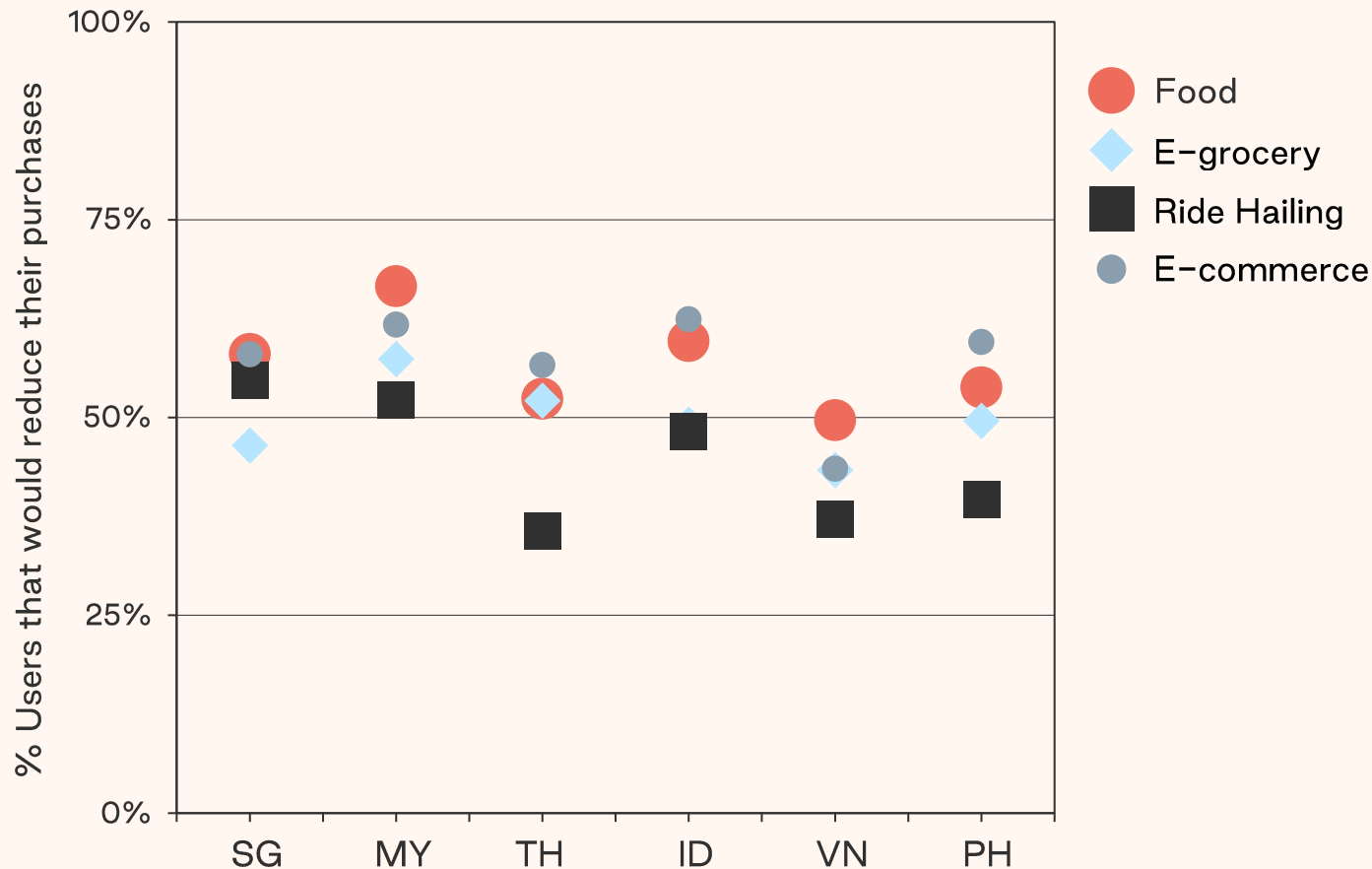
If discounts and promotions were to stop, most consumers expressed that their usage of platforms would reduce

E-commerce purchases were mostly likely to be negatively impacted from the removal of discounts

Ride hailing services were relatively more resilient

Vietnamese consumers, despite their perception of cheaper online prices, were relatively resilient to promo-sensitivity

The addressability and cost of acquiring customers differs greatly across the region due to different levels of infrastructure readiness

COUNTRIES	MONTHLY INCOME PER CAPITA US$	MOBILE INTERNET COST PER MONTH US$	MOBILE INTERNET COST AS % OF INCOME %	INDIVIDUALS USING THE INTERNET % of pop.	HAVE A BANK ACCOUNT % of pop. 15+ years old	HAS A DEBIT OR CREDIT CARD % of pop. 15+ years old	MADE OR RECEIVED A DIGITAL PAYMENT % of pop. 15+ years old
Singapore	$5,957	$17	0.3%	96%	98%	94%	68%
Malaysia	$966	$13	1.4%	96%	88%	84%	45%
Thailand	$560	$14	2.4%	88%	96%	68%	66%
Indonesia	$388	$7	1.9%	66%	52%	35%	12%
Vietnam	$331	$6	1.9%	79%	56%	49%	32%
Philippines	$309	$14	4.7%	53%	51%	30%	18%
India	$212	$4	2.0%	46%	78%	N/A	29%
China	$1,117	$11	1.0%	76%	89%	N/A	68%

More than 40% of the population remains unbanked in Indonesia, Vietnam and Philippines, which adds cost due to the need to first bank this segment before being able to serve them

Internet costs in the Philippines are prohibitively expensive and it has the lowest penetration rate, which further impedes acquisition and onboarding

Further, the quality of infrastructure differs greatly across the region, which affects feasibility of business models

ILLUSTRATIVE EXAMPLE: INFRASTRUCTURE FOR A CREDIT CARD USER IN SINGAPORE VS INDONESIA VS INDIA
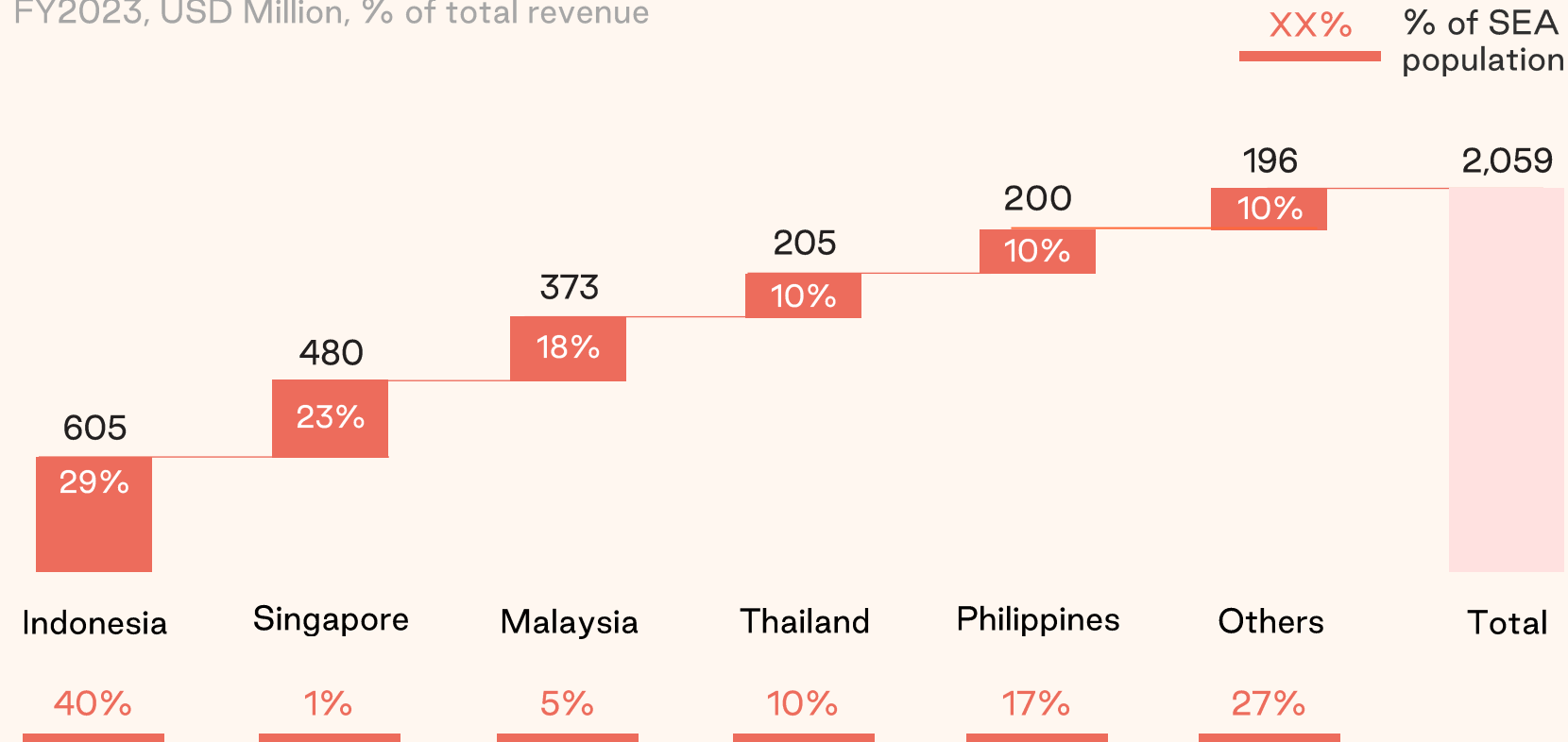
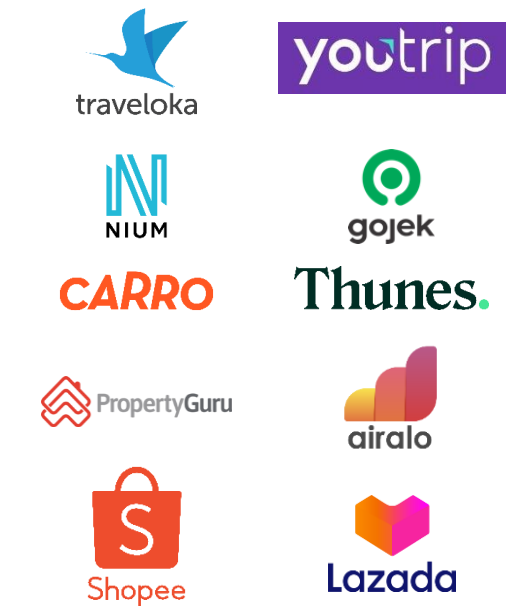|	APPLICATION →	CREDIT SCORING →	USAGE →	MONITORING
SINGAPORE	**Singpass:** One-click authorization for banks to access a centralized database containing applicant details	**CBS:** Centralized and detailed credit history, allowing for accurate underwriting. Approval rates are at **~30%**	There are **44 POS terminals per 1,000 people**. Credit cards account for **~36%** of transactions	**SGFINDEX:** Public infrastructure which allows access to financial information across different banks, providing a consolidated view
INDONESIA	**Paper forms:** In addition to basic form-filling, applicants also need to provide other proofs such as income manually. This dramatically reduces conversion rates and increases CAC	**SLIK:** Credit history only goes back 24 months, with detailed information only on the latest month. Approval rates are at **~10%**	There are **4 POS terminals per 1,000 people.** Credit cards account for **~4%** of transactions	**Single bank view:** There is no consolidation across different banks
INDIA	Similar to Indonesia, but with a digital process with supplemental PAN and Aadhar	**Multiple** credit information companies. Approval rates are at **~15%**	There are **9 POS terminals per 1,000 people**. Credit cards account for **~14%** of transactions	Similar to Indonesia

The power law in monetizable users is best illustrated by Singapore – despite having 1% of SEA population, the nation contributes 23% of Grab's revenue

PROFORMA GRAB REVENUE BREAKDOWN
FY2023, USD Million, % of total revenue

XX% ─── % of SEA population

	Indonesia	Singapore	Malaysia	Thailand	Philippines	Others	Total
Revenue	605	480	373	205	200	196	2,059
% of total revenue	29%	23%	18%	10%	10%	10%	
% of SEA population	40%	1%	5%	10%	17%	27%	

Besides Grab, these other regional startups also have more than $50M revenue in Singapore

traveloka · youtrip · NIUM · gojek · CARRO · Thunes. · PropertyGuru · airalo · Shopee · Lazada

Not an exhaustive list

Note: Excludes Jaya Grocer, of which Grab owns a majority stake and contributes ~USD 300M. Malaysia's revenues are understated as a result
Source(s): Capital IQ

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CHAPTER 3

WHY WE REMAIN EXCITED

Despite the significant challenges we highlighted, we are most definitely still excited about the future of Southeast Asian consumer tech. The region remains underpenetrated, while the founding of several unicorn companies in the region over the past decade has birthed a vibrant talent ecosystem that previously did not exist. In addition, the management of homegrown consumer tech companies that have been publicly listed has quickly corrected the unsustainable financial performance that was prevalent during the bull market.

We see that the talent market and the quality of companies have started to mature, which bodes well for the next generation of important companies that will be birthed in the next decade.

Despite significant usage increases in key verticals over the past decade, there is still a lot of room to grow. Even very light users of digital services only represent a minority of the total population by country

INTERNET SERVICES PENETRATION[1]

2023, % of Total Population

	SINGAPORE	MALAYSIA	THAILAND	VIETNAM	INDONESIA	PHILIPPINES
Total Internet Subscribers[2]	96.9%	96.8%	85.3%	79.1%	77.0%	73.1%
Social Media	86%	78%	73%	71%	60%	72%
Payments	74%	60%	43%	34%	46%	29%
OTT Video	51%	41%	36%	20%	24%	31%
E-commerce	59%	46%	44%	39%	40%	36%
Food Delivery	50%	18%	16%	12%	21%	15%
Ride Hailing	42%	27%	19%	27%	30%	13%
Stock Traders	26%	1%	1%	8%	2%	2%

There's still a lot of opportunity to acquire more wallet share — only a very small portion of customers have a majority of their category spend on online platforms
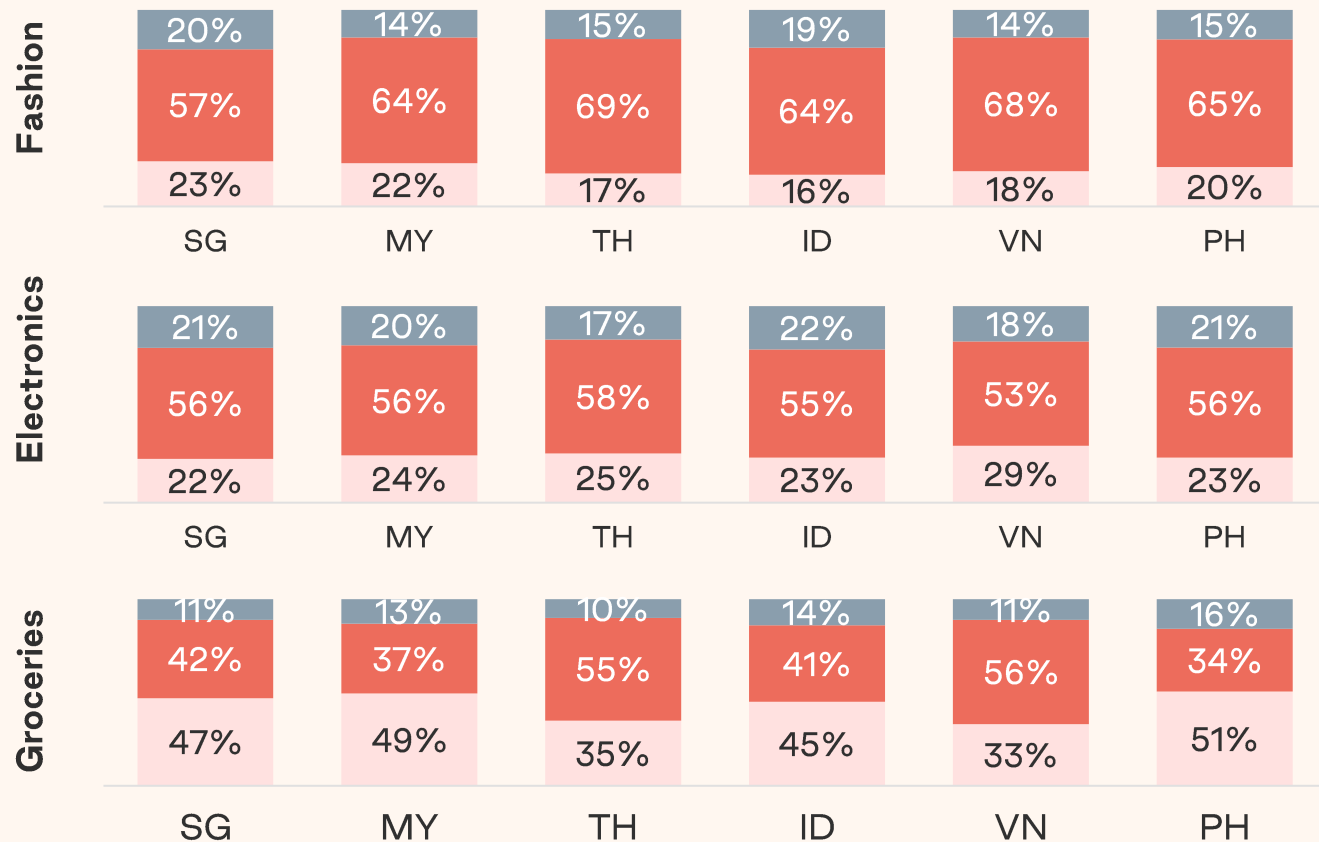
E-COMMERCE PENETRATION[1]
2023, % of Total Population

Country	%
SG	59%
MY	46%
TH	44%
ID	40%
VN	39%
PH	36%
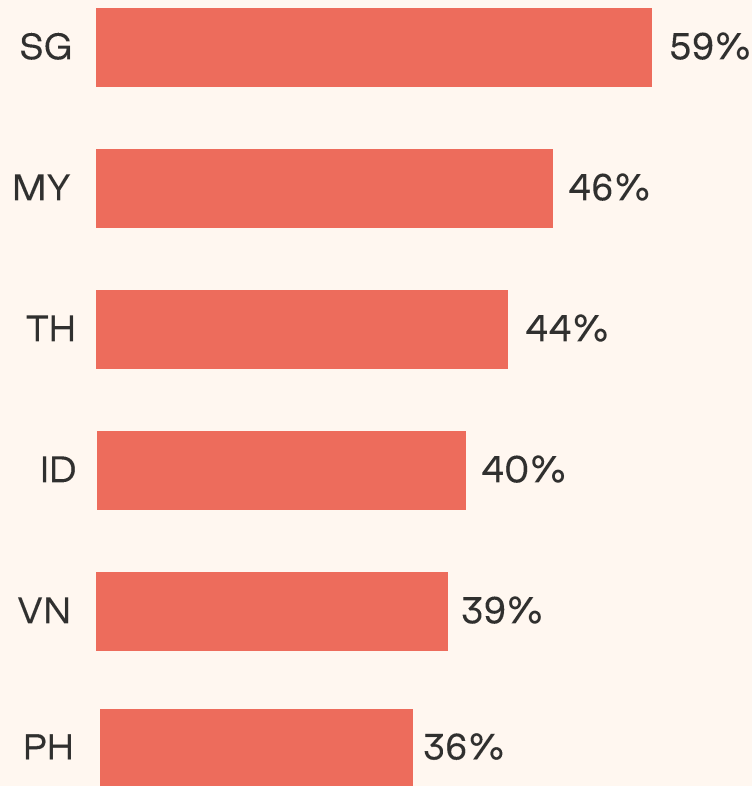
CHANNEL PREFERENCE – ONLINE

Q. How often do you purchase items from the channel?[2] (N=6,000+)

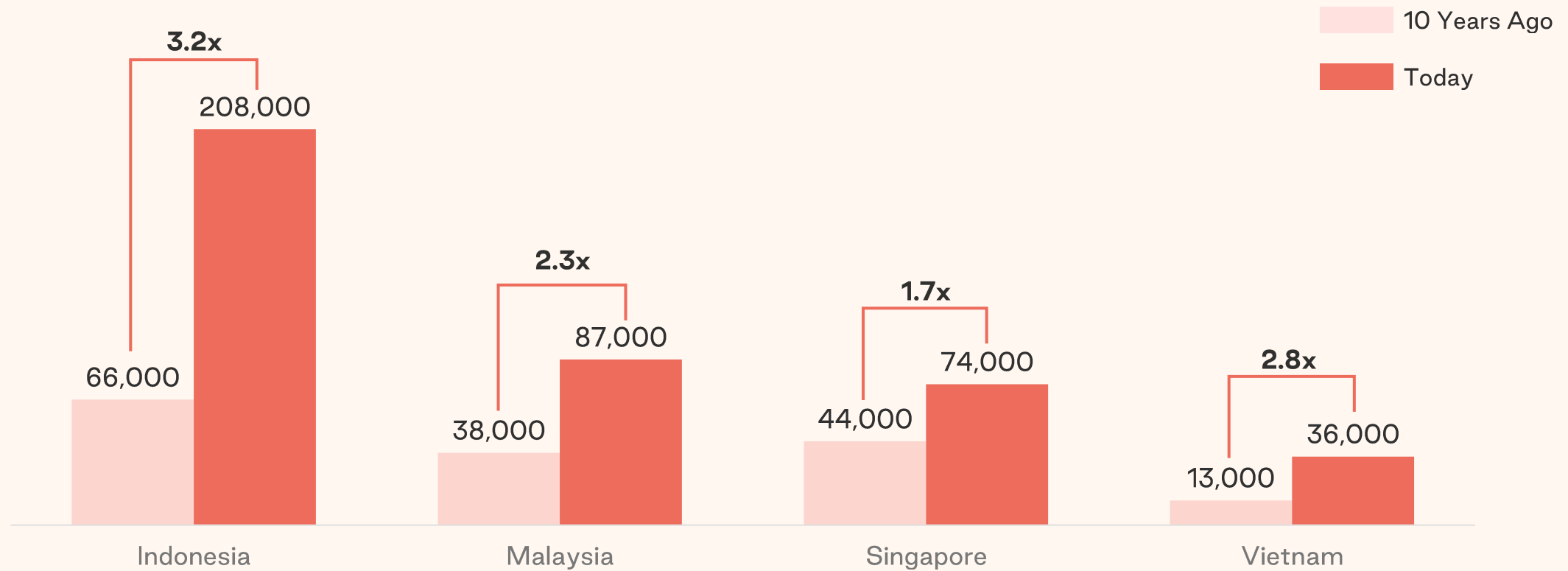Legend:
- Online Heavy
- Mixed
- Rarely Purchase Online

Fashion

	SG	MY	TH	ID	VN	PH
Online Heavy	20%	14%	15%	19%	14%	15%
Mixed	57%	64%	69%	64%	68%	65%
Rarely Purchase Online	23%	22%	17%	16%	18%	20%

Electronics

	SG	MY	TH	ID	VN	PH
Online Heavy	21%	20%	17%	22%	18%	21%
Mixed	56%	56%	58%	55%	53%	56%
Rarely Purchase Online	22%	24%	25%	23%	29%	23%

Groceries

	SG	MY	TH	ID	VN	PH
Online Heavy	11%	13%	10%	14%	11%	16%
Mixed	42%	37%	55%	41%	56%	34%
Rarely Purchase Online	47%	49%	35%	45%	33%	51%

Southeast Asia has far more tech talent today than it did 10 years ago – it has never been easier to find experienced engineering talent

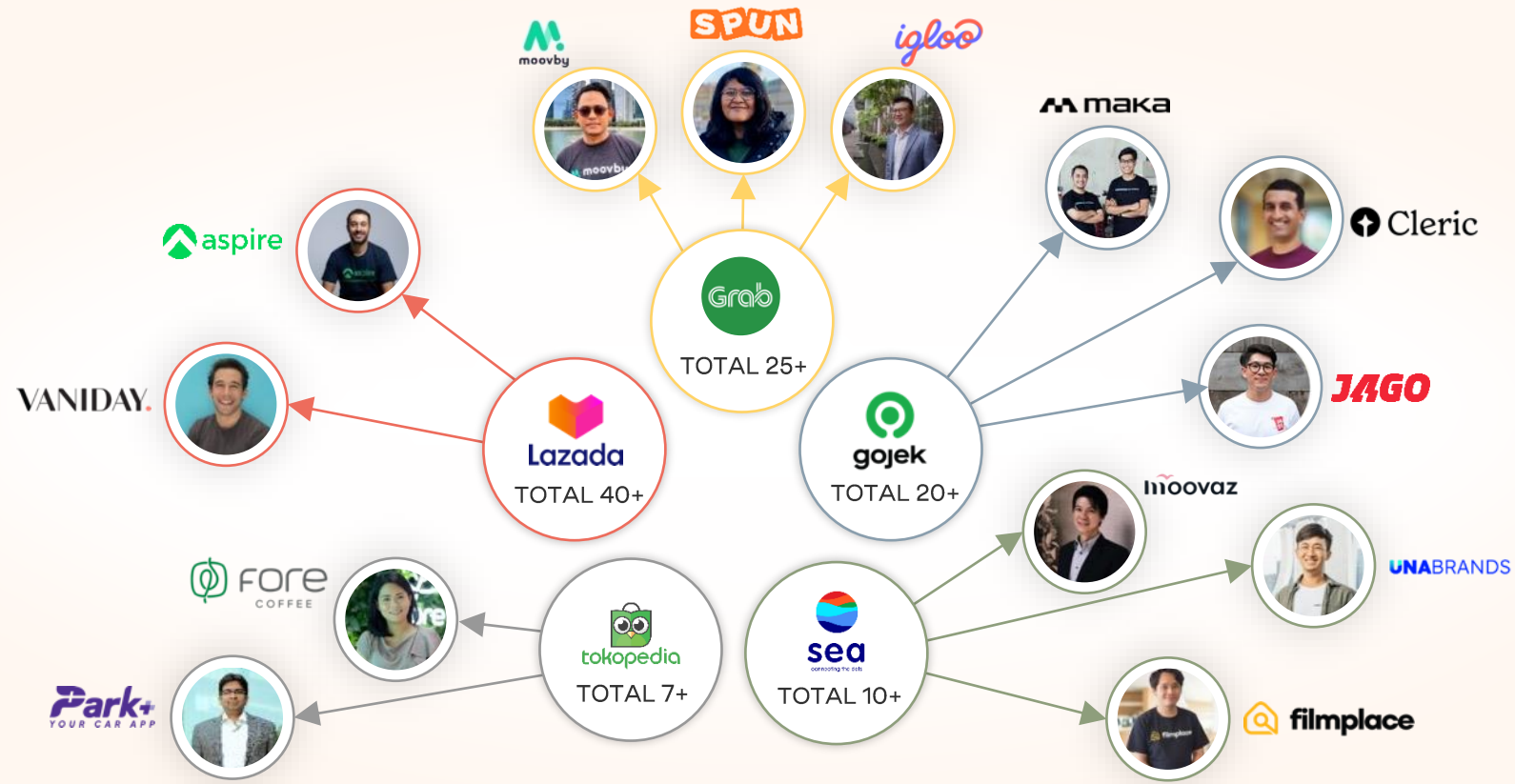SOUTHEAST ASIA SOFTWARE ENGINEERING TALENT GROWTH

Based on LinkedIn profiles

Legend:
- 10 Years Ago
- Today

Indonesia
- 66,000 (10 Years Ago)
- 208,000 (Today)
- 3.2x

Malaysia
- 38,000 (10 Years Ago)
- 87,000 (Today)
- 2.3x

Singapore
- 44,000 (10 Years Ago)
- 74,000 (Today)
- 1.7x

Vietnam
- 13,000 (10 Years Ago)
- 36,000 (Today)
- 2.8x

Not only engineering talent, but founder talent is much more available as alumni of successful companies start their own

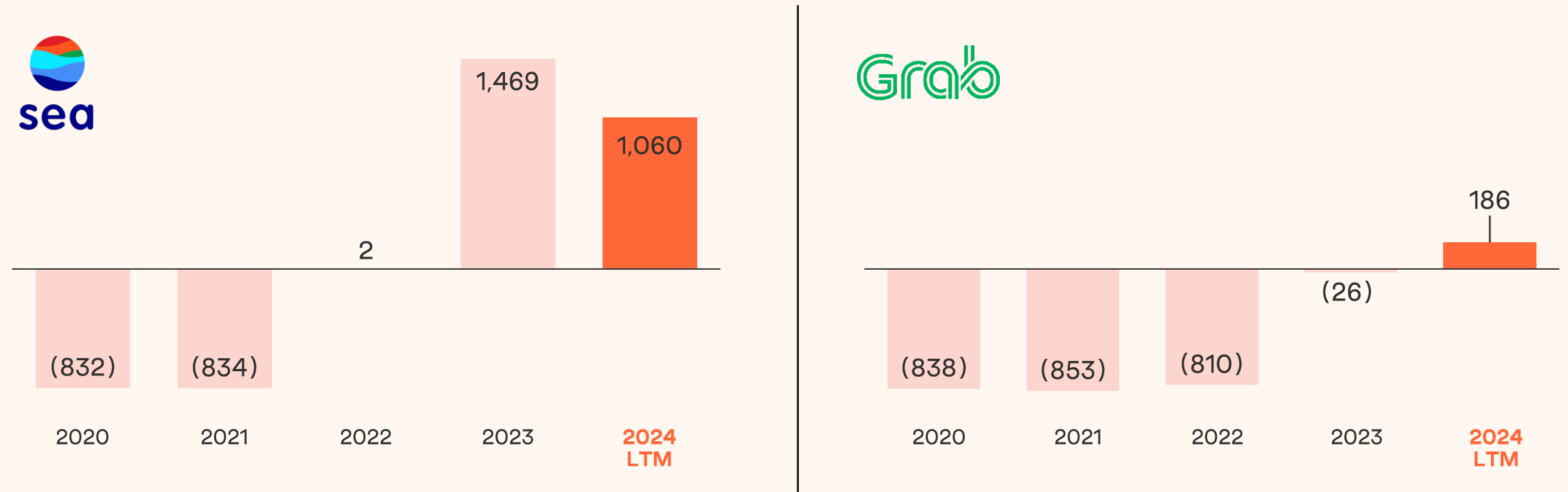COMPANIES FOUNDED BY ALUMNI OF FIRST–GEN TECH FIRMS

Descriptive

Illustrative

Note(s): Companies chosen have valuation more than $ 1M USD and founders are working in the company as on 26/06/2024
Source(s): Redseer analysis, Desk Research

Listed companies have proven that they can reach financial sustainability in a relatively short period of time through cost-cutting and spending less on subsidies

ADJUSTED EBITDA[1]

USD Million, 2020 – 2024[2]

sea

2020	2021	2022	2023	2024 LTM
(832)	(834)	2	1,469	1,060

Grab

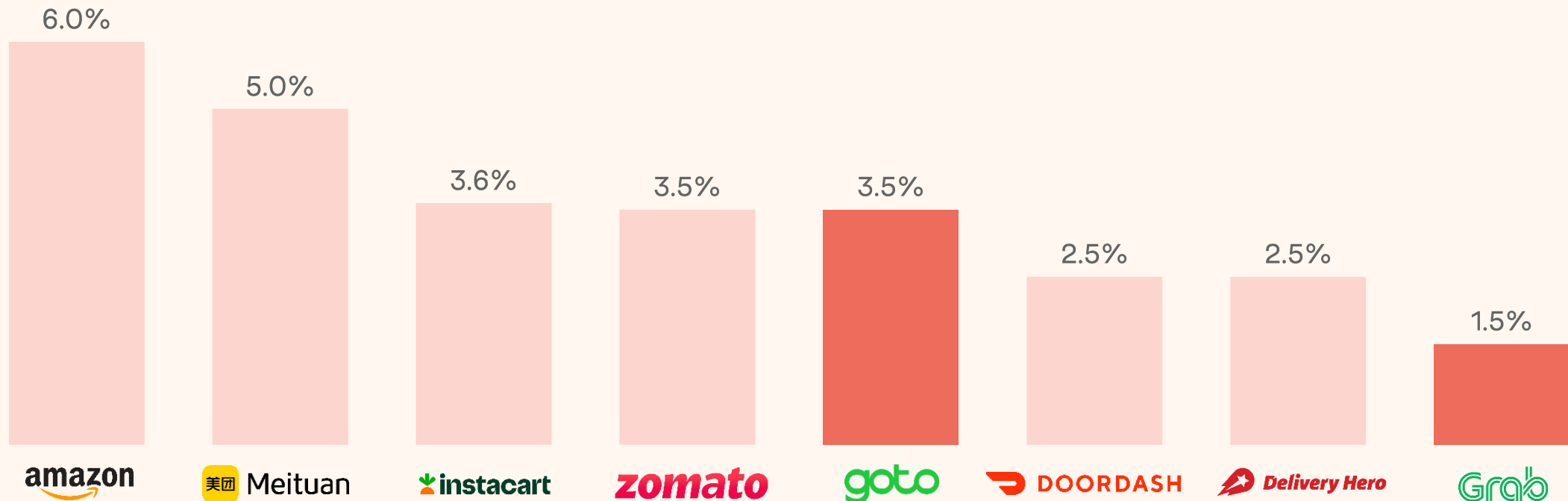| 2020	2021	2022	2023	2024 LTM
(838)	(853)	(810)	(26)	186

1. For consistency between companies, we adjusted EBITDA by only excluding stock-based compensation; this may differ from the company's own definition of adjusted EBITDA
2. 2024 figures are LTM as of 2Q 2024 filings

Promisingly, advertising revenue has started to scale to generate profits without having consumers spend more — extremely important given the lower income profile of Southeast Asia consumers
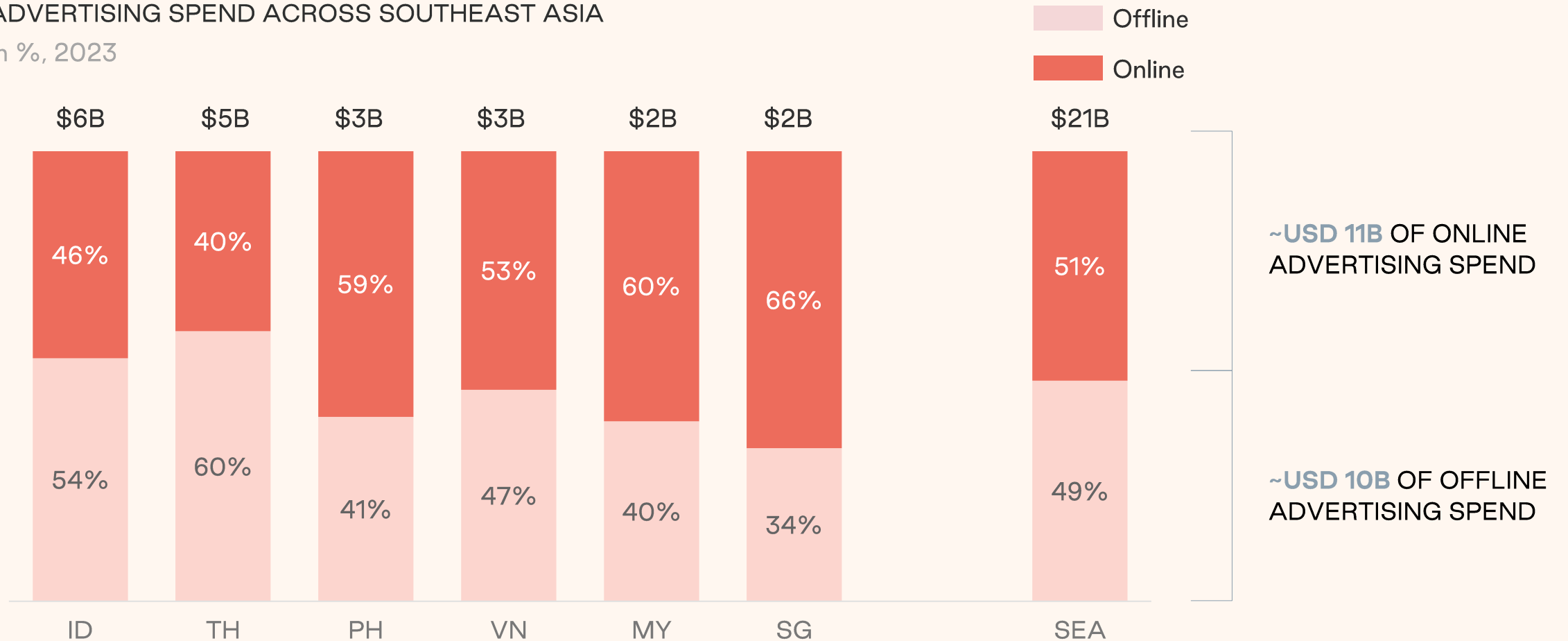
ADVERTISING REVENUE
% of Revenue, 2023

amazon	Meituan	instacart	zomato	goto	DOORDASH	Delivery Hero	Grab
6.0%	5.0%	3.6%	3.5%	3.5%	2.5%	2.5%	1.5%

We believe that online advertising will be an essential high-margin business model for most consumer companies at scale — an $11 billion and growing opportunity...

**ADVERTISING SPEND ACROSS SOUTHEAST ASIA**
In %, 2023

Offline
Online

	$6B	$5B	$3B	$3B	$2B	$2B		$21B
Online	46%	40%	59%	53%	60%	66%		51%
Offline	54%	60%	41%	47%	40%	34%		49%
	ID	TH	PH	VN	MY	SG		SEA

~USD 11B OF ONLINE ADVERTISING SPEND

~USD 10B OF OFFLINE ADVERTISING SPEND

...where digital ad spend grew upwards of ~14% for all countries in the last six years; Indonesia and Vietnam showed hyper-growth (upwards of 20%)

ADVERTISING SPEND ACROSS SOUTHEAST ASIA

% growth per annum, 2017 – 23; Size of bubble represents ad spend amounts
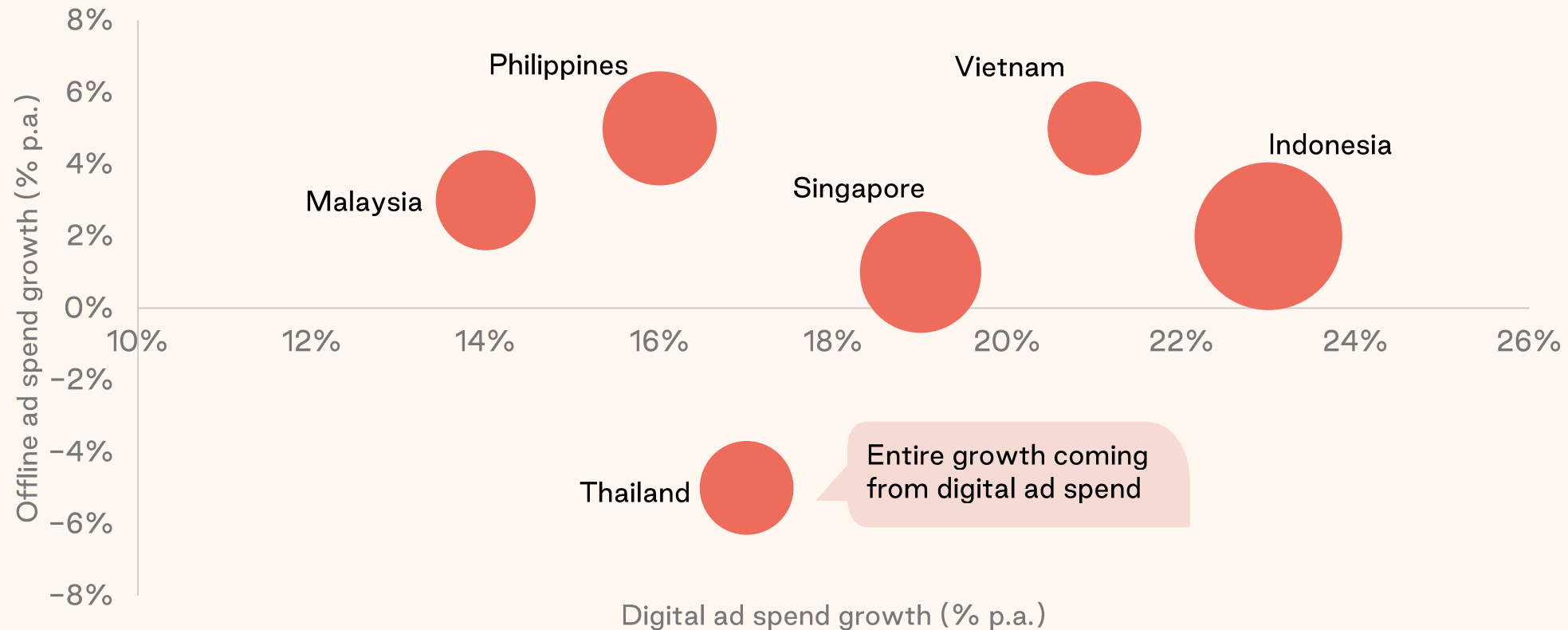
WE ARE DEFINITELY STILL LONG ON SOUTHEAST ASIAN TECH.

A decade ago, mobile internet access was just starting to take off, and homegrown consumer tech companies were fledgling businesses with just a small set of early adopters. Today, hundreds of millions of people actively use the products of homegrown technology companies, and a small group of these companies already represent some of the most valuable publicly traded businesses in the region.

We believe that the excesses of the past decade were underwritten by views that were wildly out of touch with the reality on the ground, resulting in the deployment of billions of dollars into subsidies that will never be recouped on a cohort basis, business models that were never fundamentally sustainable, and valuations that were decades ahead of its time. Our hope is that by resetting expectations based on a realistic picture of the Southeast Asian consumer, founders and investors will have a better chance at executing against the still-exciting opportunity in the region.

⌐ Lightspeed

Appendix: List of emerging Southeast Asian cities

City	Country	Local Classification	Nominal GDP (USD Billion)	Nominal GDP Per Capita (USD Thousand)	Population (Million)
Greater Surabaya	Indonesia	Metro	$95B	$8.2K	10.0M
Johor	Malaysia	State	$35B	$8.7K	4.0M
Rayong	Thailand	Province	$34B	$35.0K	1.0M
Chonburi	Thailand	Province	$33B	$18.6K	1.8M
Pulau Pinang	Malaysia	State	$26B	$14.9K	1.7M
Bandung	Indonesia	City	$23B	$9.2K	2.5M
Medan	Indonesia	City	$20B	$8.0K	2.5M
Semarang	Indonesia	City	$16B	$9.6K	1.7M
Makassar	Indonesia	City	$15B	$10.2K	1.5M
Batam	Indonesia	City	$14B	$11.3K	1.3M