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S.E.A. View

Amazon delay shows challenges of e-commerce in S-E Asia

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To the disappointment of Singapore's eager online shoppers, it seems Amazon has put off its local launch date.

The big daddy of e-commerce firms had been expected to set up shop in the first quarter of this year, the prelude to a push into the broader South-east Asian market.

But industry insiders have told tech news site TechCrunch that the launch has been pushed back to an unspecified date, possibly later in the year. The delay has raised speculation that Amazon is finding this part of the world a tougher nut to crack than it first thought.

With more than 600 million consumers – about twice that of the United States – South-east Asia is one of the most promising new frontiers for online retailers. E-commerce accounts for less than 5 per cent of all commerce now, but analysts believe that will change dramatically over the next decade.

According to a report published last year by Google and Temasek, Internet use in South-east Asia is growing at an average rate of 124,000 new users a day, the fastest pace anywhere in the world. With a relatively young population and a rapidly expanding middle class, the report forecast that the South-east Asian e-commerce market will grow at around 32 per cent a year to be worth US$88 billion (S$123 billion) by 2025.

For Amazon then, Singapore should offer an ideal springboard to enter this market. But if Amazon does indeed have its sights set here, is it coming rather late to the party?

After all, Lazada – once known as "the Amazon of South-east Asia" – has been operating and growing in the region for several years, and it is No. 1 in Thailand, Malaysia, Vietnam, Indonesia and the Philippines.

Lazada's growth has drawn the attention of Chinese e-commerce giant Alibaba, which last year pumped US$1 billion into acquiring a controlling stake in the firm – its largest overseas purchase.

Facing up against a new entrant like Amazon, Lazada would seem to enjoy some first-mover advantage. It has reputation and experience on its side, it understands how logistics and regulations vary across the region, and it gets what sells well in various markets. In addition, Lazada has invested time building up reliable delivery partners to get the products to its customers, and it has feet on the ground in each territory. Local knowledge remains important, even in e-commerce.

But Lazada has not had it easy. Despite rapid increases in sales, Alibaba's US$1 billion investment reportedly came just in time to shore up a company that is still struggling to achieve profitability.

That's because, although the headline figures may make it seem lucrative, the South-east Asian market is also highly fragmented.

Different languages, regulations and wealth disparities present obvious challenges, but e-commerce firms must also work with widely varying transportation and payment infrastructure.

For Amazon, entering Singapore would be an easy first step. Its spending power, business-friendly legal framework, strong infrastructure and established e-commerce culture are closely matched to Western markets where it is well established.

However, taking its operation regionwide will be more of a challenge. While it may enjoy some name recognition, winning consumer trust and managing customer experience will be critical. Selection, convenience and reliability will be key demands and exceeding customer expectations will matter when it comes to winning market share.

Payment systems will be one major issue and Amazon will need to offer options such as cash on delivery, on top of the more traditional credit card prepayment it is used to.

On the supplier side, meanwhile, Amazon will need to find partners with local knowledge, offer incentives to persuade them to join its platforms and invest in capturing market share. One way it may be able to lure Asian vendors is by offering them easier access to Western markets where it has a strong footing and established infrastructure.

But it will have to contend with the growing competitive presence of Alibaba. With its home market in China saturated, Alibaba sees South-east Asia as the next logical step for expansion. Indeed, aside from its control of Lazada, Alibaba has been stepping up its interests in the region, acquiring stakes in other operations such as Thai e-payments firm Ascend Money and delivery firm Singapore Post.

So, with two e-commerce giants shaping up to go head to head in South-east Asia, how might this play out? Alibaba has deep pockets and is eager to grow beyond China. That's likely to work well for Lazada, but will also lure other e-commerce players into investing in the region. JD.com, for example, Alibaba's main rival in China, has already set up an operation in Indonesia. Amazon, too, if and when it does launch, will be ready to stick it out for the long term.

For consumers, this will likely mean more choice, competitive pricing and promotions as existing and new players join the fray. For some already struggling traditional bricks-and-mortar retailers, it means that the already existing e-commerce challenge will step up a gear. They should be prepared.

But Amazon's much-anticipated Singapore debut would be just the first stage. The real story, and the real battle, will start once it ventures into the wider region.

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