



Who is Shopee

Southeast Asia's ecommerce leader and its prospects in Latin America

August 2021



This is the first instalment of two-series report

Report 1 Who is Shopee



Report 2 Addressing the WHYs

Overview of Shopee and
its expansion into Latam

Answering burning questions on Shopee
and what's next

 Spanish and Portuguese versions coming soon



Get in touch:
hello@mworks.asia

Burning questions, report enquiries



- 1. Who is Shopee**
- 2. Introduction to Sea Group**
- 3. Shopee Organisation**
- 4. How it won ecommerce in Southeast Asia**
- 5. What's next**
- 6. Conclusions and perspectives**

Momentum Works 2021. All rights reserved. The material contained in this document is the exclusive property of Momentum Works. Any reliance on such material is made at the users' own risk.

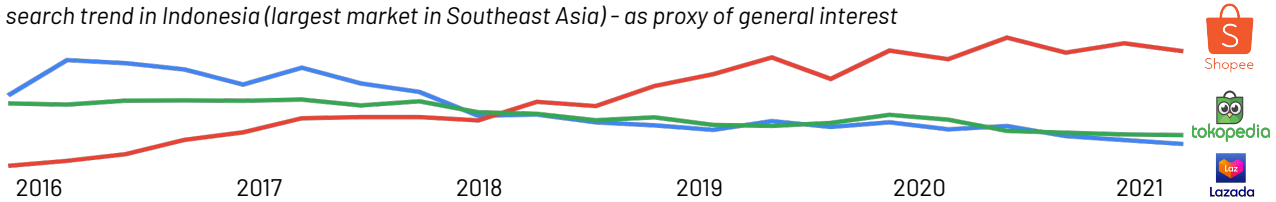
Why we are doing this report



1

Overtaking strong local incumbents in Southeast Asia to reach the top

Google search trend in Indonesia (largest market in Southeast Asia) - as proxy of general interest



2

Making inroads into Latam since 2020



Singapore



Malaysia



Taiwan



Indonesia



Thailand



Vietnam



Philippines

SEA+TW

LATAM



Brazil



Chile



México



Colombia

3

Soaring stock prices since 2020 - market cap rose >7.6 X



Parent of Shopee

Market capitalization (\$)

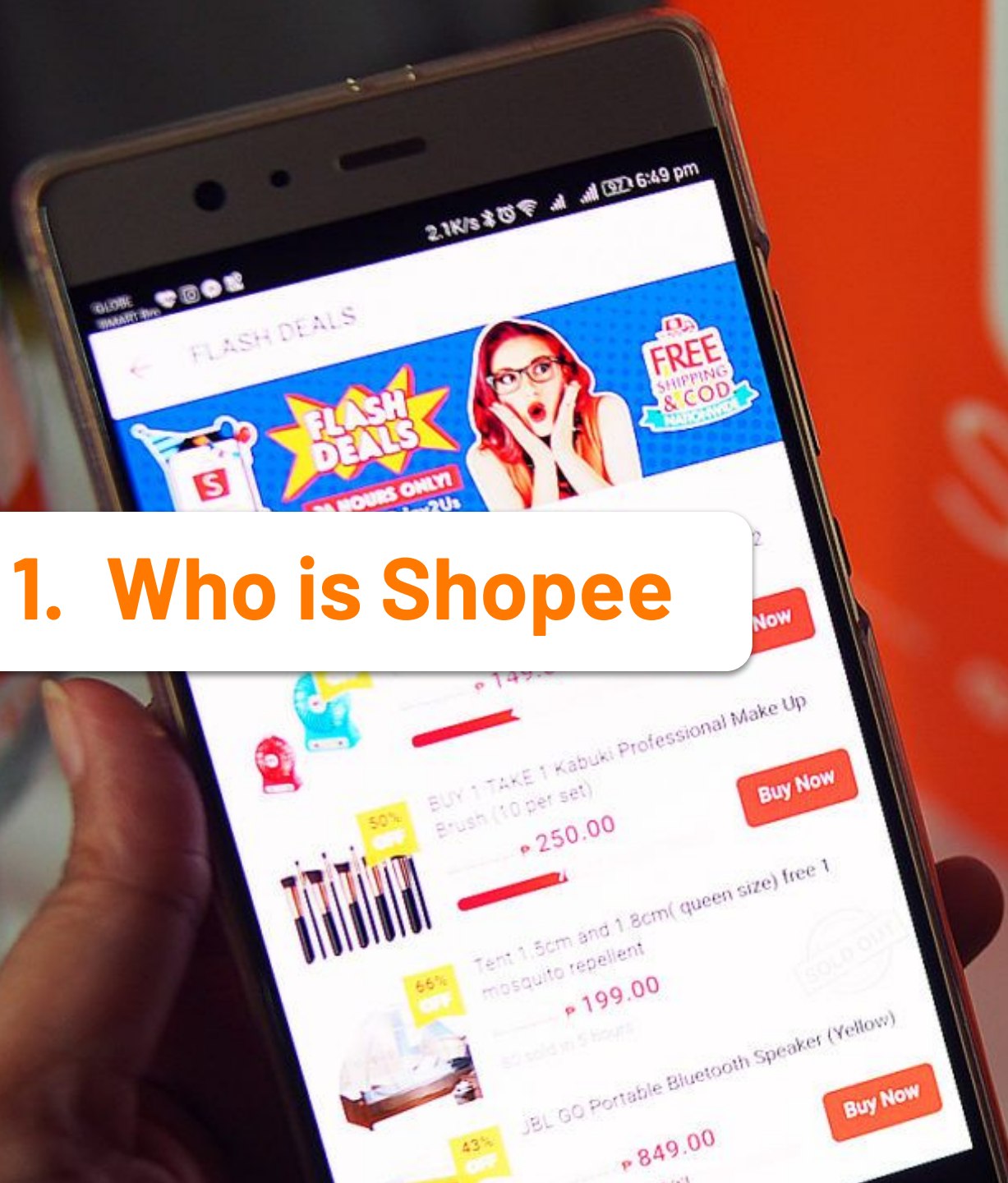


What are the success factors?

What are they planning to do in Latam?

Is their winning streak sustainable?

1. Who is Shopee



- Shopee is the **top ecommerce platform** in Southeast Asia, serving a market of close to **600 million people**.
- The parent company, Sea Group, has become the largest consumer tech company headquartered in Southeast Asia, with a market capitalization of close to **US\$150 billion** by end of June 2021.
- Sea Group's three core businesses, **digital entertainment, ecommerce and digital financial services**, are all growing well, defying expectations of naysayers who complain about the group's losses.
- A key reason for this investor enthusiasm is the rapid growth of Shopee under the tailwind of the Covid-19 pandemic. In 2020, Shopee's total orders reached **2.8 billion, a year-on-year increase of 132.8%**.
- In 2021, it has launched ecommerce operations in Mexico, Chile and Colombia, in addition to Brazil, which has been a fast growing market for the company. **A full blown expansion in Latam** is starting to take shape.
- To understand their Latam strategy and predict their possible future moves, it is **imperative to understand the company first**, including its strategy, its leaders, and the key strengths / winning factors.

Shopee's ascent to become the top ecommerce platform in Southeast Asia



Shopee's rise in Southeast Asia over the past 6 years has been rapid and consistent

2015

Founded from Garena Mobile;

Adoption of **free shipping** strategy

2016

Launched **Shopee coins** to maintain customer loyalty;

Largest player in **Taiwan**, inroads into **Indonesia**

2017

Shopee Mall founded, starting to attract brands;

Overtaking Lazada in Indonesia



2018

Ramping up of **cross border** products from China

2019

Started testing **live streaming**;

Overtook **Tokopedia** to become top player in Indonesia;

Started pushing **ShopeePay**

2020

A Momentous Year Of Growth - full year GMV doubled to US\$35.4billion¹

Firmly **top player in Southeast Asia**

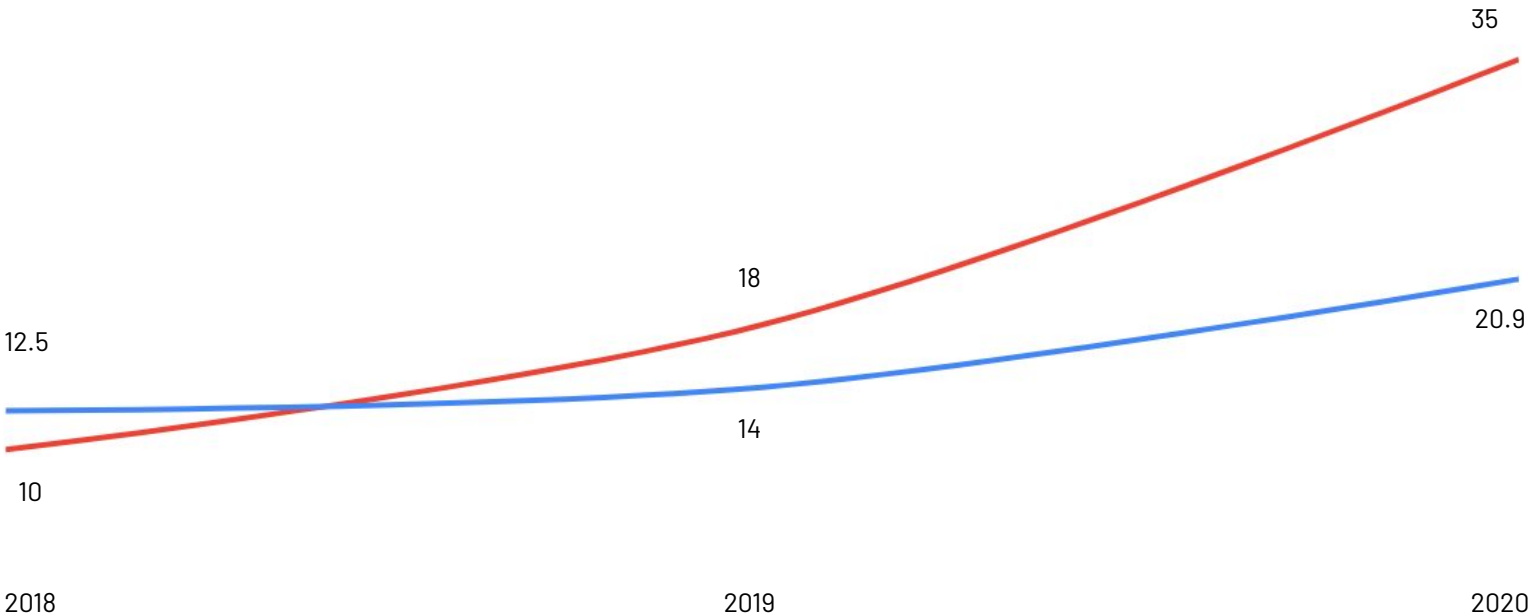
Shopee GMV grew 250% from 2018 to 2020, reaching US\$ 35B

It is now larger than Mercado Libre



Gross Merchandise Value (GMV) (US\$ B)

Absolute growth rate
2018-2020



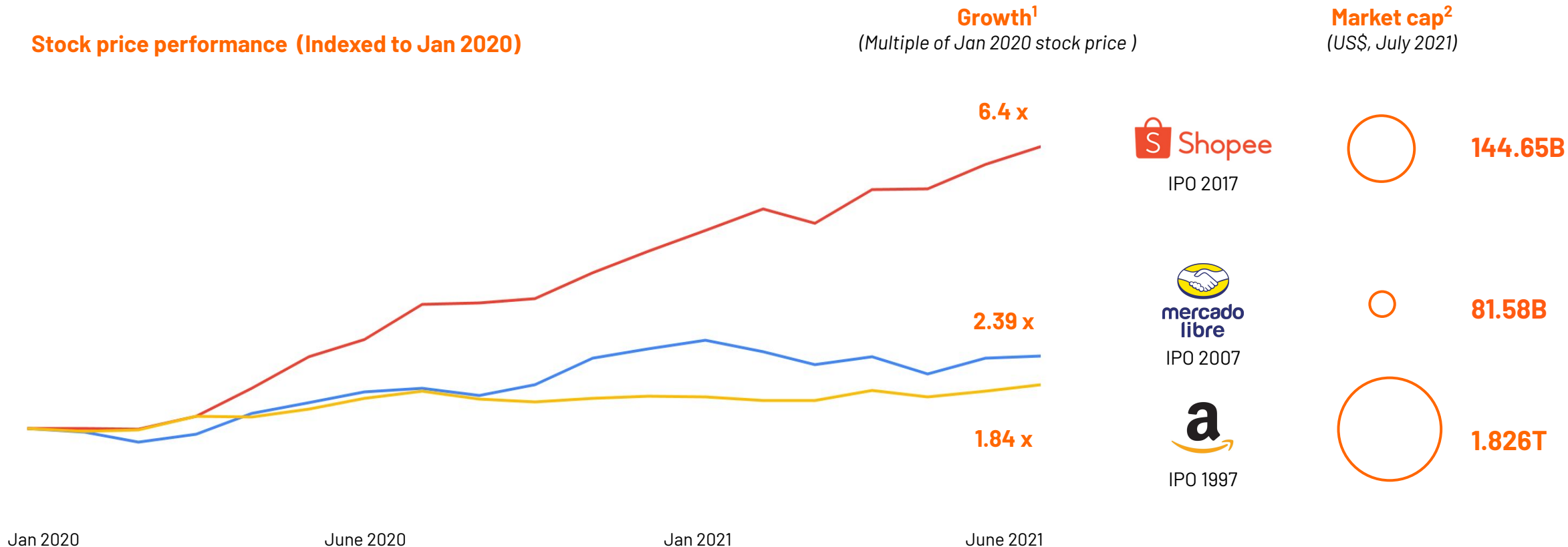
250%



67.4%

Its parent recorded faster market cap growth than Amazon and Mercado Libre

Under the covid-19 pandemic, ecommerce exploded across different regions



Shopee is now increasingly a global consumer tech company



While its **consumer markets are mainly in Southeast Asia**, Shopee has large **sourcing / seller operations in East Asia**, as well as sizeable **R&D in China**.

Consumer markets in **Latam are an important growth opportunity** over the next years.



Shopee presence

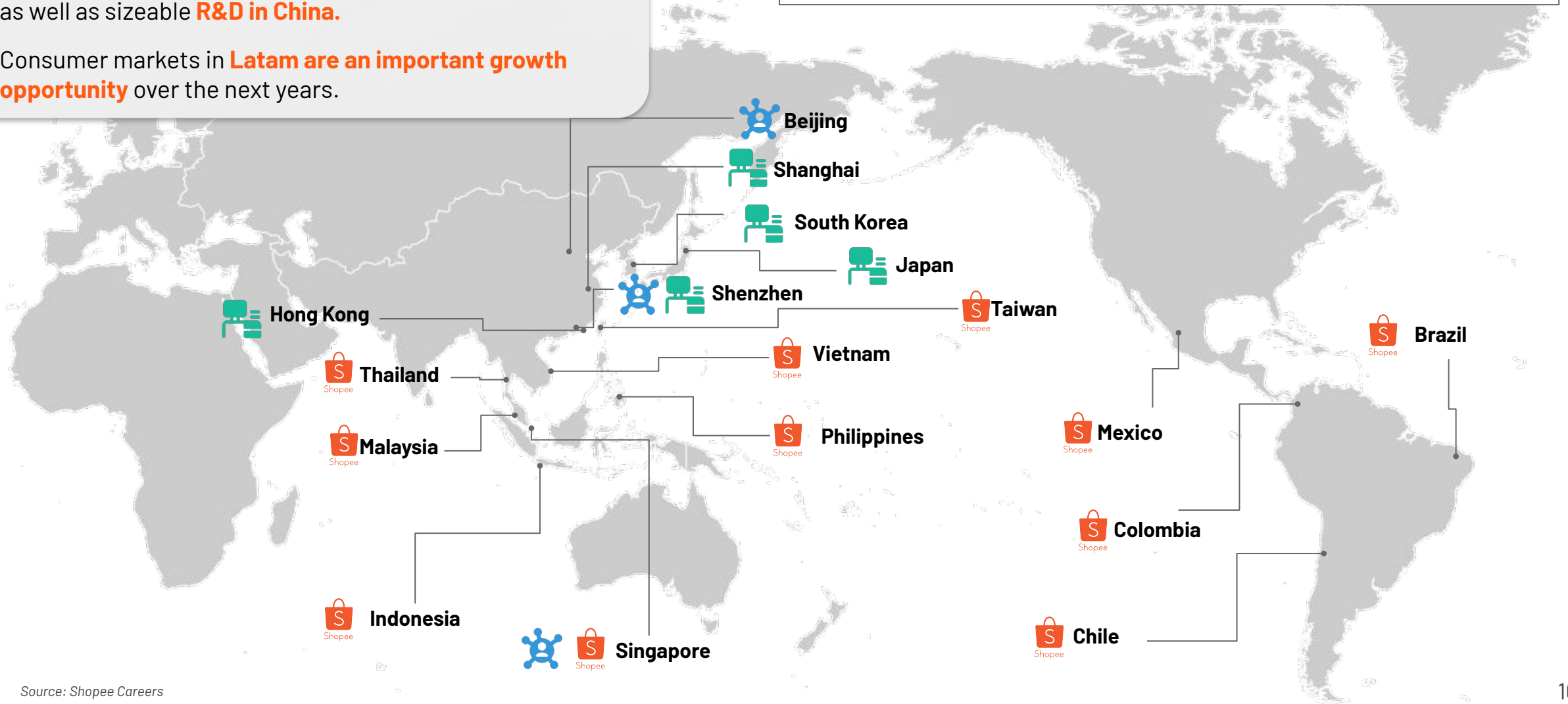


Logistics Office

manage cross-border sellers

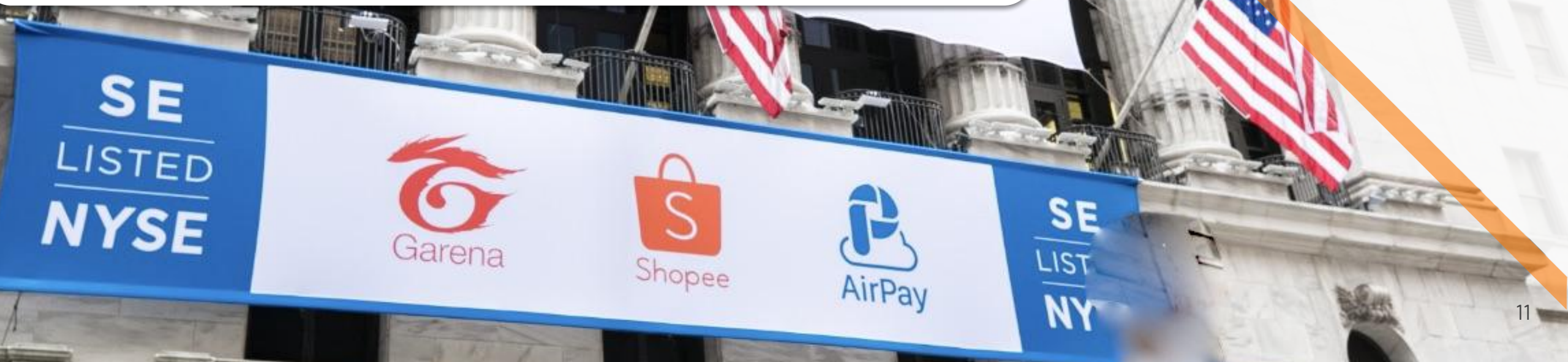


R&D Center



2. Introduction of Sea Group

NYSE-listed parent company of Shopee



Sea group has grown to become the leading consumer tech company in emerging markets

In addition to ecommerce, it is also in digital entertainment and digital financial services



Revenue contribution
2020



As SeaMoney is growing rapidly, it is likely that its revenues will be reported separately by end 2021.

1. Primarily by selling in-game items to game players 2. Ecommerce and other services: Revenue from ecommerce marketplace, digital financial services and other services on the platform 3. Sales of product: Revenue from product owned and sold by Shopee on its platform

Source: Annual report

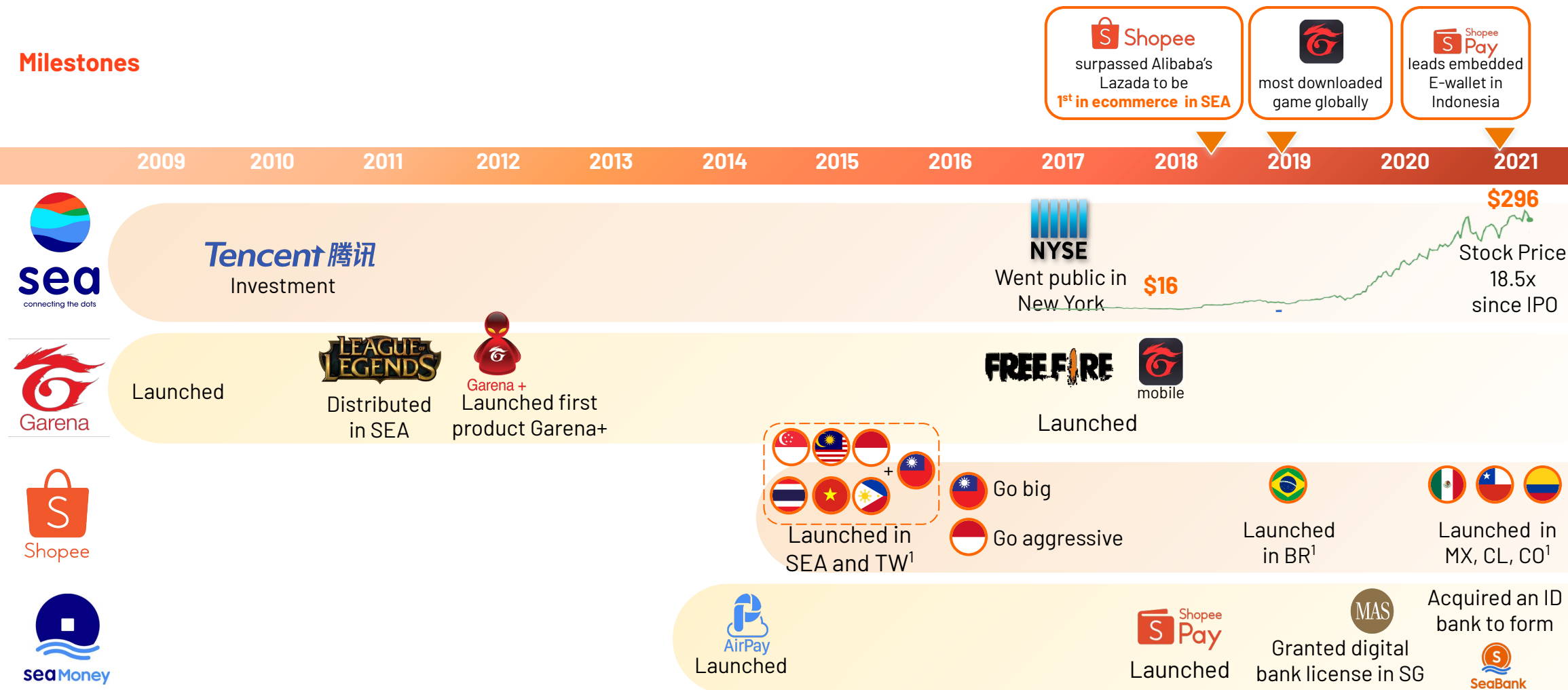
© Momentum Works

Sea Group and Shopee: Doing the right thing at the right time

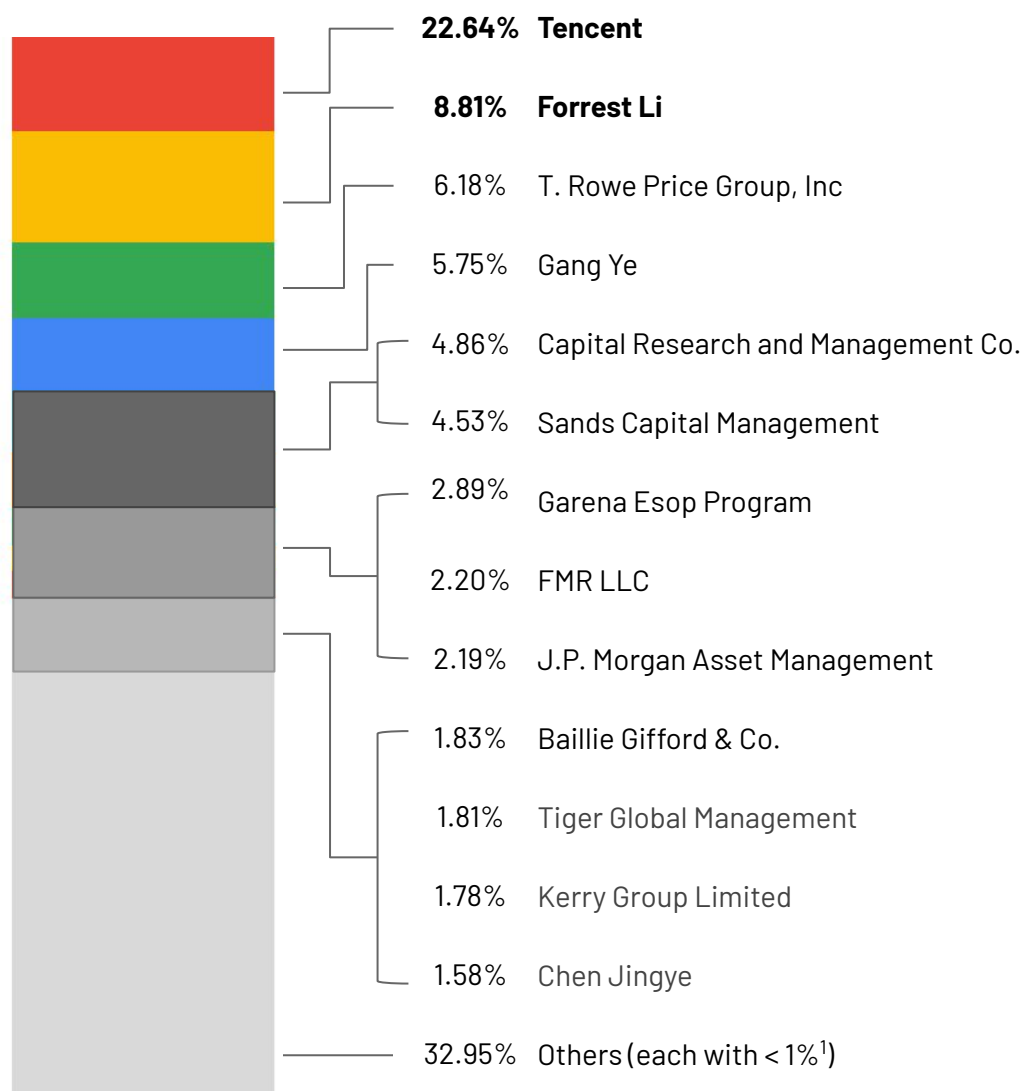
Retrospectively they all made sense, although many did not see it back then



Milestones



Tencent remains Sea's largest shareholder, while the founders retain significant stake



Tencent remains the biggest shareholder

- At Sea Group's IPO in Oct 2017, Tencent owned about 39%;
- It remains the largest shareholder, and a supportive partner;
- Garena distributes Tencent's mobile & PC games in Southeast Asia and Taiwan, including League of Legends;
- Tencent does not interfere with Sea's operations;
- Tencent has no problem with Sea's Free Fire competing against Tencent's own games;
- Tencent is also the largest or 2nd largest shareholder of 3 of the top 5 internet companies in China: **Meituan**, **JD.com** & **Pinduoduo**

1. As of 30 July 2021
Source: Futu

3. Shopee Organisation



The division of responsibilities of Sea's leaders ensures Shopee's focus on business



Forrest Li
Chairman and Group CEO

Forrest founded Garena and grew it to the leading digital entertainment company in Southeast Asia. Building ecommerce was a bold step with foresight, strategic clarity and commitment. He is originally from China's Tianjin Municipality.



Ye Gang
Group COO

Ye Gang's Group COO Office handles licences, regulatory affairs, government relations, strategic projects etc. They ensure Shopee and SeaMoney team can focus on building and expanding the business.

COO Office



Chris Feng
CEO Shopee, CEO SeaMoney

Chris used to work at McKinsey and Lazada, joined Garena in 2014 to be head of Mobile. He eventually evolved to build and lead Shopee as well as SeaMoney. He is originally from China's Jiangsu province.



Shopee



seamoney



David Ma
Chief Investment Officer

David Ma, an ex-Hillhouse investor, founded Composite Capital in 2016 which became a long term investor of Sea Group. In 2021, Sea Group acquired Composite Capital, which became Sea's investment arm.



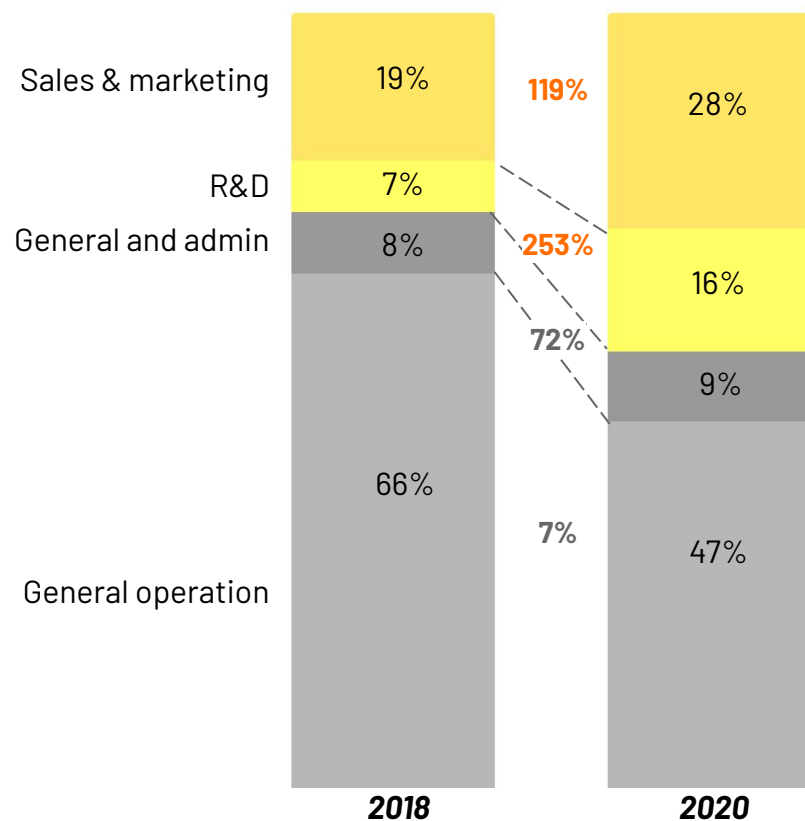
Sea Capital

Sea Group has been growing its R&D headcount aggressively



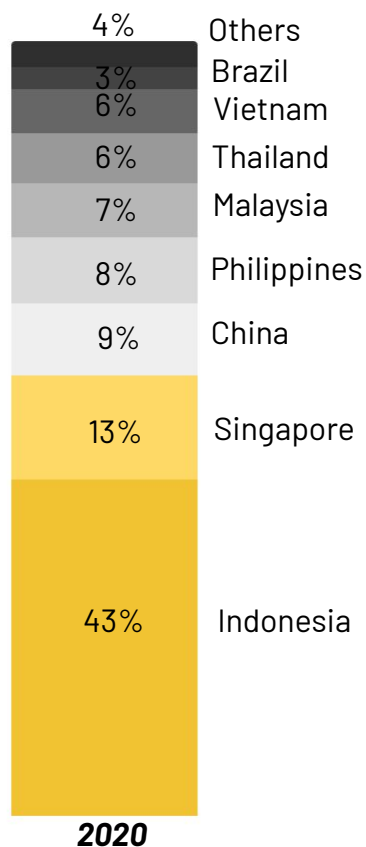
By function

employee (K) by function (%)



By country

% split of employee by country



Sea group: Strong growth in **R&D** and **Sales & marketing** headcount in recent years

Shopee: Total headcount as of end 2020: ~ 30K

Sales & marketing takes ~ 1/3 of total headcount

43% of headcount in key battleground **Indonesia**

9% in **China**, mostly for **IT / R&D / data / cross border** -related roles

Do note that the headcount in China might have increased significantly lately due to recent recruitment drive, which saw lots of Alibaba executives and other Chinese tech veterans joining.

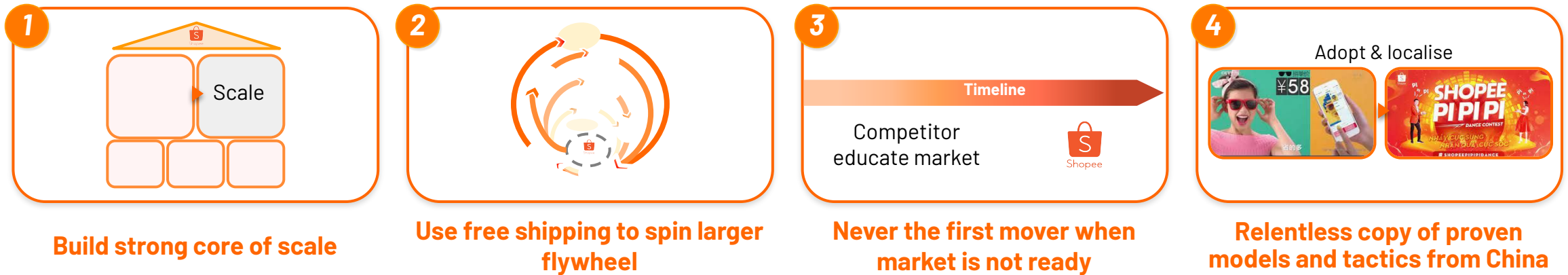
4. How it won ecommerce in Southeast Asia



Shopee key winning factors – summarised



In our opinion, Shopee's winning formula is surprisingly simple. What it managed to do, while its competitors did not, are **clear strategy, consistent execution, right people and capital from the public market.**



#1: Build strong core of scale

with strong, focused and coherent execution of strategy



Localised marketing



Local advertisement



Local brand image



Local TV shows



Product

From gamification (coins, social etc.) to fast, localised iteration. Not superior product, but fit the market



Continuous traffic & scale

from high frequency segment (lower basket size, fast moving segment e.g.: fashion, health & beauty etc.), and female customers

Generate **traffic and scale** for further business expansion

***See next slide**

Organisation

Clear chain of command, light hierarchy, with good local-regional coordination

People

Local execution team with support (incl. tech & data) for experienced talent from China

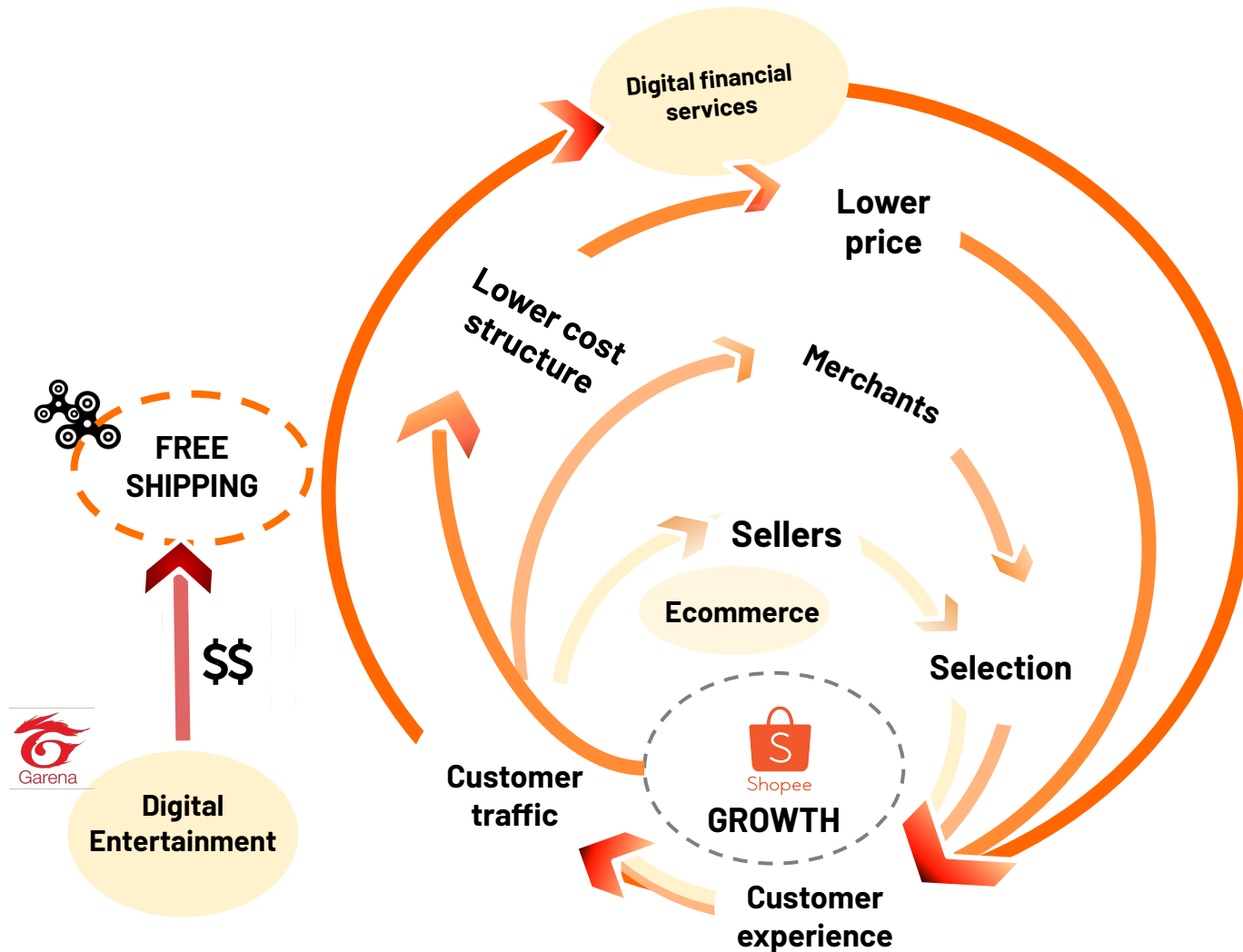
Leadership

Led by founding team with clear vision, strong support and market attention

Strong, **focused, coherent execution** of strategy

#2: Use free shipping to spin the flywheel

Spin larger wheels (e.g. digital financial services) once customers hooked



Shopee's ecommerce strategy was clear and consistent - we can model that in a way similar to the **Amazon flywheel**.

Using **free shipping**, Shopee attracts consumers; consumers attract sellers; more sellers lead to wider selection which attract more consumers.

Once that wheel spins, and with a good consumer base, Shopee can add more services such as food delivery, groceries, and digital financial services, which form **larger wheels**.

Shopee is looking to **replicate that success in Latam**.

#3: Dare to be a late mover

Let the first movers educate the market (and bleed)



Shopee is rarely the first mover in the markets it is in

Ecommerce in Indonesia: Overtaking local incumbent Tokopedia and Alibaba's Lazada in five years



E-wallet: Rose to be #1 embedded e-wallet in Indonesia in less than a year



Let you start first, and I will go for the kill with the model you have explored, in a market you have educated.

In your eyes, I am your competitor; In my eyes, you are my tool.

- Duan yongping

When Shopee ramped up **ecommerce in Indonesia** in 2016, Lazada and Tokopedia had spent 100s of millions educating the market. Shopee was able to ride the wave and grow fast.

It repeated the same feat with mobile **payment in Indonesia** (OVO, Dana and Gopay educating).

Similarly, in **cross-border ecommerce into Latin America** (AliExpress educating).



Duan Yongping

Founder

BBK

oppo vivo

realme ONEPLUS

Angel investor

 **Pinduoduo Inc.**
Together
More Savings
More Fun

#4: Relentless copy of proven models and tactics from China

and increasingly poaching talent from China who seek to escape from slowing growth and hyper competition



Earworm song



Pinduoduo earworm song from 2017

Digital finance offerings



Ant Huabei from 2015

Live streaming



Tmall Live from 2016



Shopee earworm song & dance from 2018



Shopee Spaylater from 2020



Shopee Live from 2019

5. What's next

Southeast Asia and Latin America have great similarities

The macro environment proved attractive but not daunting to Shopee



Indonesia Philippines Vietnam



Thailand Malaysia Singapore



Southeast Asia

South of China

578 M

\$ 3.2 B

269

3 hrs

8.2

Superpower neighbour

Population
(top 6 countries)

Total GDP (top 6
countries)

Population largest
country (M)

Flight time between
farthest capitals

VC investment in 2020
(\$B)

Latin America

South of the US

485 M

\$ 3.0 B

212

9 hrs

11.1



Brazil Chile Colombia



México Argentina Perú



How does Shopee's Latam presence compare to Mercado Libre and Amazon

New player but fast growing, with great ambitions



Presence in LATAM # countries

Brazil, Mexico, Chile, Colombia

4

Brazil, Argentina, Mexico, Chile,
Colombia, Peru, Uruguay,
Venezuela, Bolivia, Costa Rica,
Dominican Republic, Ecuador,
Guatemala, Honduras, Nicaragua,
Panama, Paraguay and El Salvador

18

Brazil, México

2

Monthly visits (Brazil) (a proxy of interest)

43.2 million

331 million

51.5 million

Payment system



Digital payment



Cash, digital payment, loan



Cash, digital payment

Strengths

Cross-border seller base from Asia

Tapping into **Garena's experience** through its success in Latam

Strong **leadership and execution**

Early and leading player, existing base and recognition

Diversified into building an **ecosystem**, including payment and lending

Home player, **local knowhow**

Global brand awareness

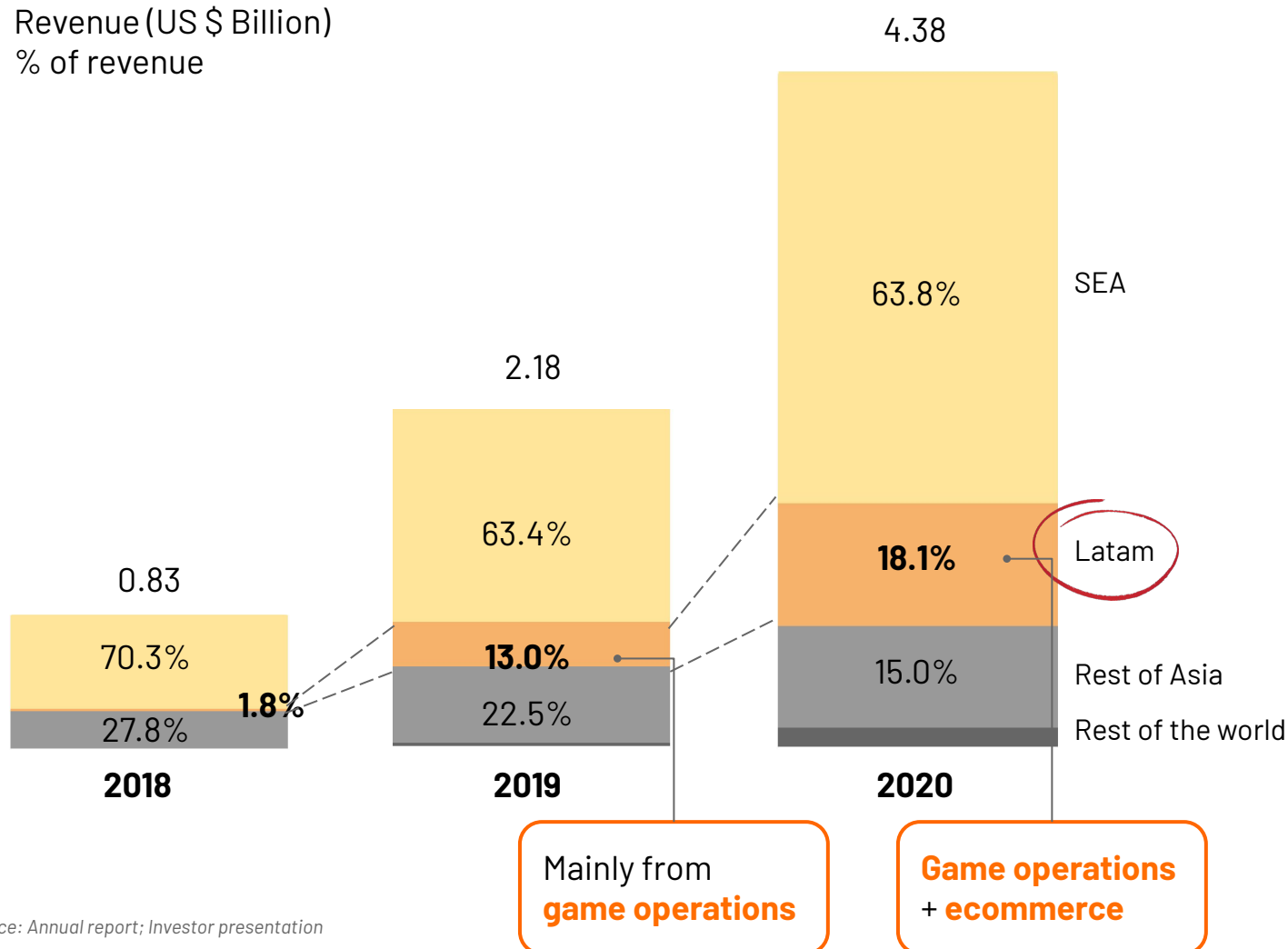
Large, resourceful with **advanced technologies**

Global expertise and seller base

Latam has already become a fast growing region for Sea Group



Fast growing share of revenue from latam



Revenue in Latam pick up fast

from US\$ 14.7 M in 2018, to US\$ 790 M in 2020. Of course Sea Group's latam revenue at present largely comes from gaming business and especially Free Fire.

However, gaming success, especially that of Free Fire, will give the group **enough understanding and experience in Latam to support a strategic decision** to expand Shopee and SeaMoney into this region.

As Latam is, as a whole or just the six biggest markets within, has **larger consumption power (and less competition)** compared to Southeast Asia, Shopee will see it as a key focus over the next few years.

What will Shopee likely do in Latin America?



► What will they likely do in Latin America?

1. Use **cross-border / fashion** to understand the market
2. Figure out customers, logistics and payment along the way
3. Bring in local (and global) sellers with its **customer base** and **infrastructure** built above
4. Expand into other areas in longer term (e.g.: Finance and **lending**, grocery, community group buy)
5. Use that (especially the consumer traffic) to **drive bigger flywheels**

At the same time, **SEA Capital** will attempt strategically invest in the region's startups to:

1. Complement the group's ecommerce and financial services
2. Accelerate the group's growth in inorganic ways
3. Establish Sea Group as **a pivotal ecosystem player** in the region

► Will they take time (5 years, maybe) to learn about the market?

Shopee will likely evolve much faster in Latam compared to what they did in Southeast Asia, for the following reasons:

1. The group has already built large, quickly maturing **ecommerce/digital finance infrastructure**
2. The mature **seller operations in China** help with quick initial traction
3. The **optimism in the public equity market** on the company allows it to tap into more resources to accelerate growth
4. Its brand name is good enough to attract **top talent**, which it can afford
5. Turmoils with Chinese tech firms allow them to tap into much more **experienced talent in China** on tech and data especially
6. Latam is **a more uniform region to manage** compared to Southeast Asia: e.g. you can send executives from Mexico to Colombia or vice versa, and they can still function well. You can't do the same between Indonesia and Vietnam.

What challenges will Shopee face in expanding in Latin America?



► Many say Shopee are similar to Wish (but they are not)

A common perspective we hear:

Shopee is selling cheap, low quality goods, similar to what you find on Wish. Consumers in Latin America want more premium, higher quality goods, like the ones you find on Amazon and Mercado Libre.

This is wrong. Similar biases have caused Lazada to lose to Shopee in Southeast Asia, and **investors (and Alibaba) to overlook Pinduoduo's rise in China**. What consumers, even in developed countries, look for is a combination four: **selection, speed, quality and savings**.

Shopee is intending to iterate fast to deliver these. They will eventually compete head to head against Amazon and Mercado Libre in the region. What you should look at is their speed of iteration, rather than what they sell.

► What challenges will Shopee face in Latam?

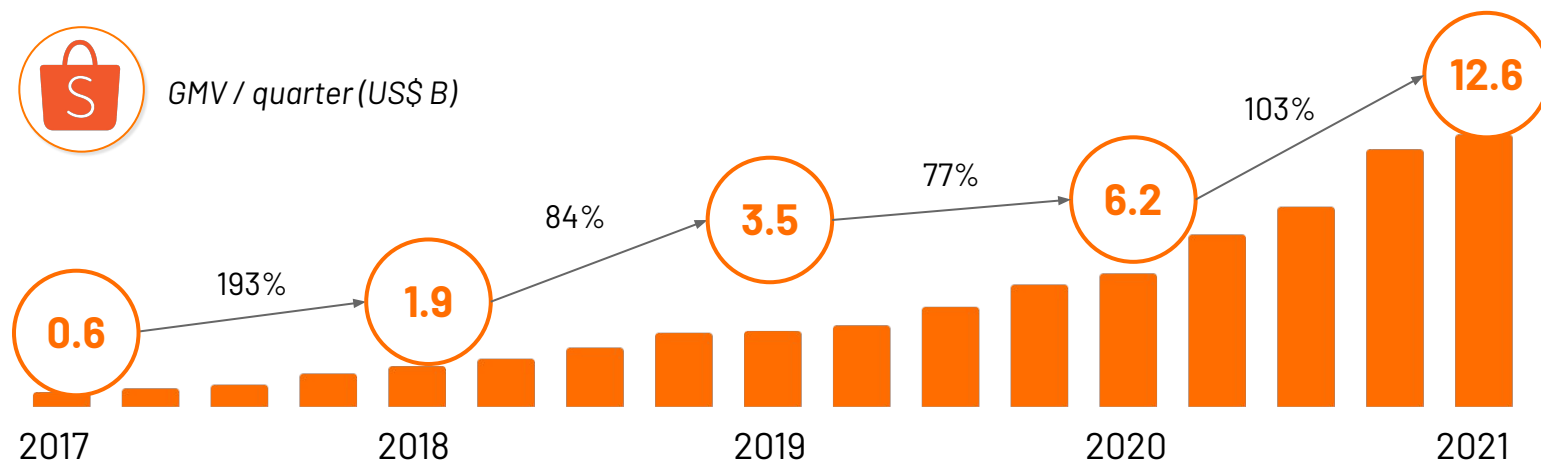
It is an organisation that is **streamlined, adaptable and persistent**. We do not see marketing understanding, consumer taste etc. as major challenges for Shopee - as explained above, they are **fast learning and could figure this out very quickly**.

The **only challenge** we see is from a **leadership, organisation and people** perspective - whether the top management, especially Chris Feng, has the ability and bandwidth to manage an increasingly complex business spanning across multiple geographies.

Do note that this is more complex than Jack Ma faced with Alibaba or Jeff Bezos faced with Amazon at similar stages - what Messrs Ma and Bezos built were **single market giants** before starting to tackle **complex international markets**. Alibaba and Amazon are yet to be proven successful in international emerging markets, including Southeast Asia and Latin America.

6. Conclusions and perspectives

Is Shopee's winning streak sustainable?



We do not see any sign that suggests otherwise



Shopee had a **good ride in 2020**, and the question many ask is "is Shopee still able to outgrow its competitors?"

Looking at Sea Group's Q1 2021 results, released on 18 May 2021, we can see that **ecommerce growth is still healthy**. It has also increased **direct sales**, which has **higher margins** compared to 3rd party sellers.

While the losses have also increased, the group is in a **good cash position** with US\$ 5.75 billion in the account.

As the Shopee ecosystem continues to improve, **further growth** in ecommerce and digital financial services looks quite plausible.

- Shopee's entry in Latin America might have started as an opportunistic play, but by now the ecommerce platform, as well as Sea Group as a whole, is **determined to go full speed in the region**.
- Compared to Mercado Libre and Amazon, Shopee is a much younger company and a **latecomer to the region**. However, it has demonstrated its **strategic, executional, and evolutionary capabilities** in Southeast Asia by ascending to the top within five years.
- Stakeholders should pay attention to their key winning factors, including the focus to **build a strong core of scale**, the use of **free shipping to spin a flywheel**, full leverage of **the late mover advantage**, and **relentless copy of proven models and tactics from China**.
- **Latin America bears a lot of similarities to Southeast Asia**, in terms of geographical location, economic size, composition of the largest countries, and stage of tech ecosystem development. We can say that each country in Latam is different in politics, regulations, economic development and population distribution. However, it is undeniable that Latam's language uniformity makes it a **much easier region to manage compared to Southeast Asia**.
- Armed with **experience, capital, talent and deep access to China**, Shopee can be a formidable player in Latam's tech and ecommerce ecosystem. **Investors, startups, ecosystem players, and competitors should not underestimate them**.
- A fast learning and fast evolving company, Shopee's main challenge in its Latin American expansion is about **organisation, people and leadership**.
- If they manage to overcome these challenges and pull off the Latam expansion successfully, the company will have **the potential to become a trillion dollar worth global consumer tech leader**.

Coming up next: Addressing the WHYs

Report 1 Who is Shopee



Overview of Shopee and
its expansion into Latam

Report 2 Addressing the WHYs

Answering burning questions on Shopee and
what's next

 Spanish and Portuguese versions coming soon



Get in touch:
hello@mworks.asia

Burning questions, report enquiries



About Momentum Works

A Singapore-headquartered venture outfit, Momentum Works builds, scales and manages tech ventures across the emerging world.

We combine real **insights**, solid **experience** and a great **community** to make things happen.



A lot of people do not understand the region, and are often misguided by people with commercial interests. You provide honest and effective info to allow them to make judgements themselves.

Ecommerce veteran

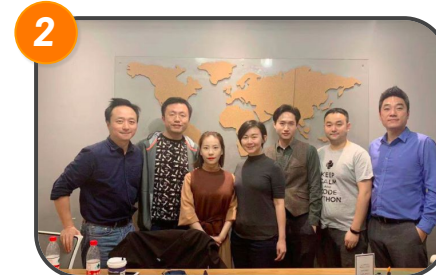
How you can engage with us



1 Corporates: Immersion programmes

Education / Immersion on disruption and innovation

Immerse your leaders and future talents in our unique real life disruption and innovation simulation trainings using Momentum Works original insights - online or offline.



2 Investors/ leaders: Insights & advisory

On investment, market expansion & innovation

Help you navigate the digital economy in emerging markets. We only provide insights and advice that we ourselves would be comfortable executing on

Learn more about what we do

@ thelowdown.momentum.asia or email us at hello@mwworks.asia

Our reports cover exciting tech developments across multiple emerging markets.

More reports can be found at: <https://thelowdown.momentum.asia/insights/>

For feedback and further inquiries contact us at: hello@mworks.asia



Visit our blog The Low Down (TLD) for more insights and thoughts on tech and digital economy around major emerging markets across the world.

thelowdown.momentum.asia