

e-Economy SEA 2023 report: Temasek Southeast Asia's digital economy is set to hit \$100 billion in revenue. Businesses now focusing on boosting profitability; widening digital participation remains critical

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- Digital economy is poised to deliver both revenue and gross merchandise value (GMV)¹ growth, with revenue growing at 1.7x the rate of GMV.
- Digital economy sectors are showing positive growth trajectories, with travel and transport on track to exceed pre-pandemic levels by 2024.
- Digital financial services (DFS) have succeeded in increasing monetisation and building adjacent revenue streams. Digital payments now make up more than 50% of the region's overall transaction value.
- Despite the challenging funding environment, dry powder is on the rise in SEA.
- While retaining high-value users is key, expanding reach to outside metro areas will be crucial to unlock the next wave of growth.

Singapore, 1 November 2023 – Google, Temasek and Bain & Company released the 8th edition of the e-Economy SEA report² - *Reaching new heights: navigating the path to profitable growth*, today. The report shows that, despite global macroeconomic headwinds, the region's gross merchandise value (GMV) continues an upward trajectory and is set to reach \$218³ billion, growing 11% year-on-year (YoY). The report also reveals that SEA's revenue from the digital economy is poised to hit \$100 billion this year, growing 1.7x as fast as the region's GMV.

This is the first year the report shares revenue numbers in addition to GMV, providing a more detailed look at how businesses have accelerated growth amidst macroeconomic headwinds. It also takes a deep dive into the opportunities of increasing digital participation to unlock further growth in the region's digital decade.

Key findings from this year's report include:

1. To attract investments, digital companies need to have clear pathways to profitability and prove to investors that they have dependable exit pathways

SEA private funding has declined to its lowest level in 6 years after record highs, in line with global shifts towards high cost of capital and issues across the funding lifecycle. These issues include a broader correction in valuations compared to the highs of 2021, uncertainty surrounding the profitability pathways of some companies and a challenging capital market environment which makes potential exits more difficult to achieve. Despite the increased prudence by investors, dry powder has risen to \$15.7 billion at the end of 2022 from \$12.4 billion in 2021. This shows that there is fuel available to propel SEA's digital economy to the next stage of growth.

Funding declines cut across all investment stages, with late-stage deal flow slowing down the most. DFS continues to be the top investment sector due to its high monetisation potential. A growing portion of deal activity is funnelled into nascent sectors, signalling that investors are diversifying portfolios.

2. Digital businesses have shifted their focus to monetisation in a bid to achieve profitability targets and have started to see success

SEA consistently delivers on both GMV growth and revenue growth, which shows that monetisation and overall market growth are not at odds. Digital businesses have successfully monetised the SEA digital economy - moving from user acquisition to deepening engagement with existing customers.

E-commerce continues a growth trajectory with a 22% increase in revenue YoY, reaching \$28 billion. The sector's GMV grew to \$139 billion in 2023 and is expected to reach \$186 billion in 2025, growing 16%. While adjacent revenue streams such as advertising and delivery services serve as a long-term growth engine for e-commerce, growing the number of users and transaction sizes is key to growth and boosting profitability.

Online Travel is on track to recover by 2024 as flight passenger volume nears pre-pandemic levels. The sector's revenue - accelerated by inflation - will reach \$14 billion, increasing 57% YoY. Its GMV grew 63% YoY, reaching \$30 billion in 2023, and is tracking towards \$43 billion in 2025. Online travel is seeing significant momentum in Thailand where it's the main growth driver in 2023, growing 85% YoY.

Transport is seeing a strong recovery boosted by successful monetisation efforts as its revenue reaches \$1.1 billion, growing 47% YoY. Full recovery, fuelled by international travel recovery, is expected by early 2024. Food delivery revenue hits \$0.8 billion in 2023, growing 60% YoY despite the return to in-person dining and a pullback in promotions. In the short term, the sector's revenue growth is driven by increased take rate while user and order growth will drive it in the long run.

Online Media's GMV grows to \$26 billion, increasing 10% YoY. Advertising and video streaming are expected to remain its long-term revenue drivers as the sector heads toward \$34 billion GMV in 2025. The Philippines is expected to have the fastest growing Online Media sector in SEA until 2025, while Thailand is expected to be the largest Online Media market overall between 2023-2030.

3. Adoption of DFS continues to grow with digital payments making up more than 50% of the region's overall transaction value

The irreversible offline-to-online behaviour shift continues to drive growth in DFS adoption, including digital payments. Digital lending is the single biggest driver of the \$30-billion DFS revenue due to high lending rates and consumer demand, as underbanked consumers and small businesses participate in the digital economy. Singapore is expected to be the biggest digital lending market in SEA in 2023 through 2030, while Indonesia is the biggest digital payments market.

As the competition between DFS players intensifies, pure-play fintechs have extended their lending services to the underbanked segment, while established financial services institutions have been quick to shift their large existing customer bases to digitalised services. The increasing interest towards digital wealth presents a lucrative opportunity for established financial services institutions to retain high-net-worth customers.

4. High-value users continue to drive sustainable unit economics⁴ but significant growth headroom lies in increasing digital participation

Over 70% of digital economy transaction values are made by the top 30% of SEA spenders. These high-value users (HVUs) spend more than 6x the amount non-HVUs spend online, particularly higher in discretionary spending verticals such as gaming, transport and travel.

While HVUs are more likely to increase spending over time, non-HVUs present a 1.9x growth opportunity of that of HVUs. As the consumer demand keeps growing, a majority of non-HVUs have an appetite to increase their online spending if barriers such as the

need to touch and feel products can be addressed.

5. Expanding depth of digital participation is needed to enable the next wave of growth

While digital inclusion has made inroads in SEA over the past years, consumers outside of metro areas are at risk of facing a widening digital economic divide when it comes to digital participation - active involvement in the digital economy through consumption of products or services across sectors. Areas beyond metros are particularly vulnerable due to the challenging unit economics. Addressing these gaps is the collective responsibility of all digital economy stakeholders. Removing barriers, such as supply and security issues, can improve the participation of non-HVUs and enable SEA's digital economy to reach its growth ambitions.

6. Enhancing operational efficiency and improving user experience will be key for companies to achieve profitable growth, and AI can help achieve this

New technologies such as AI can benefit both companies and consumers in several ways. These include improving operational efficiency in areas such as inventory management and route optimisation, and increasing deeper engagement and digital participation through personalised content recommendations in online media. AI can also play an important role in detecting and preventing fraud, increasing security for both consumers and merchants.

“With accelerated revenue and continued GMV growth Southeast Asia’s digital economy continues to show incredible resilience and is successfully increasing its profitability amidst macroeconomic uncertainty. Keeping the focus on the digital participation gap and resolutely removing barriers to enable more Southeast Asians to become active users of digital products and services will help the region unlock further growth in the digital decade.” said **Sapna Chadha, Vice President, Google Southeast Asia.**

“The shift towards profitability coupled with increased digital participation will propel Southeast Asia’s digital economy to greater heights, while driving social progress. Temasek remains optimistic on the future of Southeast Asia’s digital economy and will continue to deploy catalytic capital to achieve sustainable and inclusive growth so that every generation prospers,” said **Fock Wai Hoong, Head, Southeast Asia, Temasek.**

“It is remarkable that both Southeast Asia’s digital economy GMV and revenue continued their double-digit growth momentum, with revenue expected to break the

\$100B mark in 2023. This shows the resilience of the Southeast Asian digital economy and that the key players are making progress towards more healthy unit economics and sustainable business models. Once we see exit pathways unlock with an improving global macroeconomic outlook, this should put Southeast Asia in a bright spot with positive long-term prospects. Our 2030 view remains bullish given robust macro fundamentals and a dynamic digital space which brings all the ingredients for long-term success - we expect revenue growth and profit levels to continue to outpace GMV,” said Florian Hoppe, Partner and Head of Vector in Asia-Pacific, Bain & Company.

Singapore saw the fastest recovery in travel and highest digital penetration across multiple sectors

The digital economy in Singapore is expected to grow by 12% to reach \$22 billion this year, and is projected to reach approximately \$30 billion in 2025. The GMV growth is largely driven by travel recovery with a 38% increase to \$7 billion that reaffirms its status as a regional hub, though e-commerce - its largest digital sector - will continue to provide fuel for growth.

With 100% urbanisation rate, high internet saturation and well-developed physical infrastructure, Singapore has the highest digital penetration in SEA across multiple digital economy sectors including e-commerce, and a higher willingness to spend on digital services such as media. While 90% of consumer payments are made digitally, there is significant headroom for growth across other financial services such as wealth which remains significantly underpenetrated. It is projected that Singapore will be the biggest digital wealth market in SEA, with an increase from \$26 billion in 2023 to approximately \$150 billion in 2030. In line with global shifts, private funding continues a steady decline in 2023, from \$7.5 billion in H1 2022 to \$2.8 billion in H1 2023, though Singapore is still the hottest funding market among the SEA countries. DFS investment value, in particular, sees a slight increase in H1 2023 to H2 2022 when compared to other sectors like e-commerce.

In the long term, Singapore's GDP growth is expected to remain in the low single digit due to an ageing population and relatively developed economy, but the digital economy is a bright spot with GMV expected to grow faster than GDP from 2023-2030. Priority can be placed on targeting the HVUs of which 53% have increased online spend across verticals^[2] in the last 12 months, and 54% plan to increase their online spend in the next 12 months.

*“Singapore will continue to play a key role in the growth of Southeast Asia’s digital economy, leveraging its status as a business hub. With the digital economy projected to take the front seat in Singapore’s growth, more can be done to support the adoption of digitalisation in businesses, including traditional financial institutions. This will help strengthen consumer confidence and fuel further growth,” said **Sapna Chadha**.*

*“As a tech hub and regional gateway for funding and talent, Singapore can play a catalytic role to drive the next phase of growth for Southeast Asia’s digital economy. Singapore’s vibrant ecosystem enables innovation that can spur sustainable growth of the digital economy across the region,” said **Fock Wai Hoong**.*

*“Higher cost of living and the subsequent pullback in spending has resulted in a small speed bump for Singapore’s e-commerce GMV this year. While digital penetration in the sector remains higher than the rest of SEA, some acceleration is needed to meet its growth trajectory of \$30 billion by 2025. However, the overall digital economy growth is still expected to outpace GDP growth. Meanwhile, growing affluence and increasing digital familiarity in the Republic has created new opportunities in digital financial services, particularly in wealth management and digital banking. Winning players will tailor their offerings to meet banking priorities and user experience expectations for the emerging middle-class segment,” said **Florian Hoppe**.*

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About Google

Google's mission is to organize the world's information and make it universally accessible and useful. Through products and platforms like Search, Maps, Gmail, Android, Google Play, Google Cloud, Chrome and YouTube, Google plays a meaningful role in the daily lives of billions of people and has become one of the most widely-known companies in the world. Google is a subsidiary of Alphabet Inc.

About Temasek

Temasek is a global investment company with a net portfolio value of S\$382 billion (US\$287b, €264b, £232b, RMB1.98t) as at 31 March 2023. Its Purpose “*So Every Generation Prospers*” guides it to make a difference for today’s and future generations. As an active investor, forward looking institution and trusted steward, it is committed to deliver sustainable value over the long term. Temasek has overall corporate credit

ratings of Aaa/AAA by rating agencies Moody's Investors Service and S&P Global Ratings respectively. Headquartered in Singapore, it has 13 offices in 9 countries around the world: Beijing, Hanoi, Mumbai, Shanghai, Shenzhen, and Singapore in Asia; and London, Brussels, Paris, New York, San Francisco, Washington DC, and Mexico City outside Asia.

About Bain & Company

Bain & Company is a global consultancy that helps the world's most ambitious change makers define the future. Across 65 cities in 40 countries, we work alongside our clients as one team with a shared ambition to achieve extraordinary results, outperform the competition, and redefine industries. We complement our tailored, integrated expertise with a vibrant ecosystem of digital innovators to deliver better, faster, and more enduring outcomes. Our 10-year commitment to invest more than \$1 billion in pro bono services brings our talent, expertise, and insight to organizations tackling today's urgent challenges in education, racial equity, social justice, economic development, and the environment. We earned a platinum rating from EcoVadis, the leading platform for environmental, social, and ethical performance ratings for global supply chains, putting us in the top 1% of all companies. Since our founding in 1973, we have measured our success by the success of our clients, and we proudly maintain the highest level of client advocacy in the industry.

¹ Gross Merchandise Value (GMV) refers to the total value of the goods or services sold. Revenue refers to the business income from transacting goods or services.

² The annual eConomy SEA Report deep dives into trends and insights of the five mainstay digital sectors - e-commerce, travel, food and transport, online media, and digital financial services (DFS) - and covers the state and outlook of SEA's technology funding landscape across six countries - Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam.

³ All \$ amounts are in US\$.

⁴ Unit economics describes a specific business model's revenues and costs in relation to an individual unit.
