Commentary

Commentary: Why Grab, Gojek, Tokopedia and Sea are the new darlings of US markets

By Jason Davis

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Several factors point to a growth story that could make Southeast Asian Tech the darling of Wall Street, says INSEAD Associate Professor of Entrepreneurship and Family Enterprise, Jason Davis.

Composite image of Grab, Gojek, Tokopedia and Traveloka logos.

SINGAPORE: If everything goes to plan, Grab will soon raise around US$4 billion in financing in the biggest ever SPAC (Special Purpose Acquisition Company) listing, giving Anthony Tan, the company's founder, a place in the history books, just as he wanted.

The listing values Grab at US$40 billion. The ride hailing-to-food delivery giant is a dominant force and a household name in Southeast Asia. It is talk of the town on Wall Street.

Though it is worth noting that the valuations are eye-popping and the questions are increasing about the viability of SPACs.
Jim Cramer, the host of the famous CNBC show, *Mad Money*, cast a strong dose of caution on SPACs and investments in tech companies often. But he's talking up the Grab deal. "I don't like the price right now, but if you wait for some weakness … you've got my permission to do some buying," he said last week.

The fact that Grab's acquirer, Altimeter, has pledged a three year lock up on its shares also shows a healthy dollop of confidence.

Not too long ago, American investors were clamouring to get their hands on anything to do with China and Chinese companies were flocking to US equity markets to capitalise on the enthusiasm.

The depth and sophistication of the US market is still unrivalled, despite the rise of its Shanghai equivalent. But attention is now turning to Southeast Asia in a big way.

THE SOUTHEAST ASIA GROWTH STORY
That comes as little surprise in some ways.

With a population nearing 700 million, the size of the market is massive. It's half that of China, but consumers are digital natives and young. Looking just at Indonesia, the median age is 30.2 years old.

Digital consumption, or those purchasing a product or service online, is growing rapidly. Bain and Co previously forecast that the number of digital consumers in Southeast Asia would reach 310 million by 2025.

China has plans to help its legions of pensioners keep up with a fast-developing digital economy. (Photo: AFP/NOEL CELIS)

It reached that number last year, five years early. To put that in context, these 310 million digital consumers represent about half of Southeast Asia's population. 40 million people in the region came online for the first time last year.

Grab, Gojek, SEA Group (Shopee) and Lazada are all plugging into this trend with ride hailing, online shopping and delivery and increasingly getting into other areas like banking and insurance. Shopee was the third most downloaded app globally in the shopping category in 2020.

Of course, the markets in Southeast Asia can be very different. Sometimes, there is market dominance in certain countries and sectors, as homegrown players like Gojek may achieve in Indonesia.

Yet what is more remarkable is how many of these new big techs have demonstrated an ability to perform well in many of the disparate markets in Southeast Asia, in a way that creates a natural barrier to entry to other new challengers.

Southeast Asia's online retail market now accounts for 5 per cent of its total, but it's on a rapid tear. E-commerce gross merchandise value grew

23 per cent per year from 2018 to 2020, faster than the compounded annual growth rate of China’s, India’s, and the United States’ GMV during the same period, according to Bain.

The fact that Grab wants to stay focused on this “massive” ASEAN growth story, rather than spread out even further, is saying something.

ALTERNATIVE TO CHINA PLAYS

In contrast, Chinese companies listed on US markets now represent bigger risks for investors. As US-China geopolitical rivalry heats up, damp sentiment is weighing on Chinese firms listing in the US. There is a rise of Chinese firms listing on the US markets so far this year but geopolitical concerns are causing lacklustre debuts.

FILE PHOTO: Chinese electric vehicle start-up Nio Inc. vehicles are on display in front of the New York Stock Exchange (NYSE) to celebrate the company’s initial public offering (IPO) in New York, U.S., September 12, 2018. REUTERS/Brendan McDermid/File Photo

Just as Grab was getting ready to receive billions in its SPAC listing, Alibaba was hit with a record antitrust fine of US$2.8 billion for what the state called abusing its market dominance. The increasingly assertive stance of the Chinese government towards tech players is part of a big shift in the regulation of China’s digital space.

Interestingly the Gojeks and Grabs of the world have been particularly good at staying on the right sides of governments as regulators play catch up with their outsized growth.

Grab started out by tapping into the existing fleet of taxis, helping customers to “just Grab” any taxi available, rather than call different companies. Now it offers a suite of services, including private-hire cars. This was a starkly different approach to Uber, which went head-to-head with taxi companies, sparking societal concerns and lawsuits.

For Gojek, the pivotal decision to initially concentrate on *ojeks* (motorcycle taxis), for example, was doubly context-savvy: It skirted direct competition with Jakarta’s existing taxi industry, while dodging the nation’s transport regulations, which applied only to four-wheeled vehicles.
By the time the app introduced four-wheelers in 2016, Gojek had already cultivated a public profile as a boon to the local economy and a patriotic symbol of Indonesian progress.

SUPER APPS CUT THROUGH SUPER COMPLEXITY
For all its merit, Southeast Asia is complex. Transport infrastructure is often hard to negotiate and services difficult to deliver, especially in Indonesia.

Apps like Gojek have helped riders enormously by opening up a customer base to optimise where they locate themselves and offered them other delivery jobs when ride demand is low during the day.

FILE PHOTO: Gojek driver helmets are seen during Go-Food festival in Jakarta, Indonesia, Oct 27, 2018. (Photo: REUTERS/Beawiharta)

The approach of the super apps also differs widely from the Amazons and Ubers of the world, which concentrate on a few services and do them really well.

A big population of willing servers helps Grab and Gojek add more services and spread them out over a wider area. A deep and local understanding of Southeast Asian nuances helps.

Instead of getting into these segments itself, it's interesting that Amazon is investing big in cloud computing to support growing tech development in Southeast Asia rather than try to eat Lazada or Gojek's lunch.

There are cultural nuances too. Shopee is capturing eyeballs with bargain hunting and flash deals. Such social commerce (group and gamified buying) is the next frontier in e-commerce.

There are two main reasons for the increasing interest in social commerce.

The first is that people are growing weary of big tech's advertising-driven approach to e-commerce. For example, users are growing tired of being bombarded by ads and influencers telling them what to buy.

Second is that privacy concerns are weighing on consumers' and legislators' minds. The more customer-driven group buying models avoid this approach.

The super apps are also backed by huge investments of US and Chinese money, the investors content to duke it out through their proxies rather than compete directly.

Other tech unicorns in the region, such as Traveloka and Property Guru are also considering listing through blank-cheque SPACs in the US and Gojek is consolidating its position by merging with Tokopedia, which will make it a transport and e-commerce giant.

The competition is heating up and it looks like we're just at the beginning.

As my colleague, Guoli Chen, Strategy Professor at INSEAD has pointed out before, one major reason for Grab's listing is its need for additional capital to maintain its leading position in ride hailing, food delivery and digital finance, to defend itself from incursions by Sea, the largest tech firm in Southeast Asia.

Finally, these listings may benefit the entrepreneurial ecosystem more broadly. Major liquidity events, like the Grab listing, will also enable exits for private investors, which typically unlock capital to start other companies and make other investments.

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Source: CNA/ml