PRIMEIRO PARTNERS

The Daily Dispatch

Weekly Special Feature

April 30, 2021

J&T, Ninja Van pushed to cover more than the last mile in SE Asia

By: Benjamin Cher— The Ken *(Published on April 20, 2021)*

US$2 billion. That's how much last mile delivery player J&T Express reportedly raised from Chinese heavyweights Hillhouse Capital, Boyu Capital, and Sequoia Capital China earlier this month. Its competitor, Ninja Van, raised US$279 million in May 2020 from ride-hailing giant Grab and Eduardo Saverin's venture fund, B Capital.

Why is logistics raking in the moolah in Southeast Asia? The short answer is 'you'.

The pandemic has seen everyone ordering online from e-commerce sites. According to a report by consultancy Deloitte, Asia accounted for 62.6% of global e-commerce, with US$2.45 trillion in retail sales in 2020. That number is set to climb past US$4 trillion and make up 65.9% of the global market by 2024.

And who connected the last mile and delivered these US$2.45 trillion of goods? Logistics players like Ninja Van, J&T Express, and Lalamove—all of which have become household names.

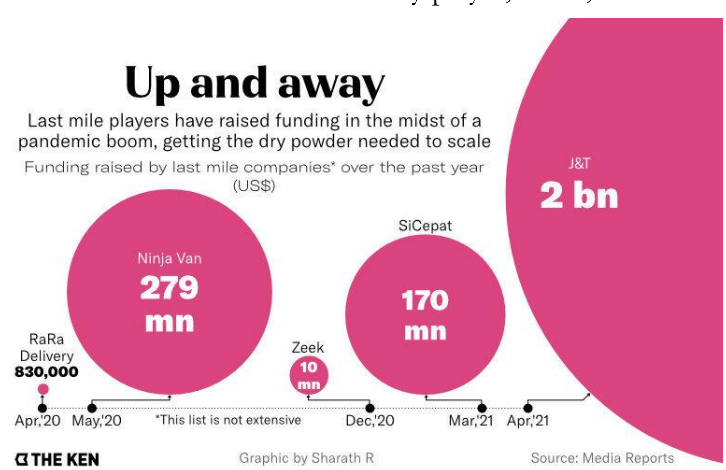
Ninja Van is seeing the highest volumes and margins in Singapore, according to an investor who can't be seen discussing specific companies. Meanwhile, there are rumours of a potential US listing for J&T.

As these last mile players scale, their technology and assets can now start to drive cost savings. On paper, that's a clear path to profitability.

Scaling for last mile companies, in fact, has gone into overdrive in the past year. J&T opened its third warehouse in Singapore in December 2020. In Indonesia, the company even leased a Boeing 737 aircraft last month to cater to demand and improve its delivery service.

"This new addition to our fleet will help our e-commerce players meet the needs of consumers efficiently and enable consumers to enjoy a seamless and quality delivery experience," said Andrew Sim, J&T Express' Singapore CEO, in a statement.

Ninja Van, on the other hand, is looking to double its headcount in Thailand, as shipments shot up 300% in 2020. We're covered another Thai delivery player, Flash, here.



But on the ground, it's not all roses and rainbows. The high demand for delivery has meant missing or damaged goods. Both buyers and sellers have reported packages delayed or lost in transit. In February, J&T's unit in Perak, Malaysia, came under fire after a video of employees throwing packages around indiscriminately went viral on social media. The staff involved even issued an official apology for their behaviour. Quite simply, the human element in last mile delivery isn't as predictable as the technology it runs on.

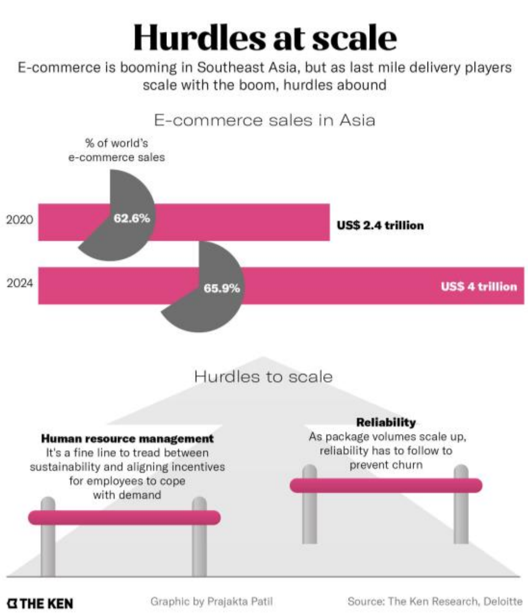
As for the path to profitability for the likes of J&T and Ninja Van, it'll require a lot more than managing employees to ensure timely delivery. Even if packages aren't damaged or missing, the pressure on logistics companies now is to try and bring more value in adjacent services such as warehousing or fulfillment to increase stickiness. After all, they've got to deliver on their abilities in front of their deep-pocketed investors.

The e-commerce wave can take them only so far.

Scaling with e-commerce

"Five years of digital transformation in a year". That's how a report co-authored by Facebook and Bain defines the Covid-aided e-commerce boom of 2020. As per the report, the number of people forecasted to ditch offline buying for e-commerce by 2025—310 million—is already a reality as of 2020.

"The logistics industry in Southeast Asia is largely driven by e-commerce sales. Even as countries begin to enter the recovery phase, we expect e-commerce to continue its trajectory of growth as more people adapt to online shopping," said J&T's Sim.



Disruptors often use low pricing to aggressively expand their customer base. It's what happened when ride hailing giants Uber and Grab clashed, resulting in Uber finally giving up and leaving the region. In e-commerce, though, where the premise is to price lower than offline retail, more customers are demanding free and instant delivery.

So, e-commerce players always look for the most-affordable logistics partners. The onus of, say, 'free' delivery, which, let's face it, isn't free for someone, falls on the last mile player.

"Given customers' reluctance to pay, last mile players will probably have to bear the brunt of it if they want to significantly expand their share of the total last mile volume," Jeffrey Tan, head of Group Corporate Development and Technologies of logistics company YCH Group told The Ken.

This raises the barrier of entry for any new player looking to break into the last mile market. Essentially, first movers in logistics like J&T and Ninja Van have cornered the low-hanging fruit of last mile delivery. Now, thanks to their large fund raises, they've effectively blocked potential disruptors.

The original disruptors have become the incumbents.

"If you look at the last mile segment currently, the larger players have raised significant rounds, so I wouldn't see anyone new coming onboard," Micheal Lints, a partner at Golden Gate Ventures, told The Ken.

This also means very few are reaping the benefits of the e-commerce boom.

Judging by e-commerce major Shopee's shipping rate card of the various last mile players, J&T seems to be pushing for more market share in Singapore. It has promotional rates for sellers until June 2021, while Ninja Van, which is larger in the country, has not changed its rates, which are slightly higher than J&T's fees. A sub-5kg parcel would see a seller paying about S$1.41 (US$1.06) for J&T and S$2.51 (US$1.89) for Ninja Van. J&T is willing to forego short-term gains for the long-term benefits that scale brings.

Larger incumbent logistics companies like DHL and FedEx are great examples of the value of scale in last mile delivery. They are profitable, with their profitability correlating to scale. DHL saw its profits rise from €4.1 billion (US$4.9 billion) to €4.8 billion (US$5.7 billion) between 2019 and 2020. DHL is in over 220 countries and territories, and delivers over 1.5 billion parcels a year with a workforce of 380,000.

"Until you get to the same level of scale, you are just not competitive," Lim Kuo Yi, co-founder and managing partner of Monk's Hill Ventures, told The Ken,=.

But scale and operations need to go hand in hand for a logistics company to enjoy its cost efficiency.

"Based on our experience, scale can positively impact cost efficiencies of a business. But once a company grows past a certain size, cost efficiencies are also dependent on whether a company can tightly manage its operations," Lai Chang Wen, Ninja Van co-founder and CEO, told The Ken.

Last mile players have already eked out most of the efficiency gains for the segment. As Lim of Monk's Hill puts it, "The basic last mile delivery has been pushed to the max, you will not get significant delta in terms of the returns on investment, which is quite effective at scale."

This means that last mile players can't merely focus on the delivery basics as they'll then see diminishing returns. They'll need add-ons to be more competitive in the market.

Becoming sticky

When volumes spiked in 2020, price took a backseat to another customer demand. Reliability.

Last mile players, who spent years mining data via logistics—on geography and payload—now need to apply it to the metric of reliability.

These are high stakes. E-commerce sellers are looking for companies who honour their service level guarantees—delivery within a certain time, tracking, and reliability.

"If you are a significant seller and go through a peak period without a reliable delivery partner, the painful experience will leave you willing to pay for reliability," said Monk's Hill's Lim.

This can make a reliable last mile delivery company sticky with e-commerce sellers, especially those running bigger operations, where a bad peak period could damage its reputation. Those who have a lot more to lose. Those Like Ninja Van.

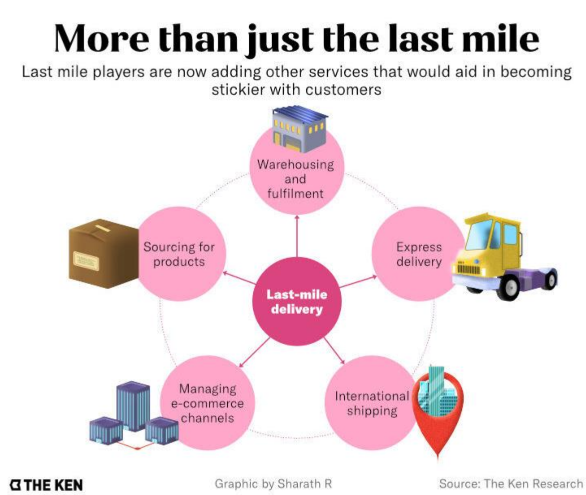
"We have achieved 100% coverage across Southeast Asia and at the scale that we currently operate at, so we're now able to take a cost leadership approach towards our business," said Ninja Van's Lai. The company also abides by what it calls the "Fantastic Service Recovery" (FSR) approach to resolve delivery related problems.

The volume game

The bigger e-commerce sellers, though, are where the volume action is at, and with that come volume discounts that would also provide incentives for sellers to stick with their last mile delivery company. After all, sellers are more interested in selling rather than constantly dealing with the background operations.

As delivery standards and coverage get uniform across last mile players, value differentiation can now only come from other services.

"You can still differentiate in terms of just giving a very good customer service. But otherwise, it's very similar in terms of what last mile delivery services they can provide," said Golden Gate's Lints.



So, what are these last mile players offering?

Ninja Van has Ninja Insider, its market intelligence tool for customers who ship over 300 orders a month. It also has a rewards programme, Ninja Rewards, for its shipping customers, allowing them to earn points for every parcel shipped. These points can apparently be redeemed for Ninja Van services, rebates, and early access to new products and Ninja Rewards events.

"We have a few services that we've rolled out focusing on the upper end of the supply chain process. One example is our Ninja Direct service, a one-stop overseas procurement solution for businesses that ship, source and finance products from China, Thailand, and Indonesia," said Lai.

J&T, meanwhile, offers warehousing and fulfillment services for customers. It even manages e-commerce channels for customers.

"We help our customers at each point of the sales and growth process with a variety of services including sales channel management, fulfilment, last mile delivery, and international delivery. We work with them to not only optimise their operations, but also help them provide an enhanced experience for their buyers, setting them up for long-term success," said J&T's Sim.

Of course, J&T is also expanding in other ambitious ways. The company entered China in 2020, where it had already set up its R&D centre and technology team in Shenzhen, China.

An investor in the space who didn't want to publicly comment on J&T notes that the company has a strong Chinese influence. Its founders, Jet Lee and Tony Chen, are the former and current CEOs of Chinese smartphone giant Oppo, respectively. (Their initials are why the firm is called J&T.)

Oppo's own path

Oppo is operated by reclusive Chinese electronics firm BBK Electronics, which also bankrolls fellow smartphone brands Vivo, OnePlus, and Realme. J&T works with Oppo on logistics, but executives have claimed that their business is independent of the phone company and BBK Electronics.

These ties to Oppo as well as the big name Chinese investors in J&T's recent round of funding could give it a leg-up on its competition. The company has already acquired a nationwide delivery licence, with backing from the Oppo ecosystem.

In an open letter to agents of J&T Express in China, founder Jet Lee said, "Entering China, we need this spirit of running for life. Only then we can make miracles happen."

But with logistics these miracles are still reliant on foot soldiers.

The human element

J&T was tangibly hit by the video from its unit in Perak.

Its delivery volume reportedly fell in the Malaysian market, according to a delivery driver whose TikTok video of an empty truck also went viral. The company maintains that its most important asset is its people, and that it's committed to handling parcels with care.

"We recognise the need to ensure their work is appreciated and their career is fulfilling. With this in mind, we have a recognition and rewards system in place to incentivise our drivers to always do their best," said J&T's Sim.

Ninja Van has also courted controversy, with cash-on-delivery scams being unwittingly facilitated by the company. These scams can't be completely weeded out via technology either, as Ninja Van notes in its advisory to the public.

"We see our FSR approach as a key tool to identify and work towards finding solutions to serve our customers better and we believe it has the true potential to create more loyal users of our service in the long-term," said Lai.

Unlike startups in other industries, a large workforce is a given for last mile players. The only workaround, tech, will take time to play a deeper role in some of the manually intensive operations.

"At some point, you don't want to increase manpower; it has to be balanced with trying to innovate within the company," said Golden Gate's Lints. Perhaps, in the near future, autonomous delivery vehicles will take over a large part of the job, but till then, it's hard to gauge predictability of deliveries.

Another way to manage predictability is a parcel locker system, where the customer can pick up their package from a locker close by instead of relying on delivery personnel. J&T has one such programme in Singapore, where it's working with a government-owned subsidy Pick Network. The programme aims to install 1,000 lockers, all within a five-minute walk from public housing blocks.

"This year, supporting the successful rollout of the Locker Alliance through our strategic partnership with Pick network will be our priority," said Sim.

There's a human element to dealing with e-commerce sellers as well. Relationships with e-commerce sellers help delivery players understand their operations and look to add value to it. "The relationship allows you the occasion and opportunity to do more," said Monk's Hill's Lim.

Ninja Van seems cognisant of this, as it assigns dedicated account managers to shipping customers as a single touchpoint between the company and them. The last mile player also uses NinjaChat, a platform to enable customers to manage their orders and chat in real-time with the service team.

Services like these, last mile players hope, could help ensure the sector stays locked in a race to the quality peak and not the pricing bottom. All while delivering packages on time.

Lead image credit: Mika Baumeister/Unsplash

Source: Benjamin Cher (2021) 'J&T, Ninja Van pushed to cover more than the last mile in SE Asia,' *The Ken*. Available at https://the-ken.com/sea/story/jt-ninja-van-pushed-to-cover-more-than-the-last-mile-in-se-asia/ (Accessed 29 April 2021)

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TODAY'S TOP NEWS

Ayala-led IMI turns profitable despite shortage

Integrated Micro-Electronics, Inc. (IMI) turned in a first-quarter net income of $2.19 million attributable to its equity holders, swinging from the P4.62-million loss a year ago, despite the shortage in the electronics component market.

Aboitiz unit, Swiss firm to build telco towers

Aboitiz InfraCapital, Inc. said it is working with Switzerland-based global private markets investment management firm Partners Group Holding AG to build and operate telecommunication towers in the Philippines.

2GO Group buys new Japan vessel

2GO Group, Inc. on Wednesday announced the purchase of a new vessel from Japan, which will make its maiden voyage in the Philippines in May. The acquisition, the company noted, is part of its continuing modernization program, which includes upgrading of its fleet and modernizing its operations.

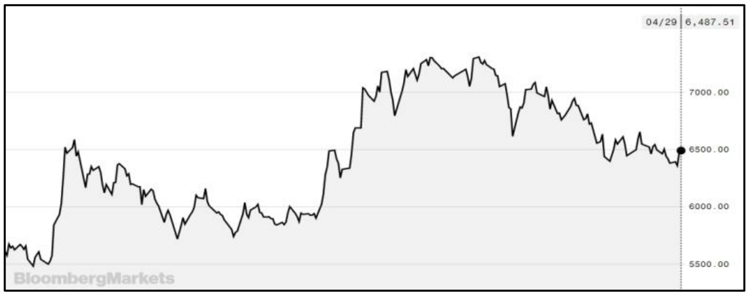
BoP deficit reaches $73 million in March

The country's balance of payments (BoP) stood at a deficit for the third straight month in March as the National Government continued to pay its dollar obligations, according to the Bangko Sentral ng Pilipinas (BSP).

$541M in 'hot money' exits Philippine markets

Foreign portfolio investments (FPI) yielded a net outflow for a second straight month in March as a surge in coronavirus infections prompted investors to seek safe havens. The March net outflow was also the biggest in 10 months or since the $1.006 billion seen in May 2020.

Philippine Stock Market Update



Previous Close:
6,469.14

1 Yr Return:
15.38%

Open:
6,453.26

YTD Return:
-9.30%

52-Week Range:
5,396.13 - 7,432.40

Source:
Bloomberg

Foreign Exchange

As of April 29, 2021

US Dollar	Philippine Peso
1	48.32

BVAL Reference Rates

As of April 29, 2021

Tenor	Rate
1Y	1.875
3Y	2.723
5Y	3.232
7Y	3.626
10Y	4.164
20Y	4.831

Daily Quote

"I am not in competition with anyone but myself. My goal is to improve myself continuously."
-- *Bill Gates*

The Daily Dispatch

MORE LOCAL NEWS

Wilcon Depot's profit grows 84% to P604m

Wilcon Depot Inc., the country's leading home and finishing construction supply retailer, said net income jumped 84 percent in the first quarter to P604 million on the back of a double digit growth in revenues. Wilcon said in a disclosure that its net sales climbed 19.4 percent in the first three months to P6.67 billion.

PESONet, InstaPay transactions climb in Q1

Electronic payment (e-payment) transactions coursed through the automated clearing houses of the Bangko Sentral ng Pilipinas' (BSP) National Retail Payments System expanded to P552 billion in the first quarter of the year.

SM Investments ready to expand anew

"We maintain cautious optimism as we navigate through many uncertainties but when we can move with flexibility and less restrictions, we would proceed with the expansions in the pipeline," SM President and Chief Executive Officer Frederic DyBuncio said during the company's stockholders' meeting on Wednesday.

SHFC Adds GCash As New Digital Payment Platform

PARTNER-homeowners of Social Housing Finance Corp. (SHFC) can now pay their loan amortizations with the government agency through GCash, the state-run housing financier announced recently.

Flexible Work Driving Demand For Small Offices

Eton Properties Philippines Inc., the property development arm of tycoon Lucio Tan, said it is seeing an uptick in demand for small office spaces from companies that are keen on moving out of their large headquarters.

AC Energy pegs FOO price at P6.50

AC Energy Corp. (ACEN) has set the price for its follow-on offering (FOO) slated next month where it is expected to raise up to P13 billion for its growth. In a disclosure to the Philippine Stock Exchange (PSE) yesterday, ACEN said its executive committee set the offer price of its FOO at P6.50 apiece.

PSE seeks tighter reporting rules for mining firms

The Philippine Stock Exchange (PSE) has submitted to the Securities and Exchange Commission (SEC) a proposal to revise the current Philippine Mineral Reporting Code (PMRC)—a guideline used by publicly-listed mining companies in filing their reports.

Nomura cuts Philippine growth forecast

Japanese investment bank Nomura slashed anew its 2021 economic growth forecast for the Philippines due to the reimposition of strict lockdown measures amid the resurgence of COVID-19 infections and the slow rollout of vaccines.

Meralco extends 'no disconnection' policy

Manila Electric Co. (Meralco) will extend its "no disconnection" policy for customers falling behind on their bills amid the pandemic after the government announced that lockdown measures in Metro Manila and nearby areas would stay for now.

Converge connects VisMin via submarine cable

Fiber internet service provider Converge ICT Solutions Inc. has connected Visayas and Mindanao to its national fiber backbone as part of its P6-billion domestic submarine cable project.

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TODAY'S TOP ASIAN NEWS

Samsung reclaims crown from Apple; Xiaomi surges

SAMSUNG Electronics snatched back the crown from Apple as the world's biggest smartphone producer, accounting for a fifth of overall global sales in the first quarter, market research firm Canalys said.

Refinancing to surge with record Asia bonds due

A RECORD US$1.8 trillion worth of bonds are set to mature in Asia this year, data shows, leading to a rush to refinance them in the coming months.

HSBC opens family office in Singapore and HK

HSBC Holdings is offering its ultra-rich clients in Asia direct access to its investment bankers as the lender targets becoming a leader in managing wealth in an increasingly affluent region.

China's factory activity growth slows on bottlenecks

China's factory activity expanded at a slower-than-expected pace in April as supply and transport bottlenecks weighed on production and overseas demand lost momentum.

TODAY'S TOP GLOBAL NEWS

Global chip shortage hits Apple, Samsung and Ford

The global chip shortage is going from bad to worse with automakers on three continents joining tech giants Apple and Samsung Electronics in flagging production cuts and lost revenue from the crisis.

IBM to acquire software provider Turbonomic

[NEW YORK] IBM has agreed to acquire Turbonomic, a provider of software that helps companies monitor the performance of their business applications, people familiar with the matter said on Thursday.

Gaming industry worth $300b after pandemic surge

[WASHINGTON] The value of the gaming industry has topped US$300 billion following a pandemic-fuelled surge, with some 2.7 billion players worldwide, a research report said Thursday.

DP World launches wholesale e-commerce platform

[DUBAI] DP World, best known for operating ports around the world, has launched a wholesale e-commerce website that it hopes will become the global platform for businesses to buy and sell goods.

Amazon Q1 profit triples to US$8.1 billion

Amazon.com, one of the biggest winners of the Covid-19 pandemic, posted record profits on Thursday (April 29) and signaled that consumers would keep spending in a growing US economy and converts to online shopping are not likely to leave.

StanChart to slash global branch network by half

Standard Chartered reported a better-than-expected profit for the first quarter and said it will slash its global branch network by half to around 400, as the British bank looks to cut long-term expenses.