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The rise and rise of super apps in emerging markets

The enormous success of super apps is almost unique to emerging markets and offers a clear guide for less developed 'frontier' markets where analogous platforms are only beginning to emerge on the back of significant recent upgrades to their digital infrastructure. This piece aims to highlight the characteristics of successful emerging markets' super apps before introducing the enormity of the opportunity for similar platforms across frontier markets where tech companies are leveraging their competitive advantage of massive distribution (and data) to monetise up to hundreds of individual services/value-chains.

The rise of super apps

In stark contrast to the Silicon Valley model of vertical growth and global expansion, emerging markets super apps have sought horizontal growth to dominate a specific geography. Super apps are possible when a service becomes so embedded in a user's life (high open-rate service/function - WeChat started with chat) that it becomes a form of operating system with the touchpoints from one service used to cross-fertilise another. Gojek's engineering blog succinctly describes super apps as '…an umbrella app, an operating system that unbundles the tyranny of apps and is a portal to the internet for a mobile-first generation'. The use of super apps as a form of operating system is apparent across many facets, not least the user interface that frequently resembles a mobile phone home screen.

The difference between super apps and 'stand-alone apps' (Spotify, Skype) or 'simple vertically integrated apps' is their role as a platform allowing multiple unrelated services – often also provided by third parties to live within a single ecosystem. Simple vertically integrated apps, such as most developed market neobanks (Revolut, Monzo), tend to fall short of full super app status, as they design services within a specific field (banking/investment) using only their internal dev team. Their key selling point is more about turning clunky desktop experiences into slick mobile experiences, rather than a true ecosystem of disparate services. Super apps are also different from 'app suites' (like Microsoft office or Adobe), which are simply apps with related functions, rather than the multiple distinct functions facilitated by a payment system also provided by the same company.

In 2010, one of the earliest super apps was developed by Tencent, who saw the early potential of smartphone-based communication and established an instant messenger called WeChat - which also incorporated social networking features. By version 5 (August 2013), WeChat had a core base of 200m active users to which they could promote new services such as social gaming, mobile payments, and a digital wallet. Four months later, WeChat invested in the ride-hailing app Didi, with customers paying using their WhatChat wallet. By May 2014, they added an ecommerce marketplace that enabled merchants to open branded stores; and by 2017, they allowed third-party apps to tap into the ecosystem.

Source: britterbridges.com

The evolution from app to super app

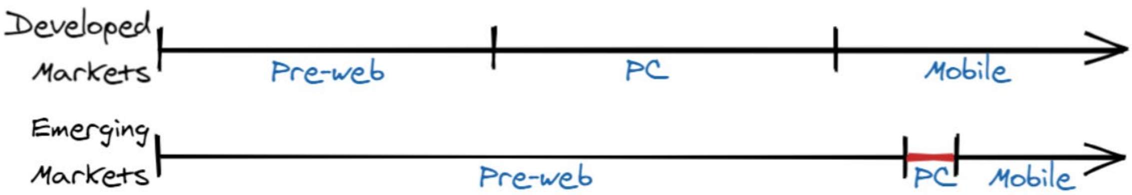
1. Build an extremely popular and scalable mobile app	➢ Build an app with a high customer touch points, for example, WeChat's messaging app, to develop a huge distribution base. ➢ Simply starting by joining various unrelated services into a single app does not make for a successful super app, something WeChat discovered when it initiated its doomed launch into Africa with a ready-made super app. ➢ Capturing and 'owning' your customer base takes the cost of acquiring customers down to essentially zero.
2. Integrate financial services	➢ Integrate financial services to further lock consumers into the ecosystem. ➢ In practice, WeChat mini programs are stores built on a payments app, rather than a payment experience built into a website.
3. Add additional services and/or formalise partnership deals	➢ Most super apps start - or decide to maintain – a 'closed' system in the sense that they develop all additional services in-house – often for quality control reasons. ➢ Some super apps partner with third-parties to offer their services through the app, for example, WeChat's partnership with Didi.
4. Leverage your loyal customer base to transform into a platform	➢ Develop a platform on top of which many programs can be built (both internally and via third party APIs). ➢ Super apps that are comfortable with third-party apps succeeding within their ecosystem have almost unlimited potential. For example, there are over one million mini-programs on the WeChat platform.

Why are super apps so successful in less developed regions?

Since WeChat, multiple super apps have been established across emerging markets. One significant reason for their fast adoption is that emerging consumers have skipped the offline era – with the associated baggage and dated infrastructure – starting instead from the digital age. In developed markets, the presence of embedded legacy industries (such as banking) and the use of computers lessens the need for super apps. Developed markets also have a wide selection of existing apps, and it is very tough for one app to consolidate all those application features into a single super app experience.

In contrast, emerging consumers are ready to adopt super apps given their convenience, low internet and data costs, and mobile-first/only functionality. The proliferation of low-end smart phones – with limited storage capacity – in frontier markets often makes it impossible to install multiple large apps at the same time, so super apps also fulfil a valuable purpose in this regard. Our studies also show that the one-time log-in nature of super apps also works well with older, less technically savvy, emerging customers. The trust that is built from a super apps direct relationship with users disintermediates them from search engines and creates the goodwill to add additional services.

Super apps are also strongly aligned with emerging market governments, not least because of their role in shrinking the grey economy. The Indonesian President fired a cabinet member who appeared to be anti-Gojek and then appointed Gojek's founder to his next cabinet. This is in stark contrast to US and EU leaders, who are extremely hostile to the super app ambitions of companies such as Amazon, Facebook, and Google. The bear case, as in the case of WeChat, is that governments like most of the country's online activity to take place within one centralised ecosystem where all transactions and conversations are linked and monitored. The bottom line is that these companies have a tangible positive effect on GDP and regulation – for example, a requirement to regulate drivers working for ride hailing apps has significantly reduced crashes.



Source: Emeka Ajene's (co-founder of Gozem) substack blog (2020)

The integration of FinTech is key

Another fundamental reason for the success of super apps in emerging markets is their integration with financial services to fill acute gaps in the financial system. Of the 2 billion unbanked adults globally, virtually all are in developing countries. Successful super apps may emerge in the form of ecommerce marketplaces, ride-hailing apps, or delivery apps, but another key characteristic for a fully-fledged super app is the incorporation of payment and credit solutions that the traditional banking sector has not offered. Super apps look to create native payment offerings to lock users into the ecosystem and streamline additional offerings. The development of financial services through super apps can be characterised in the following way:

- **Path dependency:** This is a phenomenon whereby what has occurred in the past persists because of resistance to change. When we look at payment systems in emerging/frontier markets, they are often replacing cash (or basic banking functions) as the primary medium of transfer. In developed markets, consumers have enjoyed credit cards for decades - and these cards do their job very well. The point is that once a job is done well, like credit cards, it takes a huge improvement to get users to switch.
- **Super apps are disintermediating banks from their customers:** Super apps offer a range of simple banking, savings, and investment products. For the most part, these services are still being originated and underwritten by traditional financial institutions. Over time these traditional institutions (unable to gain the customers themselves) are pushed further away from the end customers and require the traffic offered by super apps. Like the insurance sector with platform plays and aggregators, traditional institutions perform the regulated activities (and the balance sheet) while super apps retain the customer experience and relationship. Increasingly these super apps are cutting out the conventional banking sector altogether with services such as 'buy now, pay later' (like AfterPay and Sezzle).
- **Super apps are utilising vast amounts of customer data:** Super apps not only have vast amounts of customer data (frequently in markets where credit scoring is in its infancy), but they know how to use it to deliver better customer experiences. The best super apps use their data to risk-assess loan applicants and target financial products to customers that reinforce the whole app ecosystem.

Gojek (soon to be renamed GoTo) and building the horizontal stack in Indonesia

Super apps often emerge by attempting to solve one issue for the mass market, which gains huge traction, and then quickly realise the need/opportunity for ancillary services and fintech solutions. Gojek began in Indonesia as a call centre connecting motorbike taxis to customers before developing a ride-hailing app to digitize the process, attracting an enormous sticky client base in the process. To bring more customers into the ecosystem, Gojek had to offer a broader range of products than its Silicon Valley equivalents. Gojek quickly realised that many of their customers were unbanked and needed to pay for rides with cash. Given the nascent stage of Indonesia's digital infrastructure, Gojek was an early online experience for many customers making the platform an ideal place to offer a range of services. To accept digital payments (and boost product adoption), the team developed the leading payment platform in Indonesia using drivers as an agent network to get cash into and out of the system (drivers act as human ATMs). They then added GoPay to make payments (pay bills) and accumulate savings. They also added food delivery (GoFood), commerce (GoMart), massages (GoMassage), shipping (GoSend), and airtime (GoPulsa). Whilst initially a closed system of internally developed apps, Gojek has now opened up the platform for third parties to tap into Gojek's loyal customer base. Gojek has become a poster child for the government's technology drive, and the platform is now the largest income source in Indonesia. According to Pitchbook, the company had a post-money valuation of approximately $11bn in April 2020. On the 7th May 2021 it was announced that Gojek will be merging with Tokopedia (ecommerce platform). The new company will be called GoTo and is preparing for a stock market listing at a valuation of $40bn.

Thriving in the most hostile frontier markets. The story of Snapp! In Iran

Despite crippling sanctions and being banned from most mobile app stores, Iranian super app Snapp! has thrived. Snapp! Launched in 2014 and is now twice the size of Careem, the Middle East/South Asia ride-hailing app - acquired by Uber last year for $3.1 billion. Snapp! now has an 85% market share and processes 2 million daily rides. As internet coverage in the country expanded, so has the super app's popularity. With a sticky base of dedicated users, the founders used investment from MTN to layer on 20 additional services such as food delivery, flight and hotel booking, and telemedicine. To date, Snapp! has chosen to curate all their services internally to ensure sufficiently high-quality control and trust, which lends itself to 10-20 services as opposed to WeChat's 1000s. This 'closed' system allows them to be nimble and adapt services in the face of geopolitical turbulence. For example, even with extreme US sanctions that even barred Google Maps from providing back-end support, the team circumvented traditional distribution routes and provided a 'progressive web app' to keep the service working; they even developed an in-house navigation system. Even a domestic ban on the entire non-Iranian internet failed to halt the app's rise as it moved to host data locally.

Kaspi has demonstrated the power of developing an ecosystem in Kazakhstan

In 2012, a small retail bank in Kazakhstan called Kaspi started developing a broader technology platform which has become an ecosystem to address many daily consumers needs both online and offline, ranging from facilitating the ability to shop and pay for everyday goods, to providing a range of funding options for purchases and personal finance management. Kaspi's first online product, an online bill payment system, was extremely popular when launched in 2012, building a significant loyal customer base. In 2014, Kaspi leveraged their user base and launched Kazakhstan's first e-marketplace, and in 2017, it introduced a mobile app called Kaspi.kz. Now Kaspi is the number one player in each category and also had the most popular mobile app in the country. Kaspi is now a true platform that is increasingly working with external companies across multiple disparate services who are eager to tap into their unmatched distribution base – Kaspi is an essential partner for any business wishing to drive traffic to their product. Kaspi's super app engagement levels (54% as measured by DAU to MAU) are second only to WeChat (92% - understandable given it is a messaging app) and dwarf those of Amazon (30%) and PayPal (19%). Despite Kazakhstan only having 18.5m people, the company generated a net income of $650m in 2020 - a 26% year-on-year increase. Kaspi listed on the London Stock Exchange in October 2020 for $6.5bn and, as of March 2021, had a market cap of $13.2bn.

From ecommerce to super app – the story of Jumia in Africa

In April 2019, Jumia was listed on the New York Stock Exchange, becoming the first African start-up to IPO on a major international exchange. When Jumia launched in 2012, backed by Rocket Internet (a European VC), it aspired to become the dominant e-commerce player in Africa. The company initially implemented a business model where it held its own inventory, but in 2016 it pivoted the business model to a capital-light marketplace: third-party sellers became responsible for inventory, and Jumia focused on marketing, customer service, logistics, tech, and products. In 2018, Jumia decided to leverage its large e-commerce-focused client base and launched JumiaOne (now rebranded as JumiaPay) as a 'lifestyle app' combining all their additional services in one place. Initially it seemed that many consumers missed the idea that an app launched by Africa's largest ecommerce player could be an entire business of its own, but their super app has since grown rapidly from a relatively low base to now represent 26% of GMV and 37% of orders (as at 31 March 2021). Some other African super app players have not been as successful, for example, OPay, which launched as a payment solution in late 2018, moved aggressively to add additional unrelated services on the back of significant Chinese-origin funding. In early 2020, the Nigerian government announced a ban on commercial motorcycles, which killed off one of the apps main draws (its CanGo ride hailing service). Today, Opay has dropped its super app ambitions, instead focusing entirely on fintech. Despite increasing competition from African fintech companies with super app aspirations like Paystack and Flutterwave, Jumia continues to grow, and at the end of Q2 2021, its market cap was $3.2bn.

Look to frontier markets for the next big super app opportunities

The roadmap for success in less developed countries is clear. To put the opportunity's scale in context, China, Indonesia, and India have created >$1 trillion, >$40bn, and >$100bn of technology enterprise value, respectively. Although we see software penetration in frontier markets being roughly ten years behind the big emerging markets, new technology is allowing these countries to catch up at an unprecedented speed. In sharp contrast to the countries mentioned above, Pakistan's enterprise value is only $1bn (with 220m people!). The frontier investment universe is home to roughly 3 billion people: bigger than India and China combined today with well over an estimated $100bn in enterprise value to be created over the coming decade. It is a theme we believe will define the coming decade. Below we have highlighted two regions we know well.

ZoodMall is operating in untapped Central Asian markets

An example of a fast-growing super app in an untapped frontier market is Sturgeon's portfolio company ZoodMall. The initial business model is similar to Alibaba / AliExpress, in that it provides a platform for the buying and selling of a wide range of products. Within three years, the company has become the most significant ecommerce marketplace in Central Asia with an exceptionally large and loyal customer-base. Like other emerging e-marketplace, the key to their success was initially to solve fundamental issues related to logistics, payment facilitation, and inventory. The addition of ZoodPay has supercharged the company's growth; the 'buy now, pay later' solution is unique for the region and can be used offline and online. Zoodmall has developed a vast core user base with multiple customer touchpoints that provides data to add ancillary services. No competitor has been able to acquire clients at the same rate in the region successfully (outside Kaspi). The company is in the process of adding additional internal and third-party services to leverage their unmatched distribution capabilities. Having invested in the company at seed and Series A, Sturgeon expects the company to follow in the footsteps of Jumia and Lazada and comfortably become a >$1bn company.

Pakistan: a market of 218m consumers and no established super apps

Another market we believe holds enormous promise is Pakistan. Pakistan is a country we think will follow the same pattern as Indonesia in terms of super app development – Pakistan has a population of 218m versus Indonesia's 268m. Whereas Indonesia has several unicorns worth >$40bn, Pakistan only has two aspiring companies with a combined value of $1bn. Pakistan is the world's 6th most populous country with a digital infrastructure that is only now starting to come online (internet penetration is 35% in Pakistan vs 64% in Indonesia). The growth in mobile connections and internet users is also far above global emerging markets benchmarks. We see a $45bn (GMV) opportunity that a super app can absorb to fulfil unmet demand for financial services, ride-hailing, grocery delivery, and trip booking.

Frontier super apps: an era defining investment opportunity

From Gozem in West Africa to PiPay in Cambodia, to Rappi in Latin America, to Zalo in Vietnam, a new generation of frontier super are taking lessons from WeChat and its early successors to capture huge swathes of their respective populations within their ecosystems. These apps have clear ownership of their customer-base, which takes customer acquisition costs down to near zero for new services. The path has been set by the emerging market pioneers discussed earlier, but the next era-defining opportunities are analogous platforms in untouched frontier markets. The era of frontier super apps will define the investment landscape for many years, and Sturgeon Capital will be on the ground to capture these high return opportunities for our investors.

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