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Getting on the e-commerce Carousel

29 May 2020

Carousell has achieved impressive user numbers. Can the online marketplace now convert that into profitability?

When Carousell CEO and co-founder **Quek Siu Rui** turned down a US\$100 million offer to sell his company in 2014, he explained that he and his two co-founders were “less than one percent done”.

With hindsight, one could say Quek made the right call. In November 2019, telecommunications giant Telenor Group took a 32 percent stake after merging its 701Search online classified portal with the Singapore-based company. By the end of the year, Carousell had a presence in seven markets across Asia-Pacific, and is worth an estimated US\$850 million.

However, the pressure to turn a profit is starting to build. After increasing revenue to US\$7 million (FY2018) from US\$1.73 million (FY2017), the company is still reporting a net loss. The need to prove that its monetisation strategy works, especially in the face of stiffening competition, is becoming hard to overlook. Add in issues of fraud and scams on its platform, and Quek and his co-founders have their work cut out.

GETTING STARTED

Quek and his two co-founders, **Marcus Tan** and **Lucas Ngoo**, dreamt of building their own start-up after their one-year university exchange in the U.S. Drawing inspiration from Silicon Valley’s innovative start-up culture, the trio dreamt of using technology to solve a common problem faced by many others – selling pre-owned items quickly and easily.

After getting their start by winning Startup Weekend Singapore in 2012, the three co-founders decided on the Carousell name and created a mock-up, which they brought to the blog shop community to gather feedback. They repeated the product validation process until a working version emerged, which was similar to how Steve Jobs developed the first Macintosh.

As a peer-to-peer application, the success of the service depended on building a large community of buyers and sellers. Carousell’s launch in August 2012 capitalised on the goodwill of the small community of 70 sellers, who agreed to relist 700 items after a server hosting the app crashed. Without such support, the app might not have taken off. The very members of the blog shop operators who helped provide feedback on the app’s design thus also became the foundation of the community that Carousell was attempting to build as its key virtual asset.

“Every single interaction with a Carousell user can make a difference to that person,” Ngoo points out. “We’re not just building a platform; it’s the community of users that makes it special.”

GROWING PAINS

Six months after the launch, the start-up hit a growth plateau. Sign-ups soon dwindled to a single digit a day, and only about 400 users were active on the platform. By tapping on its relationship with its users, Carousell addressed it in by enhancing the community experience.

“We were marketing to everyone but to no one at the same time,” laments Tan while coming to the conclusion to target Carousell’s most active users, who were young women interested in fashion trends. The transaction site was complemented by a blogsite that featured relevant content e.g. “Top 5 Summer Shorts for Casual Wear”, which when combined with a mobile-first approach delivered the desired effect: By the end of 2013, listings in Carousell had grown to one million, and app downloads on the Android platform had reached between 50,000 to 100,000 as of November 2013.

But like any Singaporean start-up, the lack of a substantial domestic market meant regional expansion was inevitable for any company with proven technology. In November 2013, Carousell secured S\$1 million (US\$800,000) in seed money from Rakuten Ventures to expand into Malaysia and Indonesia. After launching in Malaysia in November 2014, it then closed the year by raising another US\$6 million in a Series A funding round led by Sequoia Capital.

By the end of 2016, the company had expanded into the Philippines and Australian market, and continued with its tried and tested method of building a ground-up community. In Australia, the team visited the Camberwell Sunday Market (a flea market where vendors sold used and vintage clothing, housewares, etc.), and spoke to potential users before eventually setting up an office in Melbourne.

That same year, Carousell closed a Series B round of funding and added US\$35 million to its war chest, reserved for driving further expansion into new markets.

SHOW ME THE MONEY

While the injection of funds boosted optimism, global venture capitalist (VC) funding came to a slowdown from 2015, signalling that start-ups needed to ease their reliance on VCs for financing. As Carousell entered its fifth year in 2016, it was time for the company to make money on its own.

Carousell eventually adopted the freemium business model as its monetisation strategy. This meant a mix of free and premium, in which the majority of users continued to enjoy free listings, while those who were willing to pay would be entitled to value-added services.

The company would embark on building three revenue streams: advertising, premium listings, and subscription-based services. In 2018, Carousell's second year of monetisation, advertising accounted for US\$4.17 million or about 60 percent of its US\$7 million.

The bottom line was not on the top of their minds, as the Carousell founders had long prioritised customer acquisition and retention over making immediate profits. However they had to consider the impact of strong competition from new entrants into the peer-to-peer classifieds space (such as Facebook Marketplace), as well as from incumbents (such as Shopee).

How should the company address the challenges?

This is an adapted version of the SMU Case, "[Carousell: Growing a Peer-to-Peer Mobile App Business by Building a Community](https://cmp.smu.edu.sg/case/4346)". To see the full case, please click on the following link: <https://cmp.smu.edu.sg/case/4346>