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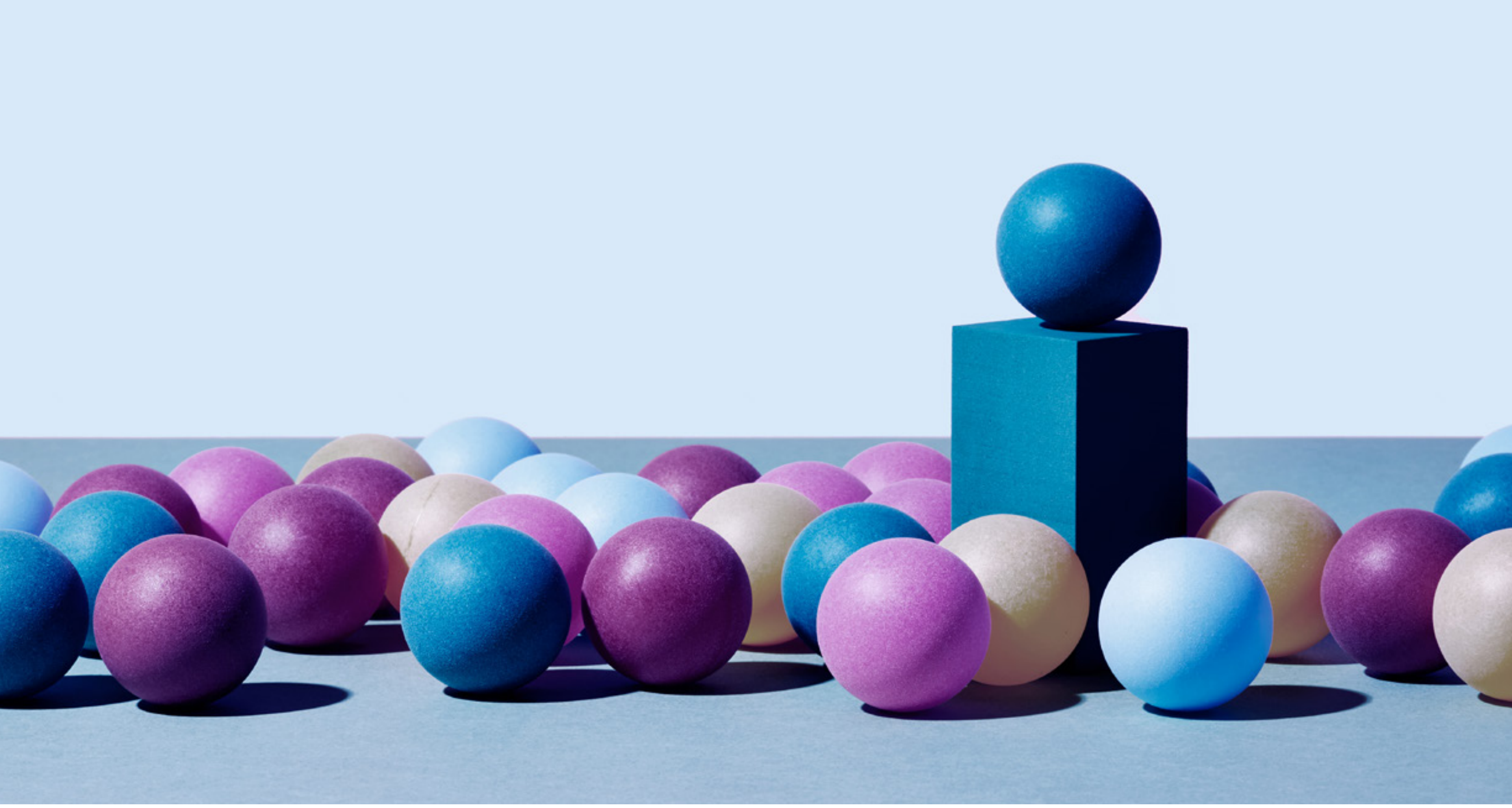
Giving and reaping rewards: A conversation with ShopBack's Joel Leong

Transplanting a successful e-commerce business model into a region where online shopping is still developing is a heady task for any organization. But a willingness to localize that model and fertilize the market by rewarding users for online purchases helped ensure success, according to the cofounder of a Singapore-based cash-back platform.



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In this episode of *The Venture*, we share a conversation with Joel Leong, cofounder of ShopBack, Southeast Asia's leading rewards platform. Leong discusses with McKinsey's Andrew Roth how ShopBack positioned itself as a pre-shopping destination to cement user loyalty, how it used performance marketing to unearth and exploit unexpected customer segments, and its upending of the established pay-per-click model with a cost-per-sale approach—one it intends to transplant into the offline space.

An edited transcript of the podcast follows.

Podcast transcript

Andrew Roth: From Leap by McKinsey, our business-building practice, I'm Andrew Roth. Welcome to *The Venture*, a series featuring conversations with legendary venture builders in Asia about how to design, launch, and scale new businesses. In each episode, we cut through the noise to bring practical advice on how leaders can build successful businesses from scratch.

I'm excited to welcome Joel Leong, cofounder of ShopBack, the number-one rewards and discovery platform in Southeast Asia. Since launching in Singapore, the company has expanded to other countries across Asia. ShopBack partners with thousands of merchants to reward its users with cash back from a range of categories, including general merchandise, travel, fashion, groceries, and health and beauty. To date, ShopBack has rewarded its 20 million users with more than $100 million.

Joel, thanks for joining this episode. I've been looking forward to this conversation.

Joel Leong: Thanks so much for having me.

Andrew Roth: Since ShopBack launched in 2014, you've grown to more than 500 employees and have raised more than $100 million. For people who don't know about ShopBack, can you tell us how it works and how you got started?

Joel Leong: Basically, ShopBack helps users to shop smarter. Consumers make a lot of decisions before they make a purchase, and our goal is to help them automate that process.

First, we give our users extra rewards if they use specific online merchants. We also help them compare prices across multiple platforms to help them find the best possible price. We also noticed that customers are constantly searching for coupons and other offers, so we consolidated them all in one place to reduce the time it takes to find them and get the best deals.

We essentially want to be the pre-shopping destination for our users, so they can buy with total peace of mind.

When we started in 2014, we were inspired by the cash-back model in the United States but localized it for Asia. In the United States, Ebates used this model very well and were eventually acquired for $1 billion by Rakuten. Then there is Fanli in China, and it's a unicorn now as well. And in the United Kingdom, there's Quidco and TopCashback. So we looked at these companies and said, "This model seems to work in multiple places, but not in our part of the world."

Andrew Roth: It sounds like you want to simplify or take some of the risk out of the shopping experience by using ShopBack as a discovery tool for both online and offline retailers, right?

Joel Leong: Yes, because when you think about it, shopping is supposed to be an enjoyable process. It's something you do in your free time, buying things you like. But there are a lot of decisions that have to be made when you are shopping.

So let's say you know what you want to buy, but how do you find the best place and time to buy it? Frankly, customers don't have time to do all this research before making a purchase, because they all lead busy lives. So we help them do the research and make the best decisions.

Andrew Roth: You mentioned that you drew inspiration from what was happening in other markets. Tell us how you localized it for the Southeast Asian market.

Joel Leong: The model for bringing users to our merchant partners is actually the same. However, the way that model manifests itself is different in different markets. For example, in the United States, it's very much driven by the retailers and the brands. In China, it's very much driven by the brands already in the market. And in the United Kingdom, a lot of the cash back is given for financial products or insurance products, rather than retail shopping.

But when we looked at Southeast Asia, there were a few things we felt were different. First, there were a lot of brands coming up for the first time. They might have been successful in the offline space, but e-commerce was totally new for them. Southeast Asia is a bit behind China, the United States, and the United Kingdom when it comes to e-commerce, so we're trying to change that by rewarding people for shopping online rather than offline.

Second, we noticed that some of the cash-back companies that inspired us were paying users with checks in order for them to redeem their rewards. But in Singapore and the rest of Southeast Asia, bank transfers are very common, so we decided to use that as a cash-out method. In more developed markets, such as Indonesia, we launched with cash-outs into users' prepaid debit cards, which they can top up every month.

So those little tweaks that make it much easier to use our platform helped us stand out and become the market leader in this part of the world.

Andrew Roth: Take us back to when you realized that you wanted to quit your job and do this full-time.

Joel Leong: We were determined to quit our jobs the moment we secured some funding. When we went around pitching, we were very clear that this model already works, which gave investors a lot of confidence.

We actually pitched it to our alma mater, which has an enterprise division. And they, together with another venture-capital firm, decided to invest in our very first round.

I think there were two factors that convinced them to invest. The first was the team, which had e-commerce experience. At that time, there were not many e-commerce professionals in the market, and we were one of them.

The second was the fact that we weren't jumping on some crazy bandwagon. We had a proven model that has worked in different markets for many years, and it was just a matter of time before somebody tried it in Southeast Asia. So we told them, "Either you bet on us or someone else is going to do it."

I think these two points gave the investors the confidence to back us. And since then, their returns have earned back their investment many times over.

Andrew Roth: Let's talk about what those first three to six months were like after you first launched. What kept you up at night?

Joel Leong: Let me begin with the very, very early days and then the early days. In the very, very early days, we didn't want to do a full launch until we got everything right, down to the last pixel.

But then we came to a stage where we said, "Hey, we have to launch the product." And I think that's something that a lot of incumbents are unable to do, because they always want to launch with a pristine, perfect product. But we were a scrappy start-up. That's something we have to remember, and that's actually an advantage.

So we got to the point where we needed to launch because, otherwise, we'd remain stuck in this mode of trying to make things better without any customer feedback to study.

So we gave ourselves one more week and told everyone, "If you want to do anything else, do it this week. No more optimizations. We're going to tweak it as we go along."

And that was actually a big change for us, because we shifted our efforts to things that were much more meaningful and that directly impacted the customer.

Andrew Roth: And how much time did you spend doing that? It sounds like you launched with a beta or limited version of ShopBack.

Joel Leong: That beta version took one or two months, until we finally realized, "Hey, this tinkering has got to stop." And when we went live, we were able to get much better feedback from real customers, telling us why our product was or wasn't good. And using that feedback, we were able to create a much better product.

After we launched, the main thing we looked at was product/market fit, tracking how many new customers we were getting, how many were signing up, and how many were making their first purchase. Afterwards, we started looking at repeat orders, whether new customers were buying more and being retained by us.

As time went by and we attracted more customers, we did a deep dive into the data to answer questions such as, "What segment of customers have we actually got? Who are these people? And how are they similar or different from our hypothesis?"

Andrew Roth: So, on the metrics, what you're saying is that you weren't just measuring new-customer acquisition; you were measuring repeat orders, second purchase. Were you measuring how much time specifically before a second purchase? And were you running experiments to see what you could do to trigger that second purchase?

Joel Leong: Yes. I think what we learned is that if you have enough money to spend on a marketing campaign, you will surely attract new customers. The important question for us was whether there was going to be a second and then subsequent purchase.

And what we found is that once the customer made a second purchase, the odds of him or her staying were very high, and they tend to stay for a pretty long time. So our goal became figuring out how to encourage them to make a second purchase.

We then ran different types of campaigns and measured users on a cohort basis to figure out how many made a second purchase.

Early on, we didn't have enough users to break them down into cohorts, as they were mostly our family and friends. But after six months, we finally had enough users to get a much better picture of their journey.

After that, we looked at how many users referred us to their friends. Because the referral ratio tells you how much they like your product and are willing to say, "Hey, guys, check out this product. I used it; it's pretty good. You should try it."

Andrew Roth: Just for anyone in our audience who might not be familiar with cohort analysis, you're saying you somewhat ignored the first three months of customer behavior because it was mostly influenced by friends and family, right?

Joel Leong: Yes, by people who love you.

Andrew Roth: And that cohort analysis after six months gave you a clearer view of month-over-month customer behavior, as you began looking for leading indicators beyond the second purchase to things such as churn and losing customers.

Joel Leong: Yes, and the goal was to find out how many. Because you will definitely lose some customers along the way. So you need to find out whether you are losing more customers this month compared to last month, or are more customers staying with you this month compared to last month?

Improving month to month should actually be the goal, because as long as you're improving, you will reach a much better state. I think people sometimes get very fixated on hitting targets, worrying because they hit only 18 percent instead of 20 percent.

But who told you it should be 20 percent? Nobody knows what that number should be. What you need to know is that you're improving every month. And that is something that's super important, because if you keep improving, you will likely reach a desirable state.

But the ironic truth is that you feel that way only in retrospect. Because as a founder, you are always asking yourself, "Why do 80 percent of sign-ups not convert to the first purchase?" That's always on your mind at that point in time.

And it's only some time down the road when you look back and say, "Hey, we have actually grown quite a bit since then." So if you give yourself a benchmark, compare yourself month to month, or week to week—that gives you something inspirational to go on.

For us, the aha moment when we knew we were on to something was seven months after we launched a localized version of our product in Malaysia, and it took off even better than in Singapore. That was the moment when we first realized that the potential for our product could be huge.

Andrew Roth: And on this topic of growth and marketing, there's been a shift recently, especially in the midst of COVID-19, where incumbents are constantly rebalancing their marketing budgets between brand marketing or performance marketing. What's your opinion on the split?

Joel Leong: I think both sides are important. But for me, the key thing to consider is what stage you are at and what mix makes sense at that stage.

If you put yourself in the shoes of a founder, and it's very early days and the budget is limited, I would place my money in performance marketing. Why? Because I'm able to optimize it, I'm able to tweak it along the way, and I'm not making an all-or-nothing bet. I'm not going all in and hoping that I hit something.

Andrew Roth: You mentioned that you had an original hypothesis of who your target segment would be and how that changed. Tell us what you learned from focusing on performance marketing and understanding your customer segment.

Joel Leong: We assumed ShopBack's key users would be students, because they want to save money and are also tech savvy. So when we started, that's who we targeted. But then, lo and behold, after a few months, we discovered that most of our users were not students.

A lot of them were moms buying online products. There were also people from other segments, such as finance professionals, administrators, and tech professionals. So that was actually quite different from our hypothesis.

To bring this back to the discussion of brand marketing versus performance marketing, if we had decided instead to place a bet on billboards and posters targeting students, ShopBack might not be here today, because of all the debt we would have incurred. But because we spent our money on more measurable forms of marketing, that helped us better understand the customers who were streaming in and double down on them.

Of course, once you're much bigger, letting people know about your brand makes total sense, because you've reached a stage where performance marketing starts to diminish in terms of the ROI [return on investment] it can bring. So to get a new pool of customers, you have to try new channels.

But for early-stage founders, I would say it makes much better sense to get more data to understand your customers before deciding to place an all-in bet.

Andrew Roth: What's interesting about ShopBack's growth is that it's a two-sided network, since you have the supply *and* demand. We've been talking a lot about the demand side based on what consumers prefer, and it's interesting that it went beyond students. But tell us a little bit about the supply side, your merchants and partners. Where are you focusing right now, and what's the value proposition for them, be it online or offline?

Joel Leong: One thing we've noticed is that every merchant has different KPIs [key performance indicators], so we try to group them together.

Some merchants are focused on user acquisition and want us to help them grow their user base. We have a fairly big user base that's very targeted, so we look for types of users that are not customers of these merchants. We then run campaigns—what we call challenges—to get these users to make that first purchase and then reward them if they spend a certain amount.

The second type of merchant wants help increasing their sales. That, to me, is quite important, because even though they've already acquired that customer, retention is definitely something they should be looking at as well.

These brands and merchants are thinking, "How can you be an additional channel for me that helps me blast out to more people who are already my users but might not be able to constantly see my offers and my campaigns?"

A lot of channels charge brands and merchants on a per-view or per-click basis. We tell them that we can do the same for them but on a per-sale model. That's much more attractive, because they want that sale. And if they make money, they're happy to share it with you. So it's performance based and outcome based, all the way to the sale.

The COVID-19 pandemic has added a lot of complexity to all this, because even though you can deliver a lot of clicks, a lot of these orders cannot be shipped to different countries, or they may be the wrong product. But the merchant still has to pay these technology firms. So that's why this cost-per-sale model is very helpful, because if the order is cancelled, we don't charge them.

We are 100 percent aligned with them, so if they lose that order, we lose our commission, because we're not going to charge them for something they didn't earn. That has really helped us a lot in this COVID-19 period, as a lot of brands were willing to try us out, because there was no risk.

Andrew Roth: So if I'm an online merchant or offline merchant, I see ShopBack as a channel that drives sales with 100 percent attribution.

Joel Leong: Yes, correct. And it makes it much easier for you to plan your budget, because most of the budget is planned as a percentage of your margins or revenues. So essentially, you're saying, "Whatever margin I make, I'm just going to give some of it to

ShopBack." That's helped us quite a bit in terms of making inroads with these brands and merchants.

Andrew Roth: So they're willing to share a piece of the pie, a commission of sorts. Are they sharing 1 percent, 5 percent, 10 percent? Any range you can share?

Joel Leong: It really depends on their margins. For example, online travel agencies have much higher margins and sometimes can go as high as 10 or 13 percent. But for general marketplaces, we're talking about 1 to 2 percent, because that's actually all they make, but they still want those sales to keep coming in.

We are very vertical specific. If your vertical is low margin, we are more than happy to accept that lower cost per sale. That's how we think about it.

Andrew Roth: OK. Let's close with some rapid-fire questions. You can answer with one word or a few sentences, and just share what's on the top of your mind without giving up any secrets.

In one or two sentences, what does success mean for you personally at ShopBack?

Joel Leong: Cash back that customers can earn.

Andrew Roth: What is the most important trait you look for in a new hire?

Joel Leong: The ability to understand mistakes they have made and being open to changing that.

Andrew Roth: What's your favorite metric right now to understand the health of ShopBack?

Joel Leong: Retention, such as how many users are retained with ShopBack.

Andrew Roth: And what new feature, initiative, or partnership gets you the most excited in 2021?

Joel Leong: I would say our push to offline. We want to bring ShopBack or this cost-per-sale model to the offline space. For the longest time, people have paid for billboards and newspaper ads. Somebody has to bring them affiliate marketing. It's very common in the online space, but nobody has done that for the offline space.

Andrew Roth: I think that's a great way to end it. Joel, thanks so much for your time. It's been a great conversation, and I look forward to connecting again soon.

Joel Leong: Thank you, Andrew. Thanks for having me. Had a very fun chat.

Andrew Roth: You have been listening to *The Venture* with me, Andrew Roth. If you like what you've heard, subscribe to our show on Apple Podcasts, Spotify, or wherever you listen.

Andrew Roth is an associate partner in McKinsey's Singapore office. **Joel Leong** is cofounder of ShopBack, Southeast Asia's leading rewards platform.