Content, Commerce, and Re-visiting the Super App

Antal Runneboom & Fatine Layt
San Francisco & Paris

Much has changed for the digital retailer over the past year. Winning wallet share of the modern consumer is tougher than ever, despite daily screen time vastly increasing throughout the pandemic—a dynamic that creates both opportunity and competition for pretty much the entire LionTree universe. Other notable challenges impacting digital retail and e-commerce include the elimination of IDFA and a focus on consumer privacy, competition resulting from the availability of e-commerce tools to reach scale faster than ever, an eagerness to allocate more spend toward experiences, and, of course, inflation.

Companies across all sectors have begun to recognize that winning and retaining customers in the attention economy is achieved through content, both to attract target customers and to drive awareness through a flywheel that could previously be achieved by simple brand marketing. Increasingly, content is what sells—whereas the product itself is secondary.

The convergence of content and commerce has been a key thesis point in several recent notable M&A transactions. Penn Entertainment's acquisition of Barstool Sports integrates sports betting content to create "the best-in-class omni-channel provider of retail, online gaming and sports betting entertainment." We've supported this theme during the year, globally, through advising Naver on its proposed acquisition of Poshmark. The potential combination represents a key strategic push to unlock monetization for both parties – Naver, also known as "the Google of South Korea" is a the nation's leading internet group, providing a search engine and other internet services including games, webtoons, ecommerce, social media and user-generated content. By leveraging Naver's platform of sticky users and original content, Poshmark brings them closer to the countless P2P transactions already occurring on its network, creating a leading discovery-based social shopping platform.

Supplementary to content, there has been a sharp rise in demand for tools used to gather key customer insights on platform level interactions. This year, we tackled this theme by advising Sixth Street on its Series F investment in Contentsquare – a company that through an AI-powered platform analyzes customer behavior through billions of anonymous web, mobile, and app interactions. Its software measures and communicates key points in the customer journey that either attract or deter a user to commerce opportunities. Offerings like Contentsquare's are critical as they help reduce the gap of a nearly 70% ecommerce cart abandonment rate.

In last year's letter, we discussed the potential emergence of domestic "Super Apps." While prominent abroad, domestically, we have yet to see the emergence of one akin to those in Asia, which largely rose to prominence because of unbanked populations adopting to mobile payments and strict app marketplace regulations. Nevertheless, some companies across a range of sectors and with deep connections to the consumer have begun to organically expand into adjacent spaces as they gain market share comfortability, in light of a difficult regulatory environment to expand.

Uber, for instance, has strategically grown its position in food delivery, ride share, grocery, and recently in broader mobility through transit services and EV offerings. DoorDash has followed suit, partnering with CVS, Albertsons and other retailers to expand its offerings across virtually all consumer-packaged goods. Instacart has begun to capitalize on its market leadership through a natural unveiling of an enhanced ad buying experience and launching shoppable video ads for all CPG brand partners. In a slightly bigger bet, content providers have begun to integrate direct payments onto their platforms, allowing brands and merchants to meaningfully engage with and monetize their audience without having to drive traffic away from said platforms. TikTok, for example entered a partnership with Stripe in the tail-end of 2021 and announced plans to release TikTok "Shop," a live e-commerce venture in the US. Likewise, Pinterest unveiled shopping features and Shopify checkout integration, which allows users to complete transactions within the app itself.

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Perhaps most notable in speculation, Elon Musk communicated his ambitions to transform Twitter into a Super App called "X." This transition is expected to begin with an entry into payments and a subsequent revamping of the platform to enable video cross-functionality and other tools. That shift would, in theory, create a platform with a host of mini-applications not dissimilar to foreign Super Apps in WeChat, Revolut and others. The hypothetical transformation and the expected push into payments validates both content's role (functioning as a way to access a customer base with high engagement) in the consumer journey from consumption to commerce, and an entry into payments marking a key first step in the playbook of a company's transition into a Super App – often sitting at the intersection of content and commerce.

Coincidentally, his former company, PayPal, announced plans to offer a host of consumer services within the app itself late in 2021, seeking to transform the company into a "financial services Super App," and entertained the idea of purchasing Pinterest for $45bn late in 2021. Since then, the company has launched its initial version of a "consumer digital wallet" app, focusing on offerings with engaging retail-oriented services such as BNPL, and cash-back rewards (through Honey) that drive top-of-funnel traffic for merchants. Other merchant platforms such as Spotify, through its Selling Plan API, have also recently rolled out retail-oriented payment offerings directly onto their platform – highlighting companies' efforts to drive top-of-funnel traffic.

How will Amazon, Alphabet, Microsoft, and others navigate and use their position of relative strength to become the ultimate destination of services? Given content's central role in customer acquisition, we may see the convergence of entertainment through music, video, and gaming sit at the core of a Super App transition in companies like Twitter or Alphabet – driven by strategic acquisitions that bring various branches of entertainment under a single brand. Microsoft has recently begun to consider building a Super App, which poses the question of whether it's primarily created organically or through integrating strategically acquired assets under one umbrella.

If history is any indication, as the global economy endures a prolonged recessionary period, we may see large domestic platforms with excess financing and operational capacity actively engage in strategic acquisitions that bring them one-step closer to achieving Super App status (or rather, Super Subscription). Pure play valuations have fallen, seeing pressure to maintain growth, retain customers and manage overhead costs. And companies with existing subscription models should seek to consolidate as consumers reconsider what constitutes necessary spend on their credit cards.