



The East is wireless

By Janar A. Weerasingam and Jeremy Rowe

That is the key to understanding the evolution of e-commerce in Asia. But although this should give regional companies a natural advantage, so far they have conceded the field to Western competition. Here's how the trend can be reversed.

It's a classic "good news, bad news" situation. By all accounts, Asians are eager to do business online. Indeed, e-commerce in Asia is exploding, growing at a compound annual rate of almost 200 percent, nearly twice as fast as in the United States and Europe (albeit from a smaller base). According to Forrester Research, the Asia Pacific region has the potential to account for nearly a quarter of the total global Internet economy by 2004. This translates into some \$1.6 trillion in value, more than 90 percent of which is likely to be generated in the business-to-business sector.

The bad news? For the moment, at least, few Asian companies have made significant inroads into e-commerce. This puts them at risk of seeing their best customers, in both the B2B and consumer sectors, lured away by more aggressive global and non-Asian competitors in this booming new market.

But despite being relatively slow off the mark, Asian companies are still

in a position to capture a significant share of the value generated in the new economy. The region's business culture contains some unique characteristics that, if exploited, can help regional companies gain a competitive edge over Western competitors, who could find that the battle for the Asian online customer has only just begun.

Going mobile

The key factors driving the growth of e-commerce in Asia are deep links to international supply chains in many industries, as well as local e-commerce development efforts. In addition, Asia's already high and still-rising mobile-phone penetration rates suggest that the current growth rate of e-commerce will only increase as consumer access to the Internet expands beyond computers.

In China, for example, nearly 52 million people already use mobile phones, and more than 70 million were expected to use these devices to access the Internet by the end of



A natural inclination toward collaboration gives many Asian companies a distinct advantage over their counterparts in the West.

2000. In Japan, the mobile phone already is the most popular way to access the Internet.

To date, however, the online initiatives of Asian companies have been modest. For example, although Japan is considered to be the region's Internet giant, several recent studies show that Japanese companies are not exploiting the full potential of e-commerce.

A survey by Japan's Ministry of Posts and Telecommunications found that while 78 percent of large Japanese businesses use the Internet, only 25 percent of large businesses conduct online business-to-consumer sales activities. One survey of small and medium-size enterprises (SMEs) in Japan found that 56 percent of the companies surveyed now have an Internet presence, but that only about half of these conduct business online. These results place Japan significantly behind the United States and Germany, where, respectively, about 75 percent and 68 percent of SMEs have an online presence.

So what can Asian companies do to break into the top ranks of e-commerce? Three things in particular:

- Leverage their family- or relationship-based networks in the B2B segment to build e-business models that are more compatible with the region's business culture than the models used by North American and European competitors.
- Leverage their relationship-based networks in the B2B sector to build consumer-focused e-business models that will help them capture and retain their best customers.
- Exploit the unprecedented window of opportunity to build next-generation e-business models for

mobile commerce in both the B2B and B2C sectors, ahead of the United States.

Better B2B model?

The B2B e-commerce market is clearly here to stay. Studies done by Jupiter Research indicate that in the United States, B2B trade will balloon from 3 percent of all Internet transactions in 2000 to 42 percent by 2005—a surge in value from \$336 billion to better than \$6 trillion.

B2B sites and portals are beginning to emerge in Asia as well. For example, City Developments Limited (the biggest developer in Singapore), Far East Organization (the largest private-property developer in Singapore) and Singapore-based Keppel Land Ltd. are developing a real estate industry portal to offer e-commerce services, including the ability to buy construction materials, to regional customers. Whether Asian companies perceive these B2B e-markets as an opportunity or a threat (see box, page 73), they have the ability to respond effectively by leveraging their unique business characteristics to outplay Western competitors.

B2B e-markets in the West are soon expected to enter a consolidation phase, and there is great uncertainty about the future of the 500 or so e-markets that currently exist. These markets were developed on the assumption that the first movers would gain significant advantages that easily could be used to lock in critical volumes of buyers and sellers. But in many cases, this has not occurred.

Moreover, B2B software providers like Ariba and Commerce One have given back most of the spectacular gains they made in 1999. Investors now realize that most of the benefits of e-markets will go to the established old economy companies that partici-

pate in them, rather than to intermediaries. Powerful late entrants—such as large, traditional bricks-and-mortar buyers or sellers, including the world's largest automobile makers—are more likely to create successful B2B e-markets by virtue of their established market power.

But the big winners will be those companies that extend the concept. They will build collaborative business models, with a shared vision and aligned incentives, that integrate business systems and processes between companies to maximize Internet efficiencies, minimize risk and gain new capabilities. This is in

marked contrast to most of today's buyer sites, which are focused on squeezing supplier margins and cutting costs.

All in the family

A natural inclination toward collaboration gives many Asian companies a distinct advantage over their counterparts in the West. North American and European firms are likely to find it challenging to collaborate on anything beyond transaction processes. More thorough collaboration requires the integration of data and processes between companies, and thus a level of trust that is very rare in Western business culture.

Many Asian companies, however, are used to doing business as part of a family- or relationship-based network, where high levels of trust are the norm. These companies have the opportunity to use this relationship-based business culture to accelerate the evolution of e-markets in the region—and globally as well—by moving quickly into the collaborative phase, where maximum benefits can be realized for all participants.

Using their unique networks, Asian companies can form exclusive and collaborative business models that are more robust and closely linked than the loosely affiliated, contract- and rule-based models used in the West.

Asian exporters feel the heat

The emergence of new business-to-business e-commerce models has placed a cloud over the future of Asian export companies that fail to respond to opportunities in the new economy.

Most of the region's export markets are characterized by a large number of suppliers, intense competition and low supplier bargaining power. This means they are very likely to be aggregated into global vertical industry markets (or trading communities).

Moves to build virtual markets—by companies such as VerticalNet and by large coalitions of overseas buyers, like General Motors Corporation, Ford Motor Company and DaimlerChrysler—are providing alternative suppliers to Asian companies with better access to these markets, and are opening up the competition internationally.

This year alone, three of the biggest personal computer makers (Compaq Computer Corporation, Gateway and

Hewlett-Packard Company), along with a number of other companies, agreed to invest \$100 million to work with component suppliers to create an online marketplace. These companies' purchases represent 33 percent of the electronics industry's annual expenditures on components and services. This particular initiative includes Asian participants such as Hitachi Ltd., NEC Corporation and Samsung Electronics. IBM has since set up a similar B2B exchange in partnership with 10 other major electronics and telecommunications companies.

Many more industries have announced the formation of their own exchanges. These include rubber companies, retailers and steelmakers, to name just a few. Asian companies need to recognize that these markets represent barriers to entry for those companies that are not e-enabled. If they are unable to transact efficiently in this new market space, they are likely to face significant threats to their market position.

The high levels of trust and the informal, fast decision making typical of these networks will be of particular advantage when it comes to implementing collaborative e-commerce initiatives in Asia, such as the development of joint online value propositions, supply chain planning, inventory control, strategic procurement and automated transactions. The benefits will include sustainable productivity gains, cost efficiencies and the ability to establish new standards of performance—all of which will be required to win in the new e-marketplace.

Asian companies that extend their business networks to include trusted Western partners will gain additional advantages, such as strengthened relationships, "preferred vendor" status, closer integration with buyer-company value chains, improved information flow to reduce inventory, and increased working capital.

Moreover, Asian companies that enter e-markets today will also benefit from falling costs and the rapid advances being made in Internet

US companies have developed consumer-oriented e-commerce offerings that are very attractive to Asian customers.

technology. They will be able to take advantage of sophisticated B2B Web solutions from companies such as Commerce One and BusinessBots.

Such solutions increasingly enable spontaneous data sharing between and among companies and markets (without a prior, purpose-built link or specific solution). This will allow Asian companies to develop more advanced collaborative business models at much lower costs than Western companies that have already made their move.

Customer base at risk

Although not currently in favor with venture investors, the B2C opportunity in Asia Pacific is growing by the day. Estimates by IDC put the region's online population (excluding Japan) at 40 million by the end of 2000—and this group's spending at more than \$7.2 billion per year. By the end of 2003, IDC predicts, this population will hit 108 million and generate revenues of \$86 billion per year.

Given this enormous potential, many leading US firms—E-Loan, E*Trade, Amazon.com and Charles Schwab, to name a few—are seizing the opportunity to expand in the region. This trend is a serious threat to Asian companies.

One of the reasons these overseas companies have been able to successfully expand in the region is the lack of consumer focus at most Asian companies. Whereas few local companies think about their business from the consumer's perspective, those operating in the United States have no choice but to do so. In their home market, US companies are used to demanding customers who compare prices and who expect to be able to place orders at their convenience, execute hassle-free returns and enjoy great customer service.

As a result, they have developed consumer-oriented e-commerce offerings that are very attractive to Asian customers. Regional competitors that push conventional offerings or focus on making only incremental improvements are unlikely to fare well against this kind of competition; indeed, many are unaware of the extent of the threat.

Thus, in the business-to-consumer sector, the greatest risk for Asian companies is losing customers with high disposable income and considerable assets—their best customers, in other words. In the United States, more than two-thirds of households earning more than \$50,000 have Internet access; almost 78 percent of households earning more than \$75,000 are also connected to the Internet. Similarly, in Asia the wealthy, the urbanized and the young are likely to be the early adopters of the Internet.

There already is considerable evidence that Asian consumers are willing to do business online and are attracted to the offerings of overseas competitors. For example:

- In South Korea, half of all share trades are placed online—the highest percent of any market in the world.
- Regional surveys indicate that the majority of cyber shoppers in Singapore and Hong Kong prefer to buy from merchants based in the United States rather than in Asia.
- In Thailand, overseas entrants using technology and advanced banking techniques, such as sophisticated customer relationship management, are expected to reduce the local banks' share of the market from 80 percent to 30 percent within five years.

Asian companies ignore these developments at their peril. And those

that do choose to respond must move quickly. By leveraging their relationship-based networks, Asian firms can minimize the risk involved in making online investments and build customer-focused e-business models that can help them hold on to their best customers.

Maximum synergy

A few companies in the region already have started to head in this direction. For example, four Japanese financial institutions—Sakura Bank, Nomura Securities, Nippon Life Insurance Company and Mitsui Marine & Fire—are planning a unique cooperative joint portal. The portal will offer products and services that extend beyond the traditional field of each individual company, and will enable all four participants to cross market and advertise to a broader customer base.

In Taiwan, 10 local financial institutions (plus US-based Metropolitan Assurance and Annuity Company) are collaborating with Net-Bank Technology Corporation, a Taiwanese enterprise, to form the Internet Easy Lending Center. Potential customers can go online to compare interest rates and service charges offered by the nine banks in this collaborative group, and to apply for housing, car and unsecured loans. Applications are screened and answered within 24 hours.

What is different about these models is that they give all the participating companies access to one another's customer base—even though they may be competitors. This level of cooperation is rare in the West, where companies usually work together on a limited contractual basis to meet highly focused objectives (for example, to achieve specific back-office efficiencies). In contrast, these Asian collaborative ventures

are customer-focused and innovative in that they enable more comprehensive value propositions than could be developed by any of the companies individually.

Succeeding in B2C e-commerce, however, demands more than online product and marketing innovation. Companies must also build end-to-end business models that achieve effective customer fulfillment. They need to overcome the many challenges involved in getting a product safely and cost-effectively into the hands of the customer.

Again, Asian companies have the ability to meet these challenges by tapping into the existing infrastructure and resources of their business partners. By doing so they can reduce the level of investment required to effectively meet customer needs and fulfillment challenges in the region's many and diverse markets. This could be a major competitive advantage in a market like China, for example, with its 22 provinces, 5 autonomous regions and 4 major municipalities, as well as many dialects and cultures.

Two major convenience-store chains in Japan already have moved in this direction. In July 2000 Circle K Japan and Sunkus & Associates announced that they had joined with 15 companies from a variety of industries to form a new e-commerce retailing venture.

This collaboration effectively overcomes Japan's notorious logistical and fulfillment challenges, particularly in major cities, by combining the assets of the participating companies. Customers can shop online and arrange for home delivery, as well as make their selections, pay and pick up their purchases at some 13,500 stores nationwide.



Asian collaborative ventures are customer-focused and innovative.

Asian businesses are likely to come under pressure to develop sophisticated online marketing campaigns and customization to win customers in this new market space.

These include outlets of Circle K, Sunkus, FamilyMart, MiniStop and Three F stores.

Circle K and Sunkus hope that by providing in-store kiosks and payment and pickup services, they will achieve synergies between offline and Internet sales—increasing store traffic, promoting store loyalty and expanding the customer base.

In another example, Rakuten Ichiba—Japan’s largest online shopping mall, with approximately 2,000 participating stores—is collaborating with 7-Eleven Japan. Its customers can make their payments at any 7-Eleven Japan store around the country, which should help to overcome consumers’ fear of providing their credit-card details on the Web.

This approach of combining assets and capabilities to develop collaborative, customer-focused e-commerce ventures in Japan holds considerable potential for other companies seeking to capture B2C e-commerce opportunities elsewhere in the region. Among the benefits of collaborating and moving quickly to target B2C opportunities are high customer mindshare, the capacity to stay ahead of customer trends, and the ability to develop joint data assets and joint customer value propositions that can be used to lock in customers.

Power to the consumer

The high and growing mobile-phone penetration rates in Asia and the slow take-up to date of mobile e-commerce in the United States presents Asian companies with a unique opportunity to lead market developments in this field—not just in the region but in the United States as well.

Research by The Strategis Group suggests that so far, 66 percent of

Americans using wireless devices are not interested in m-commerce. To be sure, this attitude could change (after all, a third of respondents said they *were* interested). But for the moment at least, m-commerce is far more popular in Asia.

These factors, plus the tremendous growth in mobile-phone use in Asia, are likely to produce an unprecedented increase in consumer power. Wireless will dramatically expand consumers’ access to the Internet and therefore their choice of online product and service suppliers. To date, the experience of m-commerce in Europe strongly suggests that this scenario is accurate.

As a result, businesses are likely to come under pressure to develop sophisticated online marketing campaigns and product customization to win customers in this new space.

Online advertising will need to be highly focused and tailored, enabled by Internet-tracking methods. (For a related article, see page 40.) For example, retail chains might send customized promotional advertisements and tailored offerings to an individual’s mobile phone, based on its tracking of that customer’s location and past purchasing behavior.

A few leading companies in the region are embracing wireless as part of their online business models—with notable success. The shift to wireless allows these companies to expand their market reach beyond traditional boundaries and to gain substantial efficiencies in the way they interact and do business with customers and business partners.

In Japan, NTT DoCoMo’s I-Mode wireless service has been a big hit. This service gives mobile-phone users e-mail capability and access to

more than 19,000 websites specially designed for wireless application protocol (WAP). By the end of 2000, more than 13 million of Japan's 51.1 million mobile-phone users had subscribed to the service. Meanwhile, DoCoMo's I-Mode has overtaken traditional Internet service providers to become Japan's biggest Internet access platform, with the service adding 20,000 new subscribers every day.

Interestingly, research shows that Japan's I-Mode users are far more likely to respond to banner and e-mail advertising than are computer-based Internet users. With this in mind, DoCoMo is hoping to boost the returns from its e-commerce ventures by providing a variety of advertising content through its wireless service. DoCoMo expects the venture to be profitable in 2001, with total revenues of more than \$18.5 million.

Mitsubishi Corporation has also announced plans to use the I-Mode and other mobile Internet access services to send targeted e-mail advertising messages, discount coupons and other special offers to registered users. The company anticipates that sales from this channel will reach \$9.3 million in fiscal year 2001. These sales figures are small, to be sure, but they represent a highly credible beginning.

Hong Kong-based Boom.com—which was named Asia's Best Consumer Internet Site in the Internet World Asia Industry Awards 2000—is offering global financial information on any WAP phone with any mobile network. It is also developing a single point of entry into the region's stock markets and providing retail investors throughout Asia with inexpensive and convenient access to accurate real-time stock quotes, unbiased

information and a large inventory of personal investment services.

In the B2B sector, companies will be able to use wireless services to communicate information in real time via mobile phones. For example, they can send information on material availability, order status and delivery times, as well as update their systems and communicate with project managers, sales staff or workers at construction sites. This goes beyond e-mail to provide "always-on" access to company ERP systems.

Wireless will significantly cut the costs, resource utilization and time involved in completing a project. We estimate that the use of wireless in the B2B sector in Asia—in industries as diverse as construction, printing, paper and pulp, and transport—has the potential to reduce a company's current procurement costs by more than 40 percent, resulting in many billions of dollars in savings.

The higher penetration of mobile phones in the region combined with the early success of wireless services at a number of companies suggest that Asian businesses that move early have an unprecedented opportunity to be among the dominant players in m-commerce globally. To do so, they will need to direct their R&D and marketing investments to wireless, to build and expand globally accepted wireless standards, and to build and make widespread the use of next-generation m-commerce business models before many companies in the West.

Whether they focus on B2B, B2C or m-commerce, the stakes for Asian companies are clearly very high. The rewards for those companies that can capture the opportunities now available will be enormous. And the risks

for those that fail to respond effectively will be equally significant. ■

Janar Weerasingam is the Asia Pacific region director for the Accenture eStrategy Thought Leadership initiative. His work includes market research and entry strategies, new product development and information technology strategy. Mr. Weerasingam has worked on a number of client engagements in various industries in Australia, Singapore, Hong Kong, Malaysia and the United States. His work has been published in newspapers and periodicals in Asia. He is based in Sydney.

janar.a.weerasingam@accenture.com

Jeremy Rowe is a Singapore-based partner in the Accenture Strategy & Business Architecture group. In his career with the firm, Mr. Rowe has helped clients develop innovative, breakthrough corporate and business-unit strategies, primarily in the consumer products, telecommunications and oil industries. Mr. Rowe's international experience includes work in most Asian countries as well as in the United Kingdom and on the European Continent. He has appeared in regional television and print media as a commentator on a number of topics, including e-commerce and marketing and customer service strategies.

jeremy.rowe@accenture.com