Asia's E-Commerce Trends

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On a recent research trip, I went to Beijing, Hong Kong, Tokyo and Melbourne and spoke with Internet companies in industries as diverse as automotives, travel and real estate. I also met with several e-commerce companies with varying Internet penetration rates. As growth rates for new Internet users across parts of Asia level off, comparing these firms offered me an interesting glimpse into the potential opportunities and challenges facing the region's newer Internet firms.

Most of Asia's Internet companies still rely primarily on advertising revenue to make money. Frequently, such firms can also tap into subscription services whose pricing structure is usually a simple fixed payment regimen. Given the relatively low penetration rate of online channels in most everyday businesses, this is not a surprise. In this growing market, companies compete for online customers by expanding their sales forces to promote their brands. The productivity gain that their customers get from conducting their businesses online creates sufficient return on investment (ROI) to justify investment in IT capital like software and hardware. This trend has benefited Internet businesses in their early development.

But nowadays, we are seeing younger Internet companies modeling their businesses on performance-based methods, producing revenue only when a sale or a lead is generated. We are also seeing the use of new technologies that set them apart from conventional Internet players and could potentially become a disruptive force in the market as the technologies lower the cost of using Internet services and cater to smaller merchants, which may not be the core market segment for existing Internet firms.

In more developed markets, such as Japan and Australia, the focus of monetization has shifted from growing the volume of Internet users to increasing average pricing per user. This shift brings challenges to many incumbents' business models. To achieve growth, firms in these markets need to raise prices. They need to know which customers are willing to pay for their products and services. Another challenge arises as increasingly sophisticated stakeholders, including advertising agencies and business owners, demand that Internet vendors demonstrate that page views or users' time spent on the website actually translate to higher ROI. In real estate or automotive listing websites, for example, a higher conversion rate from online traffic to lead generation reduces costs incurred by real estate agents or auto dealers to sell a property or a car. Internet companies can add more value with differentiating services like market intelligence that help attract new users and increase the "stickiness" of existing users.

With more than 1 billion Internet users, Asia is already the world's largest Internet market. But Internet penetration rates for Asia's most developing countries are still over a decade behind the region's more advanced economies. It will probably take many years for Internet markets in developing Asia to mature. Regional leaders need to continue investing in R&D capabilities because they will likely face challenges to their existing business models as markets evolve. In addition, the business environment they face will be different because of disruptive technologies like smartphones and 4G that were limited or non-existent a decade ago. Now is not the time for them to be complacent. Only the Internet companies that can adapt to new technologies and continue to demonstrate value should be able to survive this intensely competitive landscape over the long run.

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