Digital Transformation in Southeast Asia

Key points for Japanese companies to gain from integrating online and offline

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The other day, we distributed a report on the startup's ecosystem in Southeast Asia, and since then many companies have made inquiries on digital transformation. Companies have made various inquiries such as “Headquarters has asked us to proceed with digital transformation in Southeast Asia, but we don't know how to proceed”, “If you are only doing B2B business, how can you proceed with digital transformation when most startups are focused on B2C business?”, “Successful startups like GOJEK and Tokopedia are too large in scale and I do not think that I can partner with them'', “Many local companies still manage business using paper-based fixed reporting system and I do not think it is necessary for them to tackle digital transformation like in the developed countries''.

We hear the term digital transformation often in the recent years but the concept itself is not new. Since 30 years ago, the term digital transformation is used to describe the transformation of business models by implementation of digital technology, and does not refer to the use of cutting-edge technologies such as AI and blockchain. I believe that promoting digital transformation in Southeast Asia that is tailored to market characteristics will further open new fields for Japanese companies to compete in.

As mentioned in the previous report, so-called unicorns such as GOJEK and Tokopedia are rapidly expanding by solving local problem in the B2C area. Such rapid evolution without having to take steps that are present in developed countries is called the leapfrog effect. When asked if unicorns can solve any problem, this is never the case, and if legacies such as infrastructure and service providers already exist, then the leapfrog effect is unlikely to occur, and will take time for companies to evolve. Japan is often said to be inefficient with many players in each industry, but it is even more so in Southeast Asian countries. For example, in Thailand there are eight times as many F&B companies per capita as in Japan. This also applies in the retail industry. In countries like Vietnam where there are 1.3 million non-franchise small-scale (mom and pop stores) restaurants, the supply chain has become more multi-layered than Japan, and there are many small and medium-sized trading companies and wholesalers. The supporting logistics network is also composed of countless micro logistics companies. In areas where such legacy exists, the leapfrog effect due to going online is unlikely to occur, and it is necessary to reform the offline field first.

So how can Japanese companies achieve results in the digital transformation space in Southeast Asia? Here, I would like to explain three points ① Not aiming to implement the latest technology, ②Roll-up of local companies, and ③ Collaboration with local partners.

① Not aiming to implement the latest technology

Solving issues in Southeast Asia does not necessarily require the implementation of cutting-edge technology. For example, in Southeast Asia where there is information asymmetry, there are many cases where digitalization of paper-based information and the aggregation of dispersed data itself can create value even if the technology has already been applied in Japan.

② Roll-up of local companies

The local industry in Southeast Asia is decentralized with many players, and it is understood that this is a factor that hinders the development of Southeast Asia. If these companies can be integrated by acquisition, the management can be more efficient. Especially in businesses that operate mainly on the balance sheet with large inventory and fixed assets, the economies of scale are advantageous, so the aggregation effect in Southeast Asian countries where interest rates are high could be higher than that in Japan. Also, if you can roll up virtually by providing a common platform without acquiring, you can achieve the same effect.

③ Collaboration with local partners

Rolling up a local company seems easy in theory, but it is not that simple. While it is worthwhile for Japan and other developed nations that have undergone reorganization in the past to roll up companies in Southeast Asia, local management is key after the integration. In such situation, it would be effective to collaborate with local conglomerates and large companies. IGPI has received similar inquiries from many local companies. It is effective for Japanese companies and local partners to work together for rollups and we hope to be a bridge between the two.

If you have any inquiries regarding digital transformation in Southeast Asia, please feel free to contact us.

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