

Leveraging the Strengths of Japanese Companies to Achieve Digital Transformation (DX) in ASEAN

IGPI Singapore, June 2021



On May 25, 2021, I had the pleasure of giving a presentation on "Leveraging the Strengths of Japanese Companies for DX in ASEAN" at the Japan-ASEAN Business Week. Today, I would like to share with you a report of my presentation.

Our Singapore office was established in 2013. Since then, we have been supporting many Japanese companies in their activities in ASEAN. In recent years, we supported several digital transformation activities to solve social issues in ASEAN. I explained these in more detail using specific case studies during the session.

Disparity in services for the middle class in ASEAN is apparent

In ASEAN, the middle-income class is increasing rapidly due to economic growth spurred by urbanization. This demographic has grown to become the majority of the population in major countries. Urbanization refers to the population shift into urban areas, which in turn promotes economic development. For example, in 2019, the GDP per capita for Indonesia was about US\$4,000, but it was 4.6 times higher in its capital city of Jakarta which stood at about US\$19,000.

On the other hand, there is a large variation in services for the middle class in ASEAN, and that presents many potential business opportunities and strategies for growth. For example, service standards are similar between Shangri-La Hotel in Tokyo and Shangri-La Hotel in Manila but are very different between that of APA Hotel, the ubiquitous budget accommodation chain in Tokyo, and a two- or three-star hotel in Manila. While there are cases where a delicious breakfast is included, there are also instances where rooms are not properly cleaned, or where towels are not provided.

Japan is unique since there is less variation in their service standards provided to the middle class compared to other countries in the world. Hardly is there anywhere else in the world where a consumer who pays just US\$1.5 for a subway ride would expect the same standard of punctuality as that of an airplane. Even for a US\$3.0 fast food meal, consumers expect the polite and prompt service that you would get at a five-star hotel. Japanese companies have continuously cooperated with these demands for high service standards from consumers, and I think there is great value

in understanding how the steady implementation of systems has enabled this.

Digital transformation and the success behind Grab and Gojek

In Southeast Asia, [unicorn companies](#) such as Grab and Gojek are continuously addressing and eliminating the disparity in services for the middle class. Grab and Gojek are doing this not only through transformative digital technology but also through steady training of employees and structuring of services, similar to the approach of Japanese companies.

In the past, we have seen countless companies in Southeast Asia that were similar to Grab and Gojek, but many of them relied too much on digital transformations and neglected ground-level operations, which ultimately led to their fall. Grab and Gojek collected data and used that to add value to their users and partners on the ground, and eventually emerged as the winners through the adoption of “air-based strategies” that made use of digital technology.

Unicorn companies like Grab and Gojek have solved many problems in Southeast Asia for certain B2C services, but there are still many business opportunities in the B2C and B2B areas where traditional legacy business models remain, awaiting digitization and digital transformation. Such businesses can certainly benefit from strategy consulting services.

For example, in the Philippines, there are thousands of small logistics companies, and in Vietnam, there are countless wholesalers that support the estimated one million mom-and-pop stores. In Indonesia, the education boom has led many schoolteachers to open private schools. In Thailand's provincial cities, many clinics remain insufficiently equipped to provide basic medical care, let alone implement digitalization. In these areas, the know-how that Japanese companies have cultivated through steady groundwork for improvement can be fully utilized.

So how can Japanese companies implement digital transformation (DX)?

For Japanese companies to leverage their strengths in these legacy areas and implement DX, the following three points must be addressed:

- (1) Building a combined “ground- and air-based” strategy.
- (2) Leveraging cross-industry knowledge; and
- (3) Ensuring long-term sustainable operations

The measures to be taken for each are as follows:

1. Building a combined “ground- and air-based” strategy

Build a strategy that enables Japanese companies to leverage their strengths on the ground (steady improvement activities) to acquire data and use that to their advantage in the “aerial” territory (use of digital technology). Engaging a business consulting service can help optimize your company’s existing strategy to reach its full potential.

2. Leveraging cross-industry knowledge

Incorporating the technologies and knowledge of startups and local companies across multiple industries into a new business supports the creation of an ecosystem rather than a one-off activity.

3. Ensuring long-term sustainable operations

On top of hiring and training local staff, cooperating with relevant local companies, including capital providers, and building mid- to long-term relationships with these companies, is important to achieve localization of the business.

We hope the above information provides some food for thought in your digital transformation journey in ASEAN. If you have any questions or comments, please do not hesitate to contact us.

IGPI can provide [strategy consulting](#) for multiple aspects of your business - [Get in touch with us!](#)



Kohki Sakata

Chief Executive Officer

+65 81682503

k.sakata@igpi.co.jp

This material is intended merely for reference purposes based on our experience and is not intended to be comprehensive. Information contained in this material has been obtained from sources believed to be reliable, but IGPI does not represent or warrant the quality, completeness and accuracy of such information. All rights reserved by IGPI.