

The Frontlines of Innovation in Southeast Asia in the Age of 'Regionalization'

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The arrival of the era of regionalization

The era of globalization threatened by GAFAM

In the era of globalization, global IT platforms such as GAFAM established themselves as the dominant forces of this era and are essential to our daily lives.

Business in this era is defined by "who" to sell "what" to. Based on basic business principles taught in business schools for many years, executives decided on the strategy of "who" to sell "what" to, and the operational teams focused on "how" to execute it.

Many management methods were developed during the era of globalization, such as PPM (Product Portfolio Matrix), Balanced Scorecards, and job-based management. However, since the early 2000s, it appears that these methods have become less effective in the U.S.

For instance, job-based management was criticized for lacking innovation, leading to the development of "agile management" and "ambidextrous management" that allows organizations to deepen existing businesses while exploring new areas.

The era of regionalization brought on by the digital revolution

Why did the management methods developed during the era of globalization become ineffective? This is largely due to the rules of the game changing as a result of the digital revolution, heralding the era of regionalization.

Businesses evolved from simply defining "who" to sell "what" to, to now focusing on "who" to sell "what" and "how" to sell. Let's illustrate with an example from an ASEAN country.

A businessman in Jakarta is struggling to improve his or her means of commuting. Ten years ago, the only solution was to sell them a car or motorcycle. Now, one can propose ride-sharing or on-demand bus services. Remote work, popularized during the COVID-19 pandemic, can even eliminate the need for commuting. Digital transformation, particularly the smartphone revolution, has played a pivotal role in this shift in Southeast Asia and all around the world.

In the era of regionalization, it is not an exaggeration to say that digital technology is at the core of business. This is because digitization enables and expands upon the most crucial factor, the "How", in addressing region-specific challenges.

There are people who call the global focus on increasing self-sufficiency in food and energy a regression from globalization, but this is incorrect. The reality is that the digital revolution has advanced globalization and ushered in the era of regionalization.

Titans of the age of regionalization in Southeast Asia

Super apps that reached consumers

Now, let's look at the changes happening in Southeast Asia during the era of regionalization. Alongside the rise of super apps like Gojek and Grab, conglomerates in various countries are also becoming key players. Let us take a closer look at the evolution of super apps.

When I started my business in Southeast Asia in the early 2010s, smartphones were not yet widespread, and banks were one of the main institutions that were reaching out to consumers directly. To reach as many as possible, banks leveraged campaigns to promote opening bank accounts and selling prepaid cards. Convenience stores had five to six payment terminals from different banks, and restaurants often had bank promotions, sometimes offering 30% off.

Then came the rapid proliferation of smartphones. Players who successfully leveraged this to solve consumer-related challenges rapidly grew and dominated the market. For example, Gojek gained market share in big cities by offering bike taxi services to avoid traffic jams, and later diversified into e-commerce, food delivery, and payments, evolving into a super app.

Thriving through franchise support with smartphone apps

The unique transformation brought about by super apps like Gojek focuses on regional issues, or "solving problems within a 5-kilometer radius." Gojek connects consumers with nearby motorbike taxis and small local stores (known as *warungs*) through smartphones, thereby addressing various social issues- this eases the burden on consumers and also helps to increase sales for these local businesses. The value of solving local issues is evident when such small business owners and drivers experience improved sales without having to expend significant resources to take active steps in promoting their business.

Moreover, these *warungs* serve as hubs for local communities, much like the neighborhood gathering spots of Japan's Showa era.

Let's consider the convenience store chains and supermarket chains that have become widespread in Japan since the 1970s, for the sake of comparison. The spread of convenience store and supermarket chains in Japan has marginalized traditional shopping streets, particularly in suburban areas. While these chains have provided convenience to consumers, they have also contributed to the decline of local community spaces.

The difference between Southeast Asia and Japan can be attributed to the rise of digital technology, which allows organic integration and innovation without destroying what already exists.

Breaking established interests

Innovations in Southeast Asia are moving into the next phase. For example, an Indonesian startup named Sinbad provides an app that helps *warungs* order inventory, aiming to disrupt the complex, inefficient supply chains that currently exist. Addressing these inefficiencies is not an easy task, as it challenges established interests and traditional systems, much like the seniority systems in Japanese corporations or subsidies for cedar planting in Japan.

Using smartphone technology and big data to break these established interests is the key for the ASEAN region to move forward.

Conclusion: Winning in the era of regionalization

The three points below are essential for corporations to win in Southeast Asia:

- a) Clarify what not to do: Executives must be clear about what the company should not engage in to avoid confusing their operational teams.
- b) Secure necessary resources: In this era, it's crucial for the regional offices in Southeast Asia to have easy access to resources, personnel, money, and information.
- c) Collaborate with other corporates and startups: Understanding local conditions and networks is vital. While it's possible to build these capabilities internally, partnering with local stakeholders could offer a faster route to innovation.

Through these key pointers, we hope to guide corporations in navigating, innovating and ultimately thriving in Southeast Asia during this era of regionalization.

To find out more about how we can support your value creation endeavours, get in touch with us [here](#).

About the authors

Mr. Kohki Sakata is CEO of IGPI Singapore. After joining Cap Gemini and Coca Cola, Kohki joined Revamp Corporation, where he managed projects on global expansion and turnaround in various sectors, including F&B, healthcare, retail, IT, etc. After joining IGPI, Kohki has managed projects mainly on global expansion and cross border M&A in various sectors such as logistics, IT, telecom, retail, etc. In addition to his broad experience in implementing solutions that have been developed in Western countries, he has developed multiple methods to turnaround Asian companies with a focus on setting a clear vision and employee empowerment. He has proven the practicality of these methods by turning around Asian companies not only as an advisor but also as senior management. He graduated from Waseda University Department of Political Science and Economics and IE Business School.

About IGPI

[Industrial Growth Platform Inc. \(IGPI\)](#) is a premier Japanese business consulting firm with presence and coverage across Asian markets. IGPI was established by former members of Industrial Revitalization Corporation of Japan (IRCJ) in 2007. IRCJ, a US \$100 billion Japanese sovereign wealth fund, is known as one of the most successful turn-around funds supported by the Japanese government.

In 2017, IGPI collaborated with Japan Bank for International Cooperation (JBIC) to form JBIC IG, providing investment advisory services and supporting overseas investment. In 2019, JBIC along with BaltCap has jointly established Nordic Ninja, a €100 million venture capital fund to focus on deep tech sectors such as autonomous mobility, digital health, AR/VR/MR, artificial intelligence, robotics and IoT in the Nordic and Baltic region. In 2019, IGPI established IGPI Technology to focus in the area of science and technology. The company invests in technological ventures and provides hands-on management support. The company also provides business development support towards commercialisation and monetisation of technologies.

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