

A Global Market Focus Report

2000 Edition

The Internet: The Asian Challenge

Keep ahead of industry developments with Euromonitor's comprehensive investigation of global internet market trends and prospects.

- **Regional and national sales by sector**
- **Per capita sales by sector**
- **Brand and manufacturer shares**
- **Regional and national distribution shares**
- **Forecast sales by sector to 2004**

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making sense of global markets

The Internet: The Asian Challenge

This report investigates developments in the internet industry worldwide. It establishes the size and structure of markets on regional and key country levels, provides in-depth analysis of current market trends and profiles the industry's major players. With expertly written analytical commentary and unique forecasts to 2004, The Internet: The Asian Challenge explores the dynamics of the market and the issues which will shape the future of the industry.

Key Findings

- In China, Internet usage exploded in 2000, driven by increased home access, but also a higher incidence of consumers using cybercafés. A large proportion of the 16.9 million people who had access to the Internet in China in mid-2000 is concentrated in the large cities, such as Shanghai, where the telecommunications infrastructure is developed.
- Japan was the largest of all the e-commerce markets in Asia-Pacific, underpinned by strong B2C and B2B transactions. In the Japanese B2B market, supply chain management and direct links with suppliers aided market expansion, whilst the popularity of purchasing recorded music, computers and travel services propelled growth in B2C commerce.
- Penetration of PCs in Japan stood at 42% in mid-2000, reflecting substantial growth over 1999 as consumers realised the potential benefits of home computers, particularly to access information on the Web. Investors maintain particularly high ownership rates for PCs in Japan, although families are also starting to purchasing PCs.
- The mobile phone market experienced meteoric growth in most Asia-Pacific markets, as consumers were attracted to the market by lower connection tariffs as increased competition pushed down prices. The emergence of more sophisticated mobile phone devices and the convenience of using mobile devices also attracted Asia-Pacific consumers to the market
- In India, the e-commerce market reached US\$105 million in 1999, reflecting the importance of B2B commerce, as the plethora of software and IT companies in the country, adopted tailored Internet solutions to promote and achieve efficiencies in their business.

Scope of the Report

Current trends: 1995-1999

Projected trends: 1999-2004

(at constant 1999 prices)

Manufacturer retail value shares for the current period are for 1999.

Brand and distribution retail value shares data are for 1999.

Country Coverage

- Japan
- Australia
- South Korea
- Taiwan
- China
- Hong Kong
- Thailand
- Indonesia
- Malaysia
- Singapore
- Philippines
- Vietnam
- India

Structure of the Report

Section 1: Introduction

Section 2: Market Background

- A summary of micro-economic trends and legislative issues

Section 3: Key Trends in Asia-Pacific

- Overall trends, examining support structures such as Internet, PC and mobile phone penetration
- Key developments in B2B, B2C and newly emerging mobile commerce

Section 4: National Trends and Developments

- 13 in-depth country profiles
- The latest trends and major factors accelerating or hindering growth in each market

Section 5: ISPs (Internet Service Providers)

- Market share analysis of ISPs in select countries
- Discussion of key trends and developments

Section 6: Portals

- Investigation of global, local and country specific portal companies and brands

Section 7: E-tailing in Asia-Pacific

- Value sales in select countries
- Discussion of key trends and developments

Section 8: Business to Business (B2B) Commerce in Asia-Pacific

- Sales analysis in select countries
- Discussion of key trends and developments

Section 9: Effect of E-commerce on Major Industries

- Including healthcare, agriculture, advertising, engineering, banking, travel, automobiles/automotive products, chemicals and textiles

Section 10: Future Outlook

- Examination of future trends and developments
- Forecasts on Internet penetration and e-commerce market sizes

Key Company Profiles

Global companies

- Yahoo
- AOL
- Excite@Home
- MSN
- Lycos

Local companies

- Netease
- Nifty

Commercial Sector Coverage

- Mobile commerce
- E-commerce
- Internet Service Providers (ISP)
- Internet Portals
- Business to Business Commerce (B2B)
- Business to Consumer Commerce (B2C)
- Internet Retailers
- Internet Service Companies

A Unique Research Process

Euromonitor International has researchers based in 52 core countries supplying data to our market specialists in London, Chicago and Singapore. Our 28 years of research expertise gives us access to the very best data sources, including senior decision makers in the industry. The combination of in-depth trade interviews and detailed desk research allow us to publish the most up-to-date statistics and authoritative analysis.



Global Market Analysis from Euromonitor

Investigating global markets, these reports look at sectors as diverse as housewares, DotCom companies and toys and games. The research programme is issue-driven, allowing us to present a unique perspective of an industry and the factors behind its growth and development.



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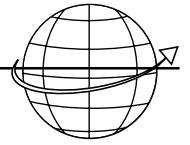
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E-tailing in Asia-Pacific

7.3 PRODUCT SALES BY SELECT COUNTRY

Internet sales by sector vary from country to country in Asia-Pacific. In the more developed markets of Japan and Australia consumers are becoming more confident in buying goods online. Higher ticket items such as PCs and consumer electronics generate healthy sales in these countries, in addition to higher risk items, such as clothing and furniture. While the types of goods bought online is expanding, recorded music continued to dominate the Japanese market in 1999, driven by widespread purchases among younger generation consumers. The online purchasing demographic in the Japanese market tends to be concentrated among the 18-35 year age bracket, so it is not surprising that youth oriented products such as recorded music, books, durables and toys and games are the top selling Internet products.

In Australia, home computers outperformed all other sectors in 1999, to generate sales worth US\$26.1 million. With the widening of Internet penetration in Australia, consumers are becoming confident purchasers of online goods, and are tapping into the convenience of shopping for higher ticket items online. Consumers are able to compare products and prices online, and have the product delivered straight to the door; thereby providing a distinct advantage over physically going to retail outlets. Similarly toys and games, durables, recorded music and books were also deemed to offer greater convenience online and consequently enjoyed strong Internet demand.

The Chinese market exemplifies the profile of an emerging online retail market. Less expensive, low risk items such as recorded music and books registered healthy sales of US\$2.7 and US\$2.4 million respectively. However as consumers gained confidence in purchasing products over the Internet, higher ticket items such as durables also enjoyed strong sales. Although the durables sector was the largest category of online sales in China in 1999, value sales are elevated due to the higher prices of such products. Purchasing of products via the Internet remains in the domain of the more affluent consumers in China, and thus durables also benefited from a wealthy target customer base.

While the major sectors of durables, recorded music, home computers, books and toys and games posted a buoyant performance in each of the three markets, emerging categories include food and drink, furniture and clothing. Consumers have typically been reluctant to purchase clothing and furniture over the Internet due to preferences to see and touch the item before buying. As more and more people experiment with online products, or purchase items from the websites of well known traditional retailers, satisfaction with such products has bolstered demand. Food and drink also received a high degree of interest among consumers in Japan and Australia, particularly for grocery and in Japan, regional specialities. While sales of food and drink are negligible in China, companies are beginning to target local consumers with online grocery outlets. In Shanghai, one of China's largest shopping chains Lianhua Supermarket began providing home delivery for products purchased online in September 2000. The online store provides more than 1,000 basic necessities and has attracted around 300,000 customers per day since its opening. Customers are provided with an electronic store card, which is used to settle the account.

Table 7.2 Internet Sales by Sector by Selected Country 1999

US\$ million	Japan	Australia	China
Clothing	76.0	11.0	<1.0
Toys and games	129.1	17.3	2.0
Durables	182.1	19.1	9.3
Books	72.0	16.1	2.4
Home computers	23.7	26.1	0.7
Furniture	6.2	3.4	-
Recorded music	332.1	17.9	2.7
Food & drink	29.0	2.7	-

Source: Euromonitor



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Effect of E-commerce on Major Industry Sectors

9.1 ADVERTISING

Advertising online is a major source of income for both ISPs and content providers in the Asia-Pacific region, with estimated revenues reaching US\$279 million in 1999. Japan represents the largest online advertising market, due to higher advertising charges compared with the rest of Asia-Pacific, and a high incidence of companies and portals advertising their products and services online. With widespread advertising online in Japan, optimum advertising space on popular websites reached a premium, pushing up average rates in 2000, in some cases by 20-50% higher than the previous year. The Japanese market as a whole stands alone in Asia-Pacific as although Internet penetration levels are significantly below the levels achieved in other developed markets such as the US and Europe, the popularity of online advertising in the burgeoning mobile Internet access market has additionally elevated advertising revenues. Similarly, a developed Internet infrastructure supported growth in online advertising in Australasia, with advertising expenditure totalling US\$25 million in 1999.

Elsewhere in Asia-Pacific, non-Internet related companies are only now beginning to view online advertising as a viable means to reach new customers and advertise more effectively. Compared to companies in the US or Europe, Asia-Pacific firms have taken a more cautious approach, preferring to wait for tangible evidence of the effectiveness of online advertising, before committing to any investment. IT firms, telecommunications providers and dot.com companies were the major online advertisers in Asia-Pacific, but recently companies involved in insurance, stock trading and consumer goods such as clothing, food and drink and cosmetics, also increased their online advertising spend.

Conversely, portals are heavily dependent on advertising revenue, and as competition in the market intensified through the ballooning number of Internet sites, advertising services are becoming even more sophisticated. Traditionally, portals and advertising content developers relied on static banner advertisements to promote goods and services, but competition resulted in the development of animated and interactive barriers to capture the attention of Internet users. Incentive schemes were also adopted by online advertisers, including opportunities to win free prizes. Text link, sponsorship, screen savers, and other devices also connect the consumer to the marketer's home page.

For the less developed Internet economies in Asia-Pacific, online advertising is constrained by the wide disparity in economic and technological conditions. In countries such as China and Vietnam, online advertising is limited in its reach, as low penetration levels for Internet access restricts the target customer to more affluent consumers. These consumers are typically in urban areas, and thus advertising excludes the high population of rural inhabitants. Despite technological constraints, companies across Asia-Pacific are expanding their online advertising, and International companies are also looking to promote their goods to the burgeoning online population in the region. Regional and local companies are also looking to International markets, by investing in Internet advertising to promote services such as tourism.

While online advertising escalated, traditional media also benefited from the rise in e-commerce and Internet businesses. In Singapore, for example, Internet portals spent around US\$22 million on advertising in print and broadcast media in 1999, according to trade sources. The continued use of traditional advertising media by Internet portals marks the increased level of competition in the industry and the attempts by portals to widen their usage base by attracting existing Internet users to their sites, and encouraging new users to come online. In China, websites spend little on online advertising, instead opting to raise awareness of their products and services through traditional