

PROSPECTS OF INTERNET BUSINESS IN KOREA

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Internet Business: The Newest Trend

Lately, Internet business has emerged as one of the newest trends all over the world. Companies are becoming more and more interested in Internet business than ever before, since they have realized the importance of the Internet in the future. In advanced countries, many companies have already been doing business using the Internet. In Korea as well, as the number of Internet users is increasing rapidly, many companies have set up Internet-based businesses, regarding the Internet as a new opportunity for success.

Having started with an expectation of big profits using Internet in the future, the majority of firms operating Internet businesses have not been earning as much as expected. Even though it is certain that the Internet will change the business paradigm before long, firms pursuing Internet business must take a cautious approach and face the reality of the peculiar environment in Korea.

Over 3 Million Internet Users in Korea

According to the Internet Industry Almanac Inc., the number of Internet users reached over 150 million worldwide last year, and there will be over 320 million Internet users by the end of 2000. Forrester Research Inc. predicts worldwide EC (Electronic Commerce) will reach as high as \$3.2 trillion in 2003, accounting for 5% of all commerce. Meanwhile in Korea, there were 3 million Internet users last year, and this figure will grow to 5 million users by 2000. As the number of Internet users is

increasing rapidly, the volume of EC should increase accordingly.

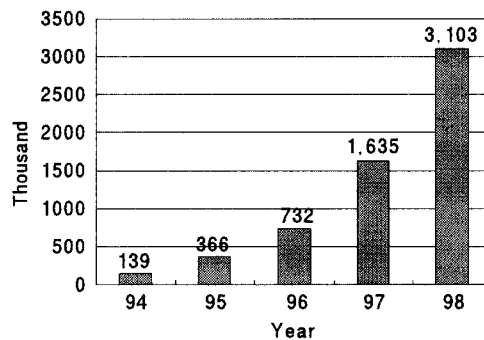
B-to-B vs B-to-C

Internet business is divided into two categories: B-to-B EC and B-to-C EC. B-to-B is Business-to-Business or company-to-company trade (material purchase, trade, supply chain management, virtual enterprises, etc.). On the other hand, B-to-C means Business-to-Consumer transactions through Internet (product sales, advertising and marketing, consulting, stock trading service). B-to-B trade outweighs B-to-C in terms of transaction volume. But B-to-C trade will offer more potential opportunities in the future.

Many Korean companies have already been using B-to-B EC. The big four Korean electronics manufacturers—Hyundai, Samsung, LG and Daewoo—are planning to set up an “Eletropia” by July 1999. This project is intended to

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Number of Internet Users in Korea



Source: National Computerization Agency
(<http://news.nca.or.kr>)

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make a virtual network association to purchase materials and parts from domestic and foreign suppliers. Through the standardization of parts and purchasing procedure, Electropia will enable firms to reduce procurement costs and improve productivity and customer satisfaction. Auto-makers are also preparing to open the web-based virtual network "Autopia" by 2004, which will include their parts suppliers. In addition, large trading corporations in Korea have also opened Internet trading systems on their homepages. They are now receiving inquiries from all over the world 24 hours a day. And many other firms are purchasing materials and handling the matters on custom clearance through the Internet.

The Business-to-Consumer EC usually focuses on the final consumer as the main target. Expecting the number of Internet users will jump up, companies are now giving more attention to B-to-C EC. For example, Internet shopping malls are a well known form of B-to-C EC in Korea. It is estimated that about 400 Internet shopping malls are currently in service, and that the transaction amount will rise to 34 billion won in 1999. The Lotte Internet Department Store, one of the biggest malls in Korea, earned revenues of about 2.5 billion won last year, up about 100% up from 1997. Sales of The Interpark which was opened as the first Internet shopping mall in 1997 and operated by DACOM, are expected to rise up to 7 billion won by the end of this year. All the other virtual shopping malls are also expecting increases in their revenues this year. But the absolute sales figures of these shopping malls still do not compare with those of real world transactions.

Recently, new and various types of Internet business are being implemented in service industries such as stock exchange, advertising, and "portal" services among other. After

Chohung Securities first opened an Internet stock trading service for its customers in June 1997, many other securities companies have also set up Internet trading systems by the end of 1998. The total amount of trading over on-line Internet sites was nearly 21 trillion won last year including the transactions of futures and options. Except for a few securities companies, the fees charged for on-line trades are the same as those for real trades. However, it is expected that if foreign Internet stock trading service companies like E-trade enter the Korean market, these fees will be cut down by 20%~50%. Goldbank made a big hit by using special business process which gives money to users who click the banner advertisements on the web. Now it has some 300,000 members. Hanmailnet, Shinbiro, Netian are trying to become "portals" by offering various kinds of service like free e-mail and homepages.

The Internet Environment

In order to succeed in Internet business, it is necessary to possess extensive knowledge about the different conditions of the Internet infrastructure of each country. In advanced countries like the U.S. or the U.K., the Internet infrastructure is well established, so consumers can use the Internet cheaply regardless of time and location. Besides, Internet users tend to favor Internet transaction. However, in Korea, the Internet infrastructure is very limited and has some negative conditions.

First, the majority (approximately 80%) of Internet users in Korea are males the age of 20~30 who are not generally classified as being in a high consumption class. This is a reason why Internet shopping malls have not done well until now.

1) "A Survey about Internet Users", *Monthly Internet*, Dec., 1998

Second, people cannot access the Internet cheaply. According to a recent survey¹⁾, more than half of the Internet users navigate through home telephone lines instead of higher speed Internet lines. Thus, the more time they use Internet, the more money they must pay. This is one of the important factors which is preventing further proliferation of Internet trade.

Third, some Korean consumers still do not like on-line or cyber trade. Many Koreans prefer or are accustomed to direct person-to-person deals, which means they are unlikely to give credit card numbers to unknown businesspeople or to a "machine" that sell products in the virtual world. Consumers also do not feel the urgent need for Internet trade because there are many shopping malls and distribution centers close to their residences.

Prospects in Korea

Because of the limited information technology infrastructure and consumers' reluctant attitude toward Internet trade, most of Internet business operators still cannot make enough profits as they originally expected. To make matters worse, when Internet business was introduced for the first time last year, many companies were preoccupied with the more urgent task of restructuring themselves due to the macroeconomic turmoil. In other words, they had little room to fully commit themselves to it.

But as the number of Internet users increases continuously and government takes various actions to catalyze the Electronic Commerce and Internet business market, the business environment for the Internet business will turn more favorable in the near future.

For example, "The Basic Act on Electronic Commerce and Digital Signature" was passed by the National Assembly on January 6, 1999. This law makes it possible to establish all regu-

lations concerning the transaction of goods through the Internet and guarantee these transactions are legally conducted. This Law will boost the new method of trading by allowing electronic documents or signatures to possess the same legal status as those of paper document or other ways of signature and stamps. The payment security problem in EC will also be standardized based on the SET (Secure Electronic Transaction) protocol by the end of this year. By using the SET protocol, developed by Visa and MasterCard, users can feel free from possible threat of computer hackers who try to intercept the personal information of their credit cards.

The government is making great effort to upgrade the nation's information infrastructure, and they also try to change current charge system of Internet usgae into a fixed amount system. This will allow users to pay much less charges for Internet usage overall.

Now, more and more companies are entering into the Internet business market in Korea. Until now, most of Internet business companies in Korea were small and medium sized venture companies which specialized in information technologies and possessed sharp business acumen. But recently, large enterprises are participating in Internet business, preparing themselves for the advent of a digital economy. Large enterprises will focus on gathering loyal customers instead of short-term moneymaking. Meanwhile, portals, which have already gathered a great number of members, will expand their scope, and focus more attention on business purposes.

E-trade, which provides an Internet stock trading service, will enter the Korean market soon, and Microsoft is also planning to offer a portal service. The entry of foreign companies with advanced technologies and know-how will be a potentially critical threat to Korean companies. They will lose the initiative of Internet business in the Korean market unless they properly cope with the new environment. VIP

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