

TELECOMS INFOTECHNOLOGY FORUM

BUSINESS E-COMMERCE AND E-MARKETPLACES

February 13, 2001

Bloomberg Auditorium

SUMMARY PAPER

Business E-commerce and E-Marketplaces

(www.trp.hku.hk/tif)

The bursting of the dot.com bubble has inevitably swung the sentiment of capital markets and investors against Web-based commerce, especially where no signs of profitability are in sight. What's left after all the hype and the mythology? And what will be the permanent changes in e-commerce?

Collecting statistics about e-commerce and e-marketplaces is not so easy, especially in Asia. Estimates do exist, for example in Japan in 1999 the Commerce Promotion Council and Andersen Consulting (AC) estimated B2C at US\$3 billion, and MITI and AC estimated B2B at US\$110 billion. This scale of difference between B2C and B2B is fairly typical, but that is partly because B2B includes many transactions that were previously done offline, while a lot of B2C is new marketing. But Japan dominates Asian figures, so what about Hong Kong and the rest of Asia? *The first objective of this forum is to focus on what is actually happening on the ground in Asia.*

B2B e-commerce remains the future, but what future? EC can radically reduce the costs of business procurement, but is this just once off? EC can extend business reach, but does this offer opportunity for small and medium sized enterprises, or does it simply remove the protection of local barriers to trade? EC can automate value-chain procedures and reduce information costs, but at what price in terms of the need to retrain people, pay for hardware and software upgrades, and meeting other 'hidden costs'? And what drives electronic marketplaces? Large monopsony buyers who can use EC to drive down supplier prices? Or do electronic marketplaces grow markets as well as making them more efficient? *A second objective of the forum is to understand what are the critical success factors behind electronic marketplaces, what makes them tick?*

How does the Hong Kong economy stand to benefit? B2B should generate Asia-Pacific traffic using IP networks, and in the narrowband era of telecommunications Hong Kong was the leading hub. But can Hong Kong sustain this lead in the era of broadband? How well placed is Hong Kong to develop a strong local leadership in B2B e-commerce? Does Government have a role to play, and if so what is that? Is government online procurement a catalyst for the diffusion of e-commerce in Hong Kong? Or will its impact be neutral? *The third objective of the forum is to identify exactly how Hong Kong can benefit and what needs to be done to achieve success.*

13 February 2001, Bloomberg Auditorium, Cheung Kong Center

Programme:

2:00 – 3:30 Peter Lovelock, Deputy Director, TRP and 'Thinker' for madeforchina.com – *Electronic business in China*

Lane Leskela, Research Director of E-Market Intelligence Services, Asia Pacific, Gartner Group – *Electronic business in Asia-Pacific*

K.T. Yung, General Manager, Information Technology Division, Hong Kong Productivity Council – *Electronic business in Hong Kong*

3:30 - 4:00 **Coffee Break**

4:00 – 5:30 **Drina Yue, Chief Operating Officer, iSteelAsia – Operating in an Electronic Marketplace**

Alan Siu, Deputy Secretary, ITBB – *Government and Electronic Business*

Samson Lam, Director of Business Solutions, PCCW – Helping Business Go Electronic

SPONSOR



QUARTERLY MEETING
February 13, 2001

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Telecoms InfoTechnology Forum
Bloomberg Auditorium, Cheung Kong Centre, Hong Kong,
Tuesday, 13 February 2001

Business E-commerce and E-Marketplaces

Executive Summary

1. Thanks to **Bloomberg** once again for the use of their auditorium and to **Lee Millar, Editor-at-Large for Bloomberg**, who chaired the second session. It has been a year since the collapse set in of the dot.com bubble after unsustainable cash “burn” rates. B2C models have taken a bad hit, although this does not mean that B2C is declining, just that the first wave has seen a consolidation around some key sites, all of which make money, a few of which even make profits!
2. By contrast, B2B has a firmer foundation. Much of B2B is existing business which was either already online, such as EDI, transferring to an IP network, or was carried on by telephone, paperwork, fax and is now migrating to the Internet. The value of web-based B2B commerce is, by definition, far greater than B2C because the latter is the value added to the end-market after the value of the supply chain has been accounted for. These points should alert us to not getting too excited about B2B just yet. On the other hand, the efficiencies business e-commerce can achieve are clearly significant in many, many industries, and the potential of e-marketplaces to network these efficiencies across economies will give a new twist to the globalization process.
3. This TIF is therefore devoted to B2B. One of the intriguing aspects of the growth of B2B is its implications for telecommunications companies, for two reasons. B2B promises to generate lots more traffic over the Internet, intranets and extranets, traffic on which telecos earn money. B2B also offers new opportunities for telecos to enter the “business solutions” market in partnerships with IT equipment suppliers and systems integrators. The outsourcing opportunities to run managed networks and hosting services and secure systems are many. It is appropriate therefore that our **sponsor for this forum is PCCW/HKT** (previously Cable&Wireless HKT) a company that is now thrust to the forefront of this transformation.
4. The first session focuses on what is happening in Asia, what is the current state of play and what are the prospects for the immediate future? **Peter Lovelock, Deputy Director of the TRP and ‘Thinker’ for madeforchina.com**, kicks off with insightful views on China. In a nutshell, while “there is very little in the way of B2B actually going on in China”, there is a remarkable push coming from G2G and G2B and most recently, G2C. For B2B to take off in China will require “state support, venture capital support, an alliance with players outside China”, with state support being especially vital for SMEs. Peter links B2B development in China with the process of deconstruction and decentralization as state enterprise reform takes place, although in parallel to this we can equally note the importance of the centralization of state financial controls, such as the reform of the tax system and the customs declarations system, which also draws heavily upon information technology and eGovernment.
5. Peter stresses the continuum development of e-commerce from the early days of proprietary value-added networks to today’s open networks based upon IP and within this framework emphasizes the role of online payments systems linked to effective physical delivery channels as vital to the vigor of the e-commerce growth. Here he provides us with several examples of B2B businesses in China coping with

these logistical problems. Interestingly, trying to avoid the “bricks” versus “clicks” dichotomy has been a hallmark of China’s B2B and B2C start-ups from the beginning.

6. If Peter is cautious about China’s short term business e-commerce prospects, he is definitely bullish long term, emphasizing the economies of scale that remain to be achieved, especially in the B2C market, and also seeing the online applications market having good longer term prospects. This is perhaps where our second speaker, **Lane Leskela, Research Director of E-Market Intelligence Services, Asia-Pacific, Gartner Group**, differs. Lane talks of a level of “market integration and collaboration that the world has not seen to this scale ever before” which he describes as “rocket science... but not a cure for cancer.” His thesis is that the West has gone through the first major ‘learning curve’, and that Asia is arriving at the B2B stage as consolidation has already begun. Scale is already a key to success. “We believe, in the next 12 months, 50 per cent of at least the public e-marketplaces, those that actually put buyers and sellers together and provide a platform of services, to do that effectively, they will not be able to achieve the service standards or the vertical industry scale.” Of particular interest in Asia, where so many businesses are part of global sub-contracting chains, will be private e-marketplaces that can leverage existing close business relationships. “Here is our first controversial statement today. The ASP value proposition of pure horizontal is a complete fantasy. What will actually work is going to be vertical collaborative integration, very private, over people that are comfortable doing business with each other.”
7. For Lane, what is currently a prominent Asian phenomenon is the importance of brand distinction for e-marketplaces, including private company names like Li & Fung and public names like Cathay Pacific, trading on scale economies for procurement. The new wave of successful e-marketplaces will be those providing for online lines-of-credit and payment systems and trade declarations, a system meshed with the financial institutions and customs. But the word of caution is that “it will take us at least about another 24 months or so to see industry consolidation around standardized platforms and scale, to be able to provide this.” So Lane’s advice to Asian B2B companies is to keep their business focus, which in most cases is more likely regional than global.
8. **K.T.Yung, General Manager, Information Technology Division, Hong Kong Productivity Council**, brought the spotlight onto Hong Kong where the information and financial infrastructures are among the greatest assets for a small open trading economy. For example, Hong Kong already has 340,000 individual broadband Internet accounts, which represents around 16 per cent of all households. Websites are growing about 1,000 per month. But the Hong Kong economy is also dominated by SMEs (which account for over 95 per cent of employment) and here lies the problem of B2B readiness. Most SMEs have little practical knowledge of e-commerce, and many see little benefit in substituting IT for current business practices. For the manufacturing sector, cheap land and labour costs across the border of mainland China is the more cost-effective answer to competitiveness.
9. In the Productivity Council’s research on, and working with, SMEs six issues arise. Lack of secure online payment and settlements systems, logistical issues, lack of IT skills, reluctance to invest in IT, lack of many obvious success stories and lack of information security. This last point is double-edged. On the one hand, large trading partners are looking for digital certificates and document trails for authentication and non-repudiation and transparency purposes which SMEs are just not geared up to, on the other hand the SMEs themselves may be reluctant to commit too much to documentation. There are issues of commercial culture and corporate governance involved here, a point at which globalization runs up against the resistance of local custom and practice.
10. The second session began with a focus on how a real e-marketplace works. **Drina Yue, Chief Operating Officer, iSteelAsia**, identified the critical elements of e-marketplaces: they add value by cutting out inefficiencies in the supply chain on the one hand, and - echoing Lane’s point - they provide additional services by connecting traders with banks and insurance companies for Letters of Credit and

trade insurance, to customs for trade declarations, and so forth. They simplify these processes by automating and replicating, as far as possible the information required at each stage. Most critical are the cost-savings that arise from reducing supply-chain inefficiencies, and Drina gives examples in the case of shipping steel. These two processes illustrate disintermediation and reintermediation respectively.

11. E-marketplaces vary according to industry. A vertical marketplace dominated by one or two buyers or sellers offers few opportunities for the “trusted third party”, whereas steel is a case of many buyers and many sellers. Drina also examines various revenue models, but the key lesson she drives home is “focus”. As she says, *iSteelAsia* makes no distinction between a “new” and an “old” economy because it all comes down to simple good business practice, to focus on product, service and customers, and to management teamwork whatever the medium.
12. Promoting and facilitating e-commerce is a role for government, and the Hong Kong government has been very focused and active over IT in recent years, as **Alan Siu, Deputy Secretary, Information Technology & Broadcasting Bureau (ITBB)** explains. It can be added this is in contrast to the view of the Hong Kong government in the early 1990s when a totally non-interventionist, laissez-faire leave-it-to-the-market approach was policy. The shift to “promotion and facilitation” nevertheless contrasts with an “interventionist approach” in which government (for example, Singapore, Malaysia) either invests directly, or indirectly through state-owned enterprises or through tax rebates, etc. The tension between wanting to “promote” and holding back from intervention is an interesting area of study in its own right.
13. The Hong Kong government is among the leaders in the region in introducing the “soft” infrastructure of enabling legislation, notably the Electronic Transactions Ordinance which establishes a public key infrastructure (PKI) and gives legal recognition to digital signatures and to certification authorities. G2C is now served through the Electronic Services Delivery *esdLife* portal since October 2000, and online G2B procurement is handled by an electronic tendering system. For low value goods Government plans an e-cataloguing system which will allow departments to order their requirements directly. For medium-value goods an e-marketplace is to be explored, and for high value goods, especially works contracts, e-tendering and the electronic exchange of design and architecture plans will be developed. Within Government an electronic ordering system allows offices and storerooms and depots to communicate their requirements from remote terminals.
14. The really important test will be how much of a catalyst this will prove in encouraging SMEs in Hong Kong to go online. Most procurement comes from overseas suppliers, albeit through local agents, so it is likely that other services, such as trade declarations and tax payments and other business services will be more telling areas of interface.
15. One reason why government in Hong Kong can restrict itself to “promotion and facilitation” is because the telecommunications and cable infrastructure is so good. And by liberalizing the telecoms market Hong Kong is poised for a massive increase in bandwidth, and a continuous fall in its cost. Hong Kong has already seen the benefits of international simple resale with dramatic falls in IDD prices, and similar falls in mobile telephony tariffs have really undercut the traditional revenue base of telcos. PCCW/HKT is a company re-inventing itself, **Samson Lam, Director of Business Solutions, PCCW/HKT**, explains the outlook. E-business is seen as a matrix of vertical and horizontal supply chains and potential and actual e-marketplaces. The telecoms infrastructure is the bedrock of this matrix. Businesses of all sizes have had to face the problem of fast moving technologies without standardization of platforms, so a key business

opportunity is to provide “solutions” that allow companies to handle legacy problems using collaborative platforms. These bridge the new and the old systems.

16. Collaborative platforms exploit the IN functional capabilities of the broadband network, with the backup of data centres, call centres and the like. This model is really an extension of the outsourcing model, but with a difference. The old outsourcing model left the systems in the hands of the telcos, the connectivity in the hands of the client. Collaborative platforms allow for any degree of mix and match and are therefore highly adaptable. Different companies will be at different places along the e-business re-engineering pathway, and will have their own preferences between everything inhouse and everything outhouse. As Samson Lam put it, “At PCCW, our focus is actually to facilitate a little bit of e-comprador, that actually bridges such transitions, with PCCW serving as the group which services such development.” E-comprador harks back to the “facilitator” between foreign companies wanting to do business in China and local Chinese managers who found the way. The term “comprador capitalist” had connotations for the Chinese revolutionaries before 1949, but with China’s accession to the WTO imminent China will be trading on equal terms, not unequal terms. So the cycle or dialectic of history turns in interesting ways, and e-compradors would seem to have a rosy future ahead. The East is Red!

Telecoms InfoTechnology Forum
 Bloomberg Auditorium, Cheung Kong Centre, Hong Kong,
 Tuesday, 13 February 2001

Business E-commerce and E-Marketplaces

Session One: (2.00 pm) Peter Lovelock deputy director TRP and “thinker” madeforchina.com, Lane Leskela Research Director of E-Market Intelligence Services, Asia-Pacific, Gartner Group, K.T.Yung, General Manager, Information Technology Division, Hong Kong Productivity Council; Chair: John Ure, Director of the Telecommunications Research Project, University of Hong Kong

Session One – Chair JOHN URE: Welcome to the Telecoms InfoTechnology Forum. For those of you who have not met me previously, my name is John Ure; I am the director of the Telecoms Research Project at the University of Hong Kong. We would firstly like to thank our sponsor for this forum, which is *PCCW-HKT, and Samson Lam*, who will be speaking in the second session. Samson is replacing Thomas Siu, who unfortunately has been called to an urgent meeting, so Samson will be speaking on behalf of PCCW-HKT. The moderator for the second session will be *Lee Miller from Bloomberg*. Again, we would like to thank Bloomberg for the use of this splendid auditorium and the coffee facilities which will be available when we have the break. Finally, before I introduce our speakers very briefly, just to mention the one house rule that we have for members of the media and the press. We would ask you to respect the right of speakers and participants not to be quoted directly or cited unless they have given their permission so to do. Usually there is not a problem with that, but if somebody does want to remain anonymous, please respect that.

Without further ado, let me just introduce this session. The theme is e-business and e-marketplaces. We have basically lined up three speakers for our first session who are going to focus on what is going on in the world today, and where are we in regard to the development of e-business and e-marketplaces, in Hong Kong, China and the Asia Pacific region. Hopefully, after this first session, we can get some better idea of exactly what the state of play and the trends are.

Then in the second session we will be looking in a little bit more depth at e-marketplaces in operation, with *Drina Yu, COO of iSteelAsia*; with *Samson Lam* and what PCCW-HKT is doing to help businesses go online and, at the same time, as a teleco, get involved in this business, which is a very new business for all telcos; and thirdly, with *Alan Siu, Deputy Secretary of the ITBB* and what government is doing, what the role of government is and what the role of government online will be.

So that is the focus and the profile of the forum. Without further ado, let me briefly introduce our three speakers for the first session: *Peter Lovelock*, who is both deputy director of the Telecoms Research Project, and he will also be speaking in his capacity as, what is it, adviser -- no, thinker for China.com. Peter now spends more time in Beijing than he does in Hong Kong, knows China like the back of his hand, as they say, and will be talking about the state of B2B in China.

Following Peter is *Lane Leskela*, who is research director for the Gartner Group, who have done a

lot of work in this area. Usually when people talk about e-business, somewhere along the line they are going to be quoting a Gartner report or a Gartner figure. Lane might be able to introduce us to some pretty recent data. In fact, I think he has a new slide which is not included yet in the one that we handed out for you today. Finally, **KT Yung**, who is the general manager of information technology at the Productivity Council. Again, the Productivity Council has been very much at the forefront in Hong Kong of promoting the e-business readiness, especially of small/medium size enterprises. So we will get some insight into exactly where we are in Hong Kong today. Without further ado, let me pass the mic and powerpoints to Peter.

PETER LOVELOCK: (Deputy Director, TRP and “Thinker” MadeforChina.com) - I will jump in and say that you are welcome to quote, cite, plagiarise me without issue, except that when I got asked to speak about B2B in China words like “kickback” and “corruption” spring to mind. I am going to make three very brief points that actually relate to that issue. The first is that e-commerce, or electronic commerce, electronic business, is as much about co-operation as it is about competition, or a horrible Americanism, co-optition, seems to be bounding around. The co-operation aspect of that would lead me to posit that in fact there is very little in the way of B2B actually going on in China right now. There is a lot of potential for B2B, there are a lot of people moving to something along the lines of B2B, but I can say that there is very little actually happening.

A related point is that when people talk about B2B in countries like China, they often mean very different things from what we mean when we talk about B2B in the West. That would be my second point, that in China at the moment we are not talking about B2B; we are talking about G2B, government to business, which is in fact driving ahead very, very rapidly.

The third point which I will talk through, and which is probably the main message of this speech, can be summed up in the aphorism "Nobody knows anything". To take you back briefly, I think it was William Goldman, the screen writer of Butch Cassidy and the Sundance Kid, and The Sting, who wrote the book, very famous, seminal work on Hollywood in the early '80s, Adventures in the Screen Trade, which became known simply by the aphorism "Nobody knows anything", because that was what he said about making films in Hollywood in those days. Anyone who tells you that they know what they are doing, anyone who tells you that something is going to be a big hit or give you a large return on this investment is lying and probably going to send you broke. It is a gamble.

What he got very irate about, when people kept coming back to him and saying, "How can you say this about the industry which you love and has made you rich?" His point was not that nobody knew their craft or their profession; that the various different aspects -- he had met and worked with some of the best choreographers, some of the best photographers, some of the best cameramen, some of the best costumists, some of the best actors and actresses, and these people all knew their craft and their profession brilliantly well, but a hit Hollywood film was a result of something intangible, "the magic", as he called it, and it came together one-off.

At this point in time, there are two points which flow out from that. What I want to talk about is the magic that is going to come about when we get the economies of scale necessary for B2B, or B2C or B2G e-commerce. There is a second point that I will keep coming back to, and that is, when we

talk about the aspects of e-commerce and we talk about it in agglomerated form like a Hollywood hit, B2B e-commerce, we are often talking about apples and oranges. So let me go to "Nobody knows anything, part 1", or chart 1, with apologies to Lane, who is probably going to change my figures here.

The slide should be self-explanatory. Six different estimations from six groups on the size of B2B e-commerce worldwide, for 2000 and for 2003. Look at the differences. So you say, okay, they do not know what they are talking about, they are all wrong or who is right. My answer would be they are probably all right. They probably have a methodology or a set of justifications which justify their positions in this, but what they are talking about when they are agglomerating B2B e-commerce, what they are adding in there, the various aspects of the chain of supply, demand, will be different in each case, and yet we keep talking about a justification for moving into B2B based on these hyperbolic numbers.

"Nobody knows anything, part 2, a domestic view". Again, I would jump in and stress, because I work with both of these organisations, I know they are both right. E-commerce projections, 2000 to 2005, the State Statistical Bureau is the more conservative of the two projections. The Ministry of Information Industry, which has budgetary allocations, so therefore it might not come as a surprise to some of you that it has a slightly more aggressive uptake of B2B e-commerce.

Let me move away from the problems I have, because Lane will jump all over this, in terms of agglomerated B2B e-commerce. Instead of talking about the Hollywood hits, let me talk about the crafting of the various aspects of this, the B2B models -- where do we come from?

This started with the portals and the internet revolution, this latest version of it, if I negate EDI and where it all came from, with the company websites, the portals, the first wave of the portals, as the web took off in the early '90s. Dell, the classic example of the first wave of success, using their site to do their classic model of keeping inventory levels down, monitoring it themselves, but allowing people to come in and see what they themselves were doing, to try to mimic Dell's success of minimising inventory by using Dell's procedures for monitoring supply, purchasing of PCs, servers, laptops.

The next evolution of this was the product supply and procurement exchange. Again, we are talking largely about information services. People were putting online catalogue information, what you could buy, and allowing you to follow through by keeping your costs down. The next evolution, the same process, we went vertical, deep information, so we took the procurement exchange into certain areas, like the building or construction areas, and started providing very deep information requiring deep industrial knowledge. The next wave of this was to take the various verticals, the deep information, and replicate it horizontally. The first information was the exchanges, the brokering sites in China, such as Alibaba.com, but on a worldwide level this got replicated out with the motherload B2B players, such as Ariba and Commerce One and i2 Technologies that will set their horizontals up and drop their verticals down in whatever industry makes sense for them.

Then we got to the interesting position of the information intermediaries. All of these up until now were largely information-heavy sites, and we got so many of these that we started, in this process of disintermediation, to require intermediators for all of this information. We had the emergence of the intermediary sites such as IandIAAsia and all of the community sites. Then it gets interesting, because very recently I think we have had the first wave of what I see as real B2B potential, and it is the application service providers that have largely moved to the ASP model. In China, this has hit in areas that make pragmatic sense for areas where the government is pushing, and of course it is money; billing, transactions. So we see people like ChinaPay, CyberBeijing emerging, because the government needs a secure transaction enablement for the G2B sites which are now emerging.

Finally, we see the online exchanges coming into play, which is the subject of the second session.

Given that I am positing that classic B2B is largely potential in China, but we are seeing large movement in the government sector and businesses are attempting to fill that demand. If you look at the players that are out there, AsiaEC, MyConstruction, Alibaba, what similarities do we see? We do see similarities, we do see things that in China are necessary for a B2B model to succeed: state support, venture capital support, an alliance with players outside of China, because this is very nascent, both in terms of capital and in terms of expertise, in terms of implementation and in terms of integration, most of the major Chinese players are looking for assistance from outside organisations.

Finally, targeting small and medium size companies. Almost everyone you hear talk or read about focusing on China will emphasise the first two. They should. State capital, state support, is fundamentally important for success still in this sector. I will keep saying this is Government-to-business not business-to-business which is driving this.

Venture capital support is important, because the VC industry is very, very immature and very, very risk-averse in China, particularly after the dotcom bust, and there is very little focus on this sector that is domestically derived at the moment.

I would, however, target the fourth point, targeting small and medium size enterprises. Most of the work that is currently focusing in China is focused on the opportunity that is there in the state-owned enterprise sector, the large and large/medium state-owned enterprise sector, but these things are in the process of deconstruction and decentralisation now. The thing that makes sense is the fragmentation which has been identified in the West is also being identified in China by the government, and it is this sense of trying to centralise accounts and making the account process more transparent as the state-owned enterprise sector busts up, and all of the subsidiary organisations around the large state-owned enterprises which are now being spun off and coming up in successful small and medium size enterprises. That is where the demand appears to be coming from.

The more interesting e-commerce, e-business platforms are targeting a lot of the organisations around a large state-owned enterprise as justification for why an SOE is buying in.

They are the features of a successful e-businessplace. What are the warning signs on the e-businessplace? There are a lot of them. I can summarise them into four points. They are the same hoary, cliché-ridden points that we have all been aware of if you have been working in any aspect of China's infrastructure development over the last couple of decades.

- Monopoly practices in the networks and the value-added services -- the government is not about to remove itself from an aspect which is so important to China's economic development.
- Inadequate online payment and settlement solutions -- the security and payment systems are still very, very problematic, even with the emergence of ChinaPay and CyberBeijing et al. This is an area of great interest and great focus, but payment solutions are all about transparency, even in an ASP model. The government is terrified that transparency in its financial sector will be the death of large banks, and they are not about to tolerate that too quickly.
- Limited systems for physical delivery of goods -- not only are we talking about problematic distribution systems, but how do people accept these? How do we monitor, how do we integrate this with practices of corruption and goods being shipped in over the border of high tariffs, et cetera, et cetera?
- Then basic management and operation of B2B sites. While self-explanatory, it is a reiteration of the point that most of these players are looking for expertise, both the integration side and management side.

Let me very briefly run through a few examples that might highlight why I think China is completely different, as ever, in the way B2B is developing.

Haier, which is a great example. Here is your classic bricks and mortar company which is using a B2B play as a means of improving its bottom line. It is doing it, actually, in a fairly classic path, except it is not exposing itself to too much outside interference. It is not using its B2B platform to interact too much with driving its sales forward; it is using it for its partners and it is using it for its internal network. Here is a very diversified Chinese operation that has built up many parts within it and is trying to use a B2B platform to try to control what is a very splayed operation. At the same time, to a limited degree, it is trying to get control of its partnership arrangements and keep its costs down, an internal play, the risks of going too external being very worrying.

85818. This might highlight some of where China is at the moment. 85818 was a B2C player. It is a distribution company in Shanghai. It is a distribution company which is famous for its little yellow cabs that ply the streets of Shanghai and will get goods across the city. Usually, they were small goods. 85818 moved away from B2C, its target audience for transportation of goods around the city and its distribution infrastructure was from company to company. There was nothing online about this for years.

The success of 8848, probably the pin-up company of B2B e-commerce in China, which is also a Shanghai-originated company, moved 85818 in this direction. They saw what 8848 was doing and decided there was a market for it. At about the same time, a company in Beijing called *E-Gwoh*,

again a distribution chain focusing on the distribution problems in Beijing -- you want a pizza, you want a pencil, you want a can of coke, you want a series of rubbers, you need papers, posters or staplers getting them across Beijing, you would call E-Gwoh. E-Gwoh had most of this stuff on-site and promised to get the goods to you inside of an hour.

85818 looked at the success or the hype around E-Gwoh and the success which 8848 was being met with and decided there was a market for it, and it has done very well. Out of its base in Shanghai, it has begun expanding into various other cities. Chongqing I think is the main one it has expanded into.

This is my favourite, at least it was my favourite until recently, *Ieyou.com*. *Ieyou.com* was the classic B2B player, set up by the techno-geekiest guy I know in all of China, the guy who with Edward Tien [*CEO, China Netcom – ed.*] was responsible for the backbone build-out of the network in China. It was going to build a clean B2B operation. They went and they did it like any Harvard business class tells you you should. It looked for fragmented markets, they looked for where the demand would pick up, and they worked straight through all of the obvious choices like everyone else in the world has done: books, toys, and they focused on children's goods.

They were going to be the e-toys for children and babies' goods for China. They were going to target international wholesalers, they were going to distribute it to large chains across China and small shops. Everything was going to be kept at minimal, if any, inventory and they were going to work in large bulk orders. Within six months, they were building factories. They invested in a distribution chain. This was China, and this was a company that set itself up with no capital and now owns factories and warehouses in five different cities, has investments in two distribution chains across the country, and will be out of money by June. Its burn rate is now way over what it can sustain.

So where is the strength in B2B or e-commerce in China? The government. For all that people say about a government who is terrified of the internet, a government which is worried about the content, this is the fastest, most sustained build-out of telecommunication or communications infrastructure the world has ever seen. Telecommunication statistics have been getting ramped up year by year by year. It does not matter what target the government puts, they are going to meet them; the targets get rolled out ahead each time.

It has been the same with the internet. Up until recently, 100 per cent growth; the net population has been doubling every five to six months. Even with the alleged slowdown of the last six months, we are talking about a population which is now above 20 million-odd. That easily doubled in the last 10 months and appears to still be going through exponential growth.

This is because the government is pushing the networks, out and getting people online. For all of the bogey scare-mongering in the Western press, if you want to get online anywhere in China, you have a computer and a modem, you dial into the telecommunications infrastructure, you dial 163, you sign on 163, the password 163 -- you are on the net. There are very few blocks. This is a government determined to push as many people on as possible.

This started in the '90s, with the Golden Projects, but it is getting mimicked. For all their success through the '90s on telecommunications infrastructure, they are doing it again: the government online project, the enterprise online project, the family online project. These target all aspects of society, very systematically, and they are bringing those three categories online very rapidly.

So, in summation, B2B prospects in China. Prospects are big, nothing much happening. The trend is upwards. Lane, I bet, is going to give you the numbers. They are going to look like this, as mine did to start off with. They should. The prospects are big and the trend is certainly upwards.

There are two points I would emphasise, though. It is not development in isolation. This is an impact on traditional brick and mortar businesses, and that is where the government is focused, their state-owned enterprises, their traditional industries, where they can benefit from the internet integration, that is where they are focused. Where the big uptake will be, where the momentum will kick in, where we will see the necessary economies of scale, is where this is B2C focused. It is when the consumers really kick in that we will see demand driving. Any questions?

B2B Digital Commerce in China

The Impact of Net Markets on Traditional Brick-and-Mortar Businesses

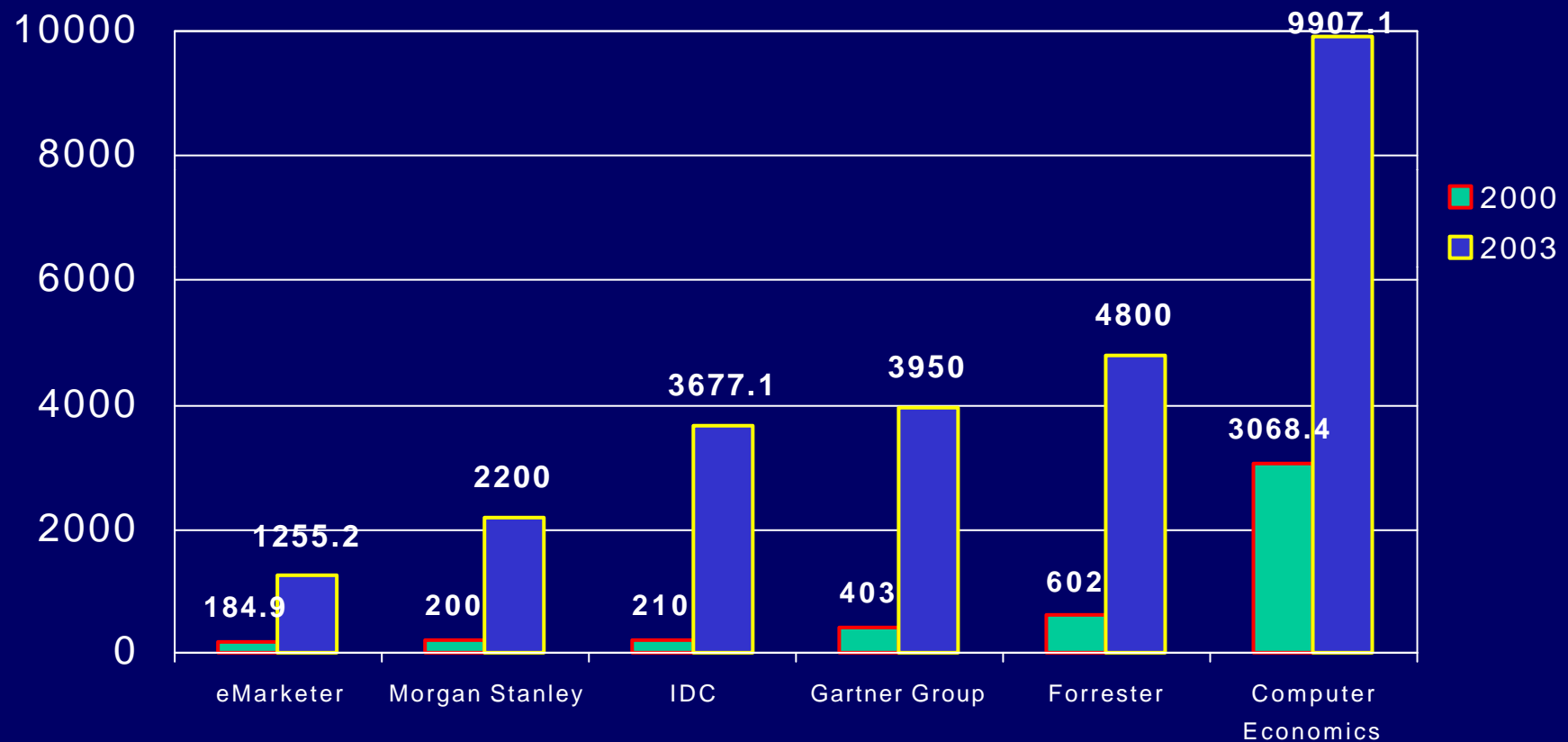


Insight
Division

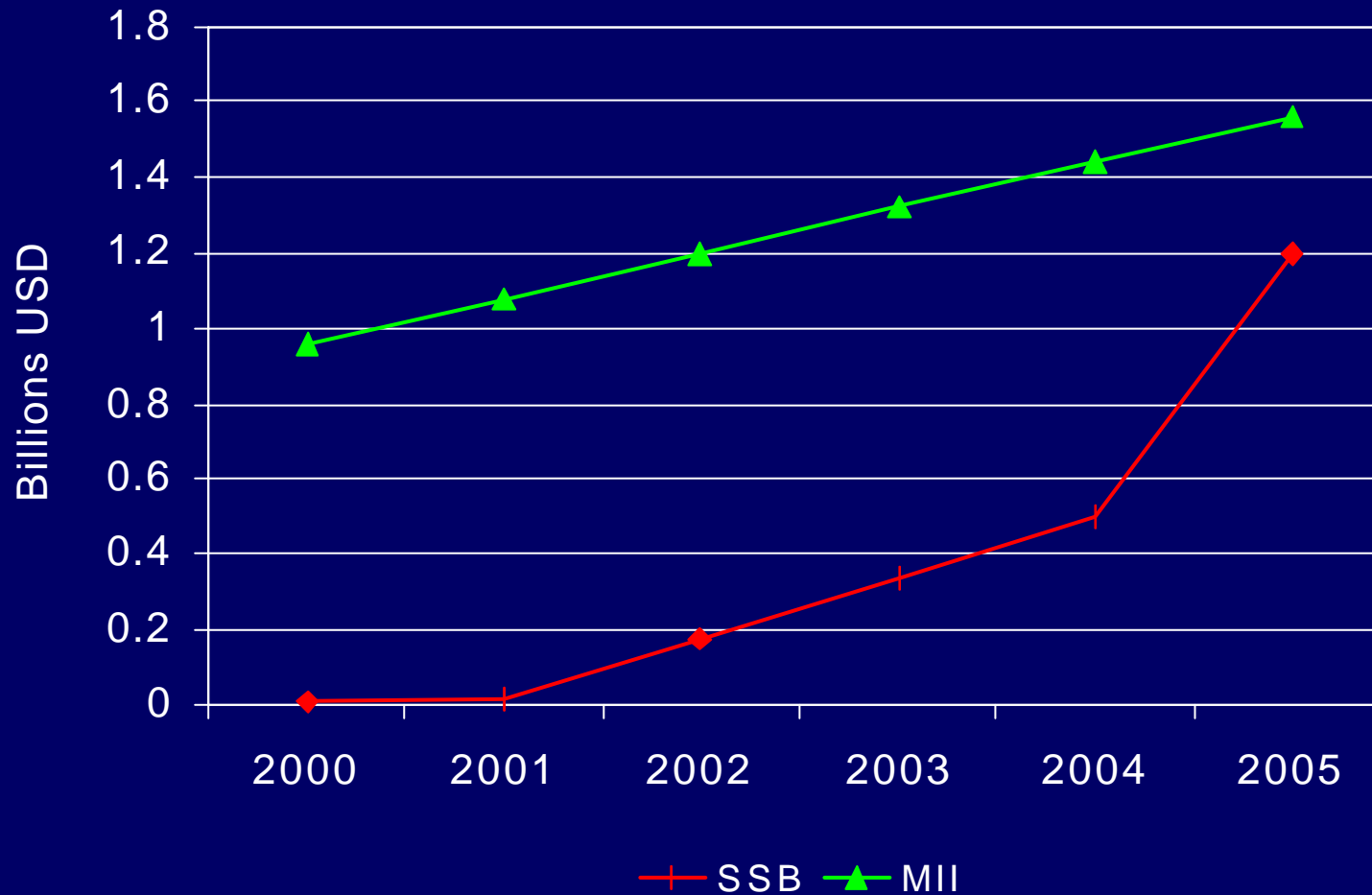
*Adapted from MFC Research Report:
e-commerce in China, From B2B to P2P*

Growth of B2B Worldwide

Comparative Estimates: Worldwide B2B e-Commerce Revenues (in Billions)



e-Commerce Projections, China



B2B Models

- Company Web Sites (*Dell Computers homepage*)
- Product supply and procurement exchanges (*AsiaEC.com*)
- “Vortals” (*MyConstruction.com*)
- Brokering Sites (*Alibaba.com*)
- Infomediary Sites (*landlasia.com*)
- Application Service Providers (*ChinaPay*)
- Online Exchanges

Features of Successful B2B Initiatives in China

- State support
- Venture capital support
- Strong alliance with key players worldwide
- Targeting small and medium size companies

Things to Be Aware of

- Monopoly practices in telecom networks and value added services
- Inadequate online payment and settlement solutions
- Limited systems for physical delivery of goods
- Management and operation of B2B sites

Haier: Towards B2B

- Haier e-Commerce established March 9, 2000 with RMB10 million in registered capital. Qingdao Haier owns 30% of total capital assets.
- Established individualized B2B production services
- Revenues reached RMB120 million by mid-2000, projected to reach RMB150 million by end-2000.

85818: Towards B2C

- In June 1998, Shanghai Aquarius Online Shopping Co. was established to provide call order services to consumers and 85818.com.cn was opened in Jan. 2000.
- 85818.com.cn is a distribution network which belongs to its parent company – Shanghai Aquarius Food Co.
- By June 2000, sales revenue reached 39.8 million USD

leyou.com: Away from B2B

- Established in 1999; B2B initiative targeted at products for children (similar to eToys)
- Encountered distribution and payment difficulties
- Now purchasing warehouses and arranging means for distribution

Government e-commerce Initiatives

**Infrastructural
foundation**

The Golden Projects

**Conceptual guidance for
“informatization”**

- **Government Online Project**
- **Enterprise Online Project**
- **Family Online Project**

B2B Prospects in China

- Trend upwards
- Net impact on traditional businesses
- Integration with B2C

JOHN URE: We will take questions afterwards and have the three presentations.

LANE LESKELA: (Research Director, Gartner Group) - Thanks very much, Peter. As always, very interesting, and you are only mildly iconoclastic today, probably because the market has started to behave according to the way you think, the way many people have expected it to behave going forward as well. Indeed, what a difference a year makes. What a difference the last six months have made in sentiment. In the material that you see here from Gartner today, there is a lot of rather data-intensive and qualitative-intensive comparisons of reality. If you take nothing else away from this today, our revisiting of the pace and the direction of B2B market creation is to focus on a few basic themes, and I am going to do this as quickly as possible.

I do not dispute anything that Peter has said about China. Just looking at this as an overview, overall, a couple of things that are absolutely necessary to introduce, and in fact you can take a straight statistical mean of those numbers that Peter had up here earlier and it gets very, very close to our numbers.

PETER LOVELOCK: I wondered about your methodology.

LANE LESKELA: (Research Director, Gartner Group – to be read in conjunction with slide presentation also available on this website. Ed.) - That is actually the methodology used by what are called data aggregators out there, but we will not go into statistical methods today -- just suffice to say that the depth and the complexity of this discussion have moved us very, very far down the field at this point, in the year 2001.

I would start, because we are a research company, by asking everyone in this room, who is investing anything at all that requires a return on investment on a B2B-related enterprise this year, within the next 12 months, raise your hand. Any direct investment where you need to look at a 12-month cycle of return on that investment? Why aren't the rest of you raising your hand? Indeed, there are a few simple questions. In fact, you can look at these as margin orders today, the stuff that I will put up here from Gartner today, on the fact that really we are talking about rocket science in business. We are talking about the type of new market integration and collaboration that the world has not seen to this scale ever before. That might have something to do with the difficulty of the subject and the difficulty of the marketplace. The other thing to pay attention to very, very closely in this part of the world -- we do have a few back-door advantages in that the West has gone first and we have 50 to 80 per cent failure rates, including the value of their share prices. So there was really a tremendously high learning curve. We are seeing a tremendously vitriolic press in the US, attributing the expectation collapse to zero, or possibly even negative growth now in the US, to a lot of this hype.

So to separate this from the dotcom part of the argument is the first thing. It is very important to actually look at business integration strategies, some of the same old things. Whether you are on the IT side or the business management side, it is business process re-engineering, that is an old term, and it is also about the type of collaboration where you do not need to confine yourself to one side of this argument or the other, in order to sustain business growth.

So we are seeing lots of very tactical as opposed to strategic moves on the marketplace right now, in the region. The difference between public and private e-marketplaces also is a distinction we should make. We have examples that are more prominent in the Asia Pacific already than they are obvious in the West, like co-optition, the term that Peter used earlier, for things like COVISINT [GM, Ford, Chrysler – ed.]. It gets a lot of press because it is very unusual for big companies to behave that way in the US, so unusual that the SEC takes a very particular interest in what a few large manufacturers do, but in this part of the world we have private marketplaces. We need to be paying attention to special vertical industries, specific private business relationships, and the fact that a lot of what is going online really so far, before we see a lot of the return on investment, is traditional contract business with people who already do business with each other. So if we start boiling it down -- instead of boiling the entire ocean the way we have done on B2B, we can focus on a few of those areas.

So my premise is that this is rocket science, if you want to take on the world and be a global player, but it is not the cure for cancer and it never will be. It is simply a new generation of moving business forward, and if you focus on using the tools -- in fact, in John's paper today, in order that we do not use the Negroponte definition of the first Western Union telegram was actually the beginning of e-commerce in 1888, and focusing on machines talking to other machines actually, and humans interacting with them for e-business -- clearly we have seen very little activity and mostly just a lot of talk, including some of our talk.

With the hope that not all of this is in vain, that not all of it is completely hot air, this is a premise I will put out for you. We believe, in the next 12 months, 50 per cent of at least public e-marketplaces, those that actually put buyers and sellers together and provide a platform of services to do that effectively, they will not be able to achieve the service standards or the vertical industry scale.

I am going to throw down a gauntlet today. The ASP statement is a complete fantasy. Here is our first very controversial statement today. The ASP value proposition of pure horizontal is a complete fantasy. What will actually work is going to be vertical collaborative integration, very private, over people that are comfortable doing business with each other. We already have horizontals that are called mySAP.com. I will throw that one out there first.

In fact, in the future direction for this, the future is just a few steps away. As we go forward, we see that a few business models will emerge to address this type of scale and requirement; require standardisation in things like the collaborative commerce marketplaces, Commerce One battling with Ariba, battling with Oracle for the software platform standards to do the integration, supply chain management expertise, and the business services marketplaces that will need to serve connections between public marketplaces and private marketplaces, because we will have both. They will be designed in order to substantially reduce costs, so we need to continue to focus on the buyer side of this. Typically you will notice the buyers actually end up paying for the cost of doing business this way, as a percentage margin so far of lowering their total cost of buying goods.

So imagine, the market opportunity in this part of the world has heavily shifted to the other side of the import/export balance sheet of the balance of trade. We are still looking at small and medium businesses participating on the basis of their interaction as suppliers far more than interaction as buyers. So, in a way, when it looks like there is a reversal of fortune, or the B2C part of this model came up first really in the West, people pulling things off the internet, in fact it is very much more difficult. It is like the creation of a new life form, to start on the other side of the equation and say, initiate a business-to-business prospect for supply side services. That is what we face in this part of the world, and we feel that it will be extremely difficult to manage that.

Go right to the bottom line first, if we get nothing else achieved here today. Surviving e-marketplaces that are public essentially do one and only one thing, and they are required to do this, otherwise they have no business being a business, whether or not they make money. They can occupy the role of the skilled intermediary. You can take this as a Gartner-based definition. In market participation in information efficiency, new types of information efficiency, it requires customs to participate, so imagine what that looks like in this part of the world; it requires banks to participate with payment platforms; and it also means that core logistics providers and financial institution service providers will have to get engaged in value-added services to players in the marketplace.

However, risk cannot substantially go up and services have to be delivered as reliably as the current state services are delivered, whether or not money is being made at this point as a return on investment for actually providing the service. So I look at it this way. For third party market makers to exist, to achieve this, the scale, the vertical industry knowledge, collaboration between known partners, some contract business, some off-spec, non-contract based business that can become more efficient, which should actually reward some suppliers in this part of the world, we must achieve something that we have not seen yet, which is truly a kind of brand distinction over other available services competing for that type of revenue, that type of service, so that they have one-to-one brand equity achieved among the members as buyers or sellers in the marketplace.

Sometimes this brand equity means that the name of this marketplace is *Li & Fung*, so it could be a private marketplace here that is already brand equity. The marketplace could be Cathay Pacific, in this case. So we should look much more -- in fact call to arms to study this, to what happens with large private businesses in the Asia Pacific and how they integrate their own back-end supply chain to lower their cost of input, both direct and indirect goods. That is the prominent version of B2B that is most visible in our part of the world today.

So imagine what boiling the ocean looks like, B2B; this is it. B2B, to B, to C; it is G2B to B to C in China. Generally, what happens is product and services are aligned in these categories to focus on segmentation, meaning if you were to look at this from an IT point of view, best of (Inaudible) product or services capability, including the systems integrators or the SIs that provide this, will tend to concentrate on doing things like connect the supplier to a manufacturer, connect the B2B exchanges to -- when we have products or services going, either to businesses or actually to individuals, out to DHL, Federal Express, TNT, to get some of the B2C exchanges, to provide inventory to them. Supply chain visibility comes in, when we look at B2B exchanges here.

Across all of this, some of these global platforms, some of them with commercialised services standards -- the Aribas, Commerce Ones, i2s of this world or IBM in this category -- content, community, communication, and basically, in the central platform, to extend across any virtual supply chain.

The premise here is that that is impossible. That will not be achieved by any single vendor in our lifetime. Nobody will provide all of that. It absolutely will require both private approaches to segmenting the value proposition here, to save money or to aggregate demand in specific vertical marketplaces, and a maximum degree of control over the level of collaboration with other parties because, as we all know, as soon as you begin to collaborate with a business you start to lose a certain amount of control and focus and energy over what you can see once it leaves your own enterprise. A very difficult dance.

Now to some of the fun stuff. The premise is not all doom and gloom. In fact, we believe the timeline is just very, very long. I am hoping that some day somebody will debate the actual fundamental validity of this, but I am here to tell you everything in the world looks like that. Every technology, every media event, every business process introduction, every business cycle has something like this. These types of cycles are very familiar to the financial community. Usually you see curves going off curves here.

Basically all of this happened very, very quickly. It was essentially looking at the financial market and having this 'I' for IPO slam into the 'E' for e-business here, and we had such inflated expectations in a very, very short time period, it was extremely unlikely most of them were going to be fulfilled. A year ago my colleague, Joe Sweeny, in particular, was standing up at places like Internet World, a public forum like that, saying, "One out of ten of you are going to be in this room with me 12 months from now." Guess what: that is exactly what has happened. That was at the top of the hype that we were saying those things.

Why? Because it is not actually necessary to boil the ocean to get this stuff done, and it is very, very unlikely that it was going to happen in one or two years. We all got actually mystified; we went on a magical mystery tour with IPOs and with the internet and the B2C commerce world that does not fit the reality.

Now, as the mask is coming off and the mist is starting to clear, now we can see what we are looking at. We are back to evaluating very specific use of technology in order to achieve business efficiency, the same thing that it has always been about. Our premise is that click and brick are something that go hand in hand. The brick, in fact, if you start looking at financial cycles like this, by virtue of the fact that you turn this upside down and you go to the bottom of this hype curve, so everyone is doom and gloom, jumping out of windows, they think B2B is over, chicken little happens here.

But very, very near down this path we believe in this decade we are now talking about global levels of interrelated and collaborative business, based on very, very specific identification of what cost is saved where, which streamline process and which supply and value chain is returned, and where demand is aggregated, and the demand aggregation part, for this part of the world, is by far the most

important. You can look at those priorities in reverse from the way that they would be viewed in Western countries.

This is very, very bright. Sorry, this was a blue background. This is just to highlight the fact, and you could qualify this with a number of these vendors -- they may object to every one of those numbers on this side -- but suffice to say, we have very, very few of the standard platform vendors today entirely enabling this marketplace, this boiled ocean B2B. A lot of them focus on very specific functionality, and I would suggest this is not necessarily a sidelong criticism. This is just to say that each of them, in terms of what they provide as a value proposition to their clients, has a very specific task and a very specific value proposition that they have to fulfil.

We do not see much of MOAI in this part of the world. That had to do with, basically, scale and services that they were providing right there on their doorstep in the home market, but these vendors allow a platform of communication and exchange. Much of it focused on the earlier part, this reversed part, which focused on procurement. Procurement means large business; it means Fortune 500; it means global 1000. After that, it is actually very, very difficult to see the incremental value of -- constantly you will squeeze it down to very, very finely parsed returns on cost savings.

So the greater value proposition here, out into the future, is actually the demand integration and the demand aggregation and supply chain streamlining process from all this. This is the fun one. It is blank. Today we are just now publishing, based on economic influences, changes to that forecast that you see there. This 7 has gone down to 6.2 globally in 2004. I will give you some idea of what that means. We add them up and break them down and do verticals and slice and dice like other people do in our field. But that 6.2 is based on new economic forecasts. We use WEFA statistics as our external financial statistics for size of GDP, and GDP by vertical industry categories according to SIC codes.

6.2 is roughly based on our expectation that even by 2004, the end of that year, mind you, the marketplace will still be 94 per cent none-e. Based on an evaluation from the bottom up, 6 per cent of the economies of the world, based on specific verticals, are actually utilising e-business and internet commerce substantially so. This was not meant to be blank, but I thought I would finesse it around to make it make sense, since we are stuck with this slide. There are some new lines and some new numbers that you can see in the press over the next week or two.

This is still the top line evaluation for Asia Pacific. Based on economic indicators, we brought these numbers down just a bit, for our part of the world. To re-address something Peter said earlier about numbers, the fact is there are a number of different indicators here. There are supply side and demand side statistics that you can play with, or you can aggregate or disaggregate. This counts the flow. In terms of revenue recognition, this is revenue recognition for E.Commerce for these regions. So you have to be very careful, because some of the differences in those numbers are actually attributed to not only the fact that some are counting EDI, some are counting IP hosted networks or pure internet, but also whether or not they are counting from the demand or from the supply side, where the revenue is being recognized.

So for revenue recognition purposes this 1 trillion has, as you can see in order, quite bright there, countries that you would imagine are participating in the enabling infrastructure, the social dynamism to reorganise and to integrate, but not at breakneck speed, not at internet speed, at business speed now: South Korea, to Australia, to China, Taiwan.

Just to focus on the numbers here locally, China in this scenario -- Peter can debate this -- for 2004, as you can see there, the third largest market, looks like about \$158 billion of transaction, but I will say, when you gesticulate over these numbers, this is inclusive of EDI types of private networks -- we have to be inclusive of that to recognise revenue to this -- IP hosted and non-IP hosted.

Some more playing with the evaluation. This is based on a qualitative index of -- some of you might have seen stuff like this before from us. We are looking at our expectation of load values related to E.Commerce focusing on the import/export qualifier here. If you take a look at this scale, this is in thousands of US dollars. Percentage penetration -- it is qualitative because this is a very rough estimate of the transmission of B2B to penetrate business models in these countries. You see a rough distribution here.

China is interesting because the sheer volume and sheer value of the export marketplace there has it a bit off the scale, from the rough line that you can draw, enablement versus the value of goods and services being exported from those countries.

Some more noodle soup. This noodle soup is percentage evaluation by verticals. These are highly, highly aggregated statistics, for anyone familiar with industrial statistics and verticals. Essentially what this means is, these are percentages by industry contributing to those revenue recognition numbers I showed earlier for the region. Today, much of what we have is all in certain vertical industries. The reason I introduced this idea is that I also want to make a second thing very, very clear: all industries are not alike. Some are going to be profound beneficiaries, some are going to benefit very little, and some are going to have very, very incremental effects on their industry. Some will see more rapid change. What I mean by that is, this part of the world has already supplied E for a number of years, through OEM supply chains and hi-tech manufacturing and in some of the discrete manufacturing that is done here, but over time, as we see B2B enablement, this is the degree of influence of these collaboration factors on engaging different industries.

If you see that blue line, you see the relative impact of the computing and communications, that is all the hardware manufacturing stuff that is done today, it is a very high proportion, nearly 25 per cent, it is about 24.5 per cent in the year 2000, last year, contributing to this value in B2B exchanges, going down to roughly 10 per cent by 2004.

Those noodles are available in your packet. It is very difficult to see them discretely except that it is virtually top to bottom along the side. Please ask me questions about that later on. This is indicative of the value that these industries will be contributing to our experience of business-to-business, with examples quoted there at the top, to some of the major vertical categories and marketplaces. 2001 was a period in which, beyond EDI, we start to see e-marketplace functionality and test of concept being initiated in the region, instead of being pulled. It was pulled up until that point,

because a lot of suppliers are the ones that have been participating on the supply chains for manufacturers overseas and their buyers, actually serving their networks. It was a pull factor.

What we believe is this. This number is plus or minus. About 500 of these public e-marketplaces may enable up to 50,000 companies. The statistics are like this: the ratio gets more beneficial based on what is required for service providers to actually offer an integrated platform for B2B services in enabling 50,000 companies as opposed to what we have had with EDI, which is about 5,000 service providers, and VANs that have enabled about 150,000 companies around the world to fully take advantage of that particular platform.

Other indicators on what happens -- this happens online or offline. Clearly the internet is still very, very scary to a lot of companies. Obviously it is scary because of things like this. Any pace of this type of squeeze, on pressure, on margins, is the very thing that some of the procurement platforms actually offer when you are looking at selling your prices. It is a long education cycle for a new manufacturer to get online with these services unless they get pulled in, that is my premise, unless they are already participating, because they look at it and they say, "Yes indeed, I see I can get to possibly 10,000 new buyers next week, but now I am competing with 40,000 new competitors that are near this network or on similar networks", so it starts to look like a neutral decision from a supplier's point of view. Again, that is another reason why this will not happen immediately. It will take this decade for this to occur.

Another sort of diagram. The instructive thing here is this: we have just got to the point where digital letters of credit and some of the banking products and services are coming into the marketplace, searching for opportunity and enabling a fully integrated platform. What is actually necessary and what is very rare in the Customs regimen is a digital form that is a legal copy of a bill of lading. For participants at any stage of this, from the seller's point of view, this is an actual model of a working exchange in Taiwan. It happens to be in the hi-tech industry. If you would like to know who this is and who actually operates in that kind of circle, however without the advantage -- they go off line for their customs regime, please ask me at the break.

Here is another idea. We have some conflict when we are looking at doing global services from a local marketplace. All this diagram means is that we have a traditional trade-off line here between the reach and the extent to which the service can be provided. Electronic services or the internet stretch us beyond this point. When we are talking about true E-Commerce or internet business, we are providing services here, but the level of competition is to increase in the direction of increasingly regional business serving a larger region, or global business serving this region. That is the nature of competition, and the ability to move up effectively on this scale can be the inhibitor for local service providers. Some that we will not name that we already know are very, very near to liquidation. Peter used one of them on his presentation today and I think he knows which one I am talking about. It is nothing personal; it is just very hard.

John is giving me about a minute, so we are just going to get to this point. Diagrammatically, this is another way to look at the value proposition being offered. In essence, the reality of the services being provided and the software to integrate it is much more complex, it sort of sits behind this view, but essentially we have a collaborative community. That is basically a way for a buyer to

maximise the number of sellers to buy from. Buyers to sellers, on the other end of this, the true exchange in trading environment between buyer and seller and also the auction house, forward or reverse auctions, and we have a number of different examples of this.

Our premise here is that these companies actually must conquer the world in that value proposition that they offer, that is the level of competition, not to, in multiple, go across business models too soon, and not to be all things to all people. So, in the final notation here, there is a negative part of this. The negative or downside, for some of the business models we have seen today, it will not work effectively, to set up multiple verticals, 3 or 4 or 57, like we have seen in the West, across industries, and hope to be able to become some kind of magical ASP across industries that the company does not know very well.

Even if they feel that their partners know that industry very well, it is much more likely that vertical focusing control over the market environment, participating in this, this is really describing something that we do not have yet -- this is tantamount to a new cloud -- an integration services marketplace between public and private marketplaces will grow on the technical side.

Very few companies have the scale or the capability to provide that. We suggest that in the Asia Pacific they simply should not try. You must focus on the business issues to achieve return on investment, aggregate demand and also lower the cost of doing business.

I will leave you with this one. Finally, this is where -- I trashed ASPs, and I think I trashed them because the circle is kind of going this way. What this means is that some of the companies calling themselves enterprise service providers, and which continue to confuse us with more marketing terminology -- and I thought we were the experts at really doing that; I thought that companies like ours were the ones who created new acronyms to confuse everyone, but now I think we are being bested by what is still going on in the marketplace. We actually believe that market makers and industry verticals will get to some of this opportunity, but it will take us at least about another 24 months or so to sort of see industry consolidation around standardised platforms and scale, to be able to provide this. With that, I will end. Thank you, folks.

Asia Pacific eMarketplaces: Death Match 2001

Lane Leskela

Research Director

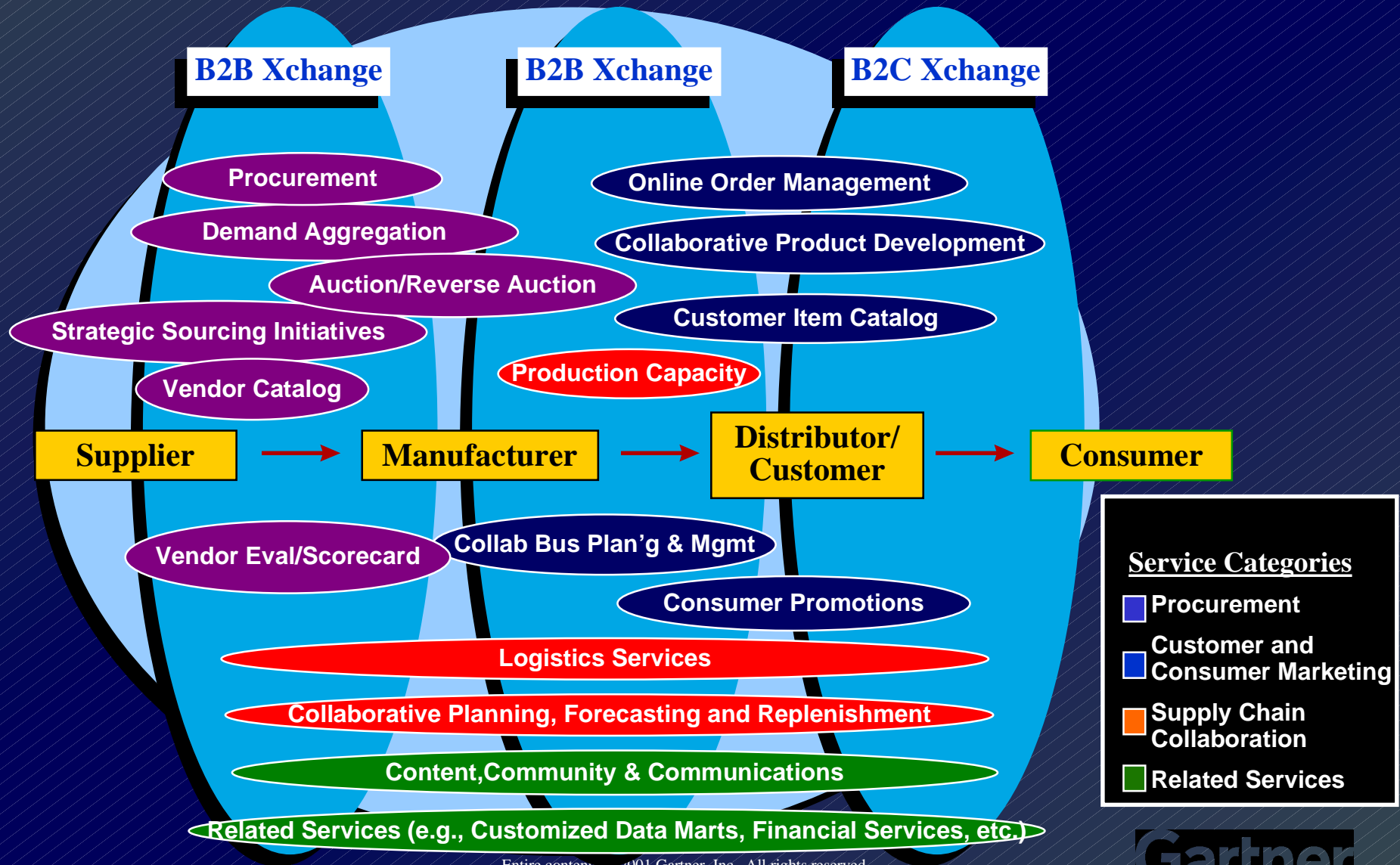
Gartner Asia Pacific

lane.leskela@gartner.com

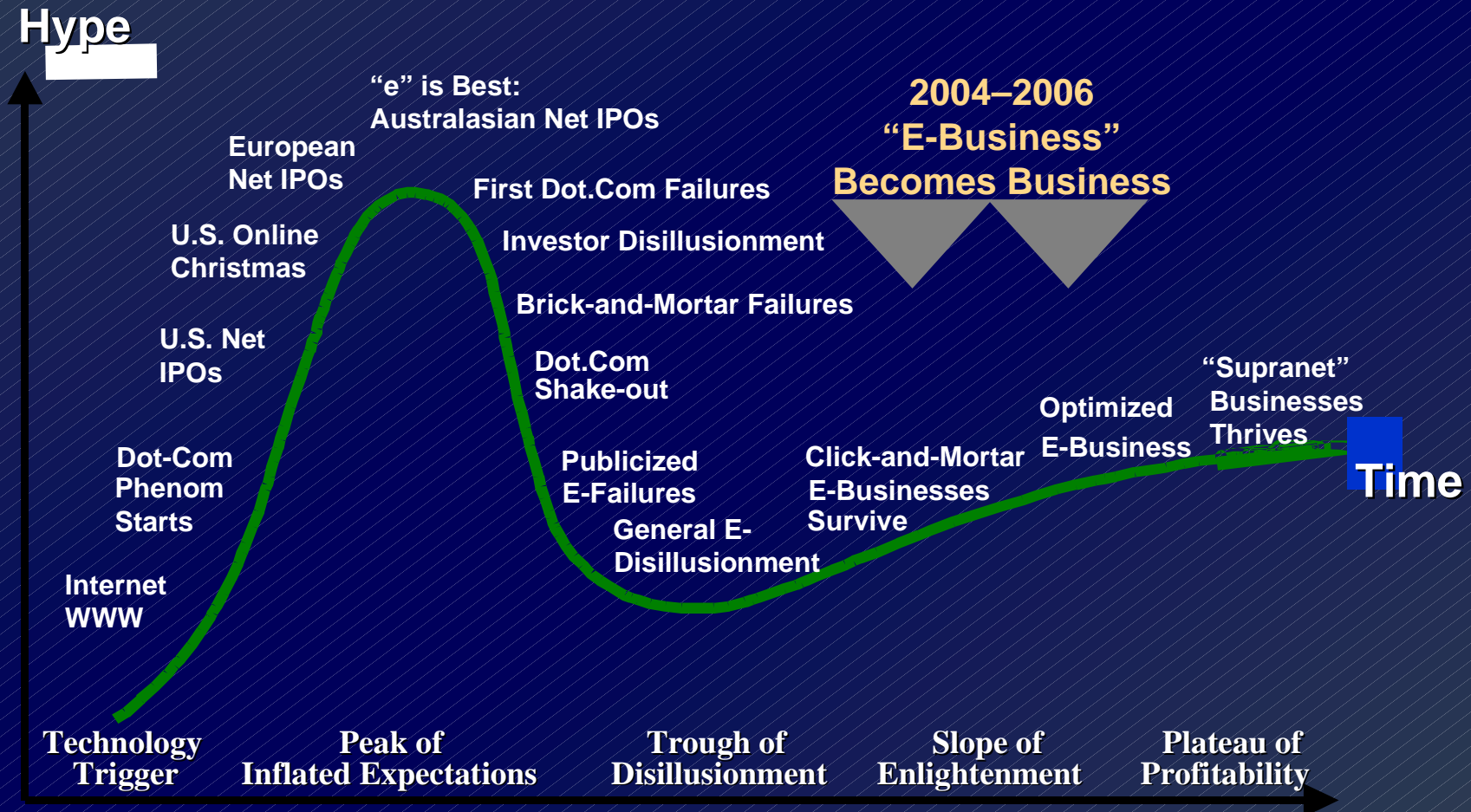
Bottom Line

- The surviving eMarketplaces will occupy the role of skilled intermediary in market participation in information efficiency with strategic support from core logistics providers and financial institutions.
- Electronic escrow and payment/acquiring services are *current* requirements for eMarketplace functionality...competitive value will include inspection, creditworthiness and performance certifications for eMarketplace members.
- Third party eMarket makers have a mandate to engage superior delivery services...as the trusted facilitator, each must build and sustain one-to-one brand equity in the core vertical industries they serve.

eService Across the Value Chain



The Hype Cycle of Asia Pacific Participation in Global e-Business

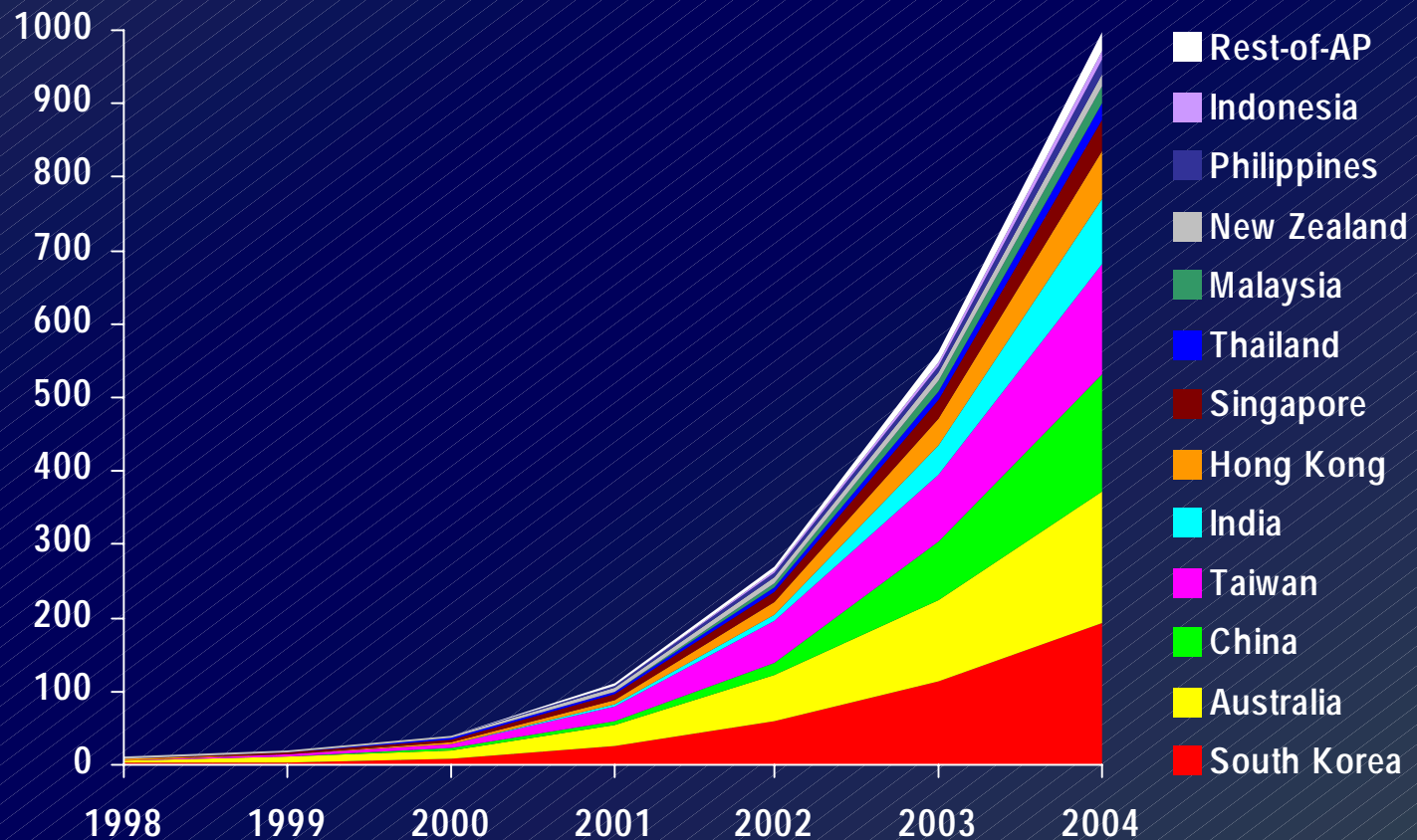


1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009

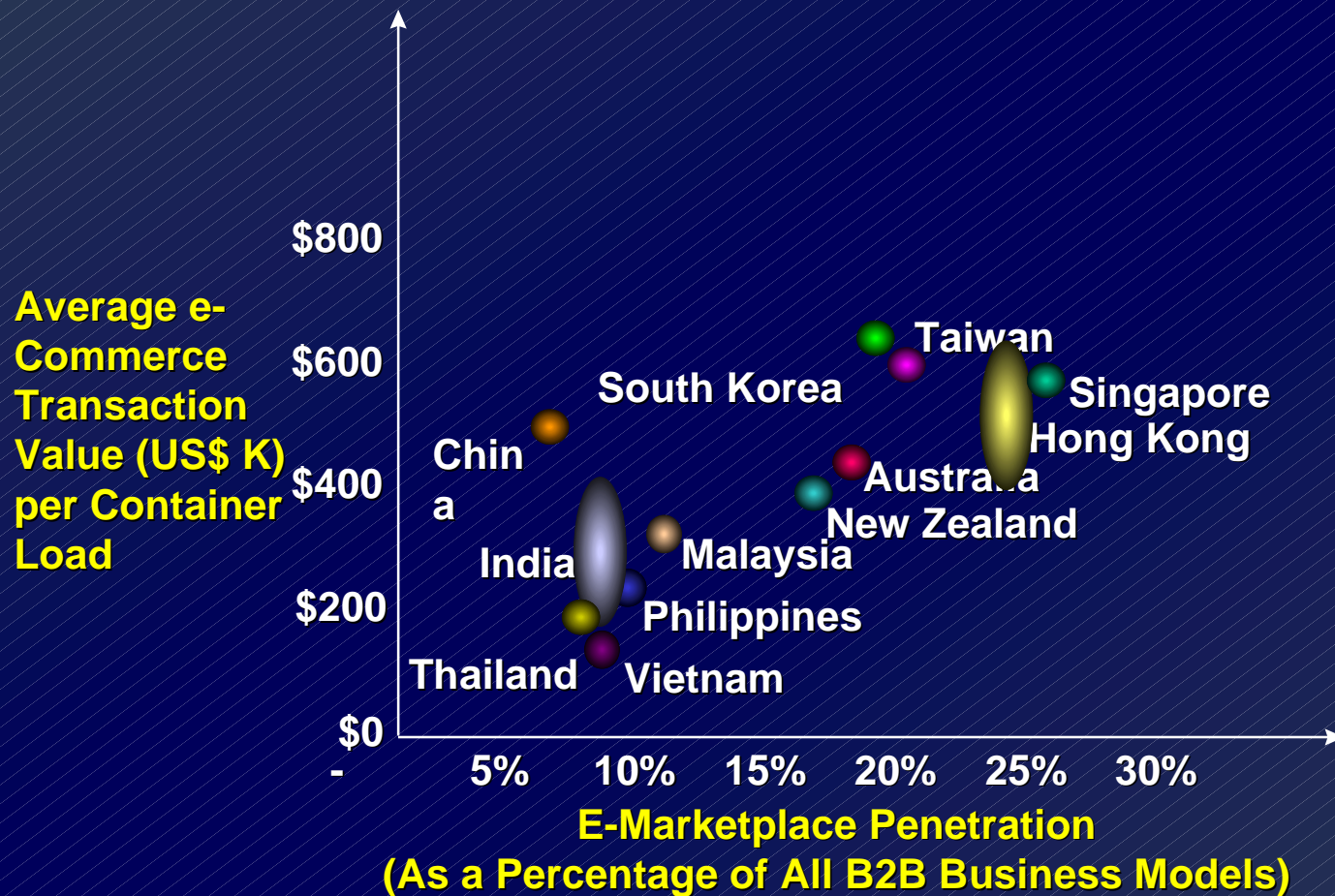
Asia Pacific eTransactions (US\$B) to 2004

• 2004 Asia Pacific (excl. Japan) e-B2B value = US \$995 Billion

Strategic
Forecast
Assumptions



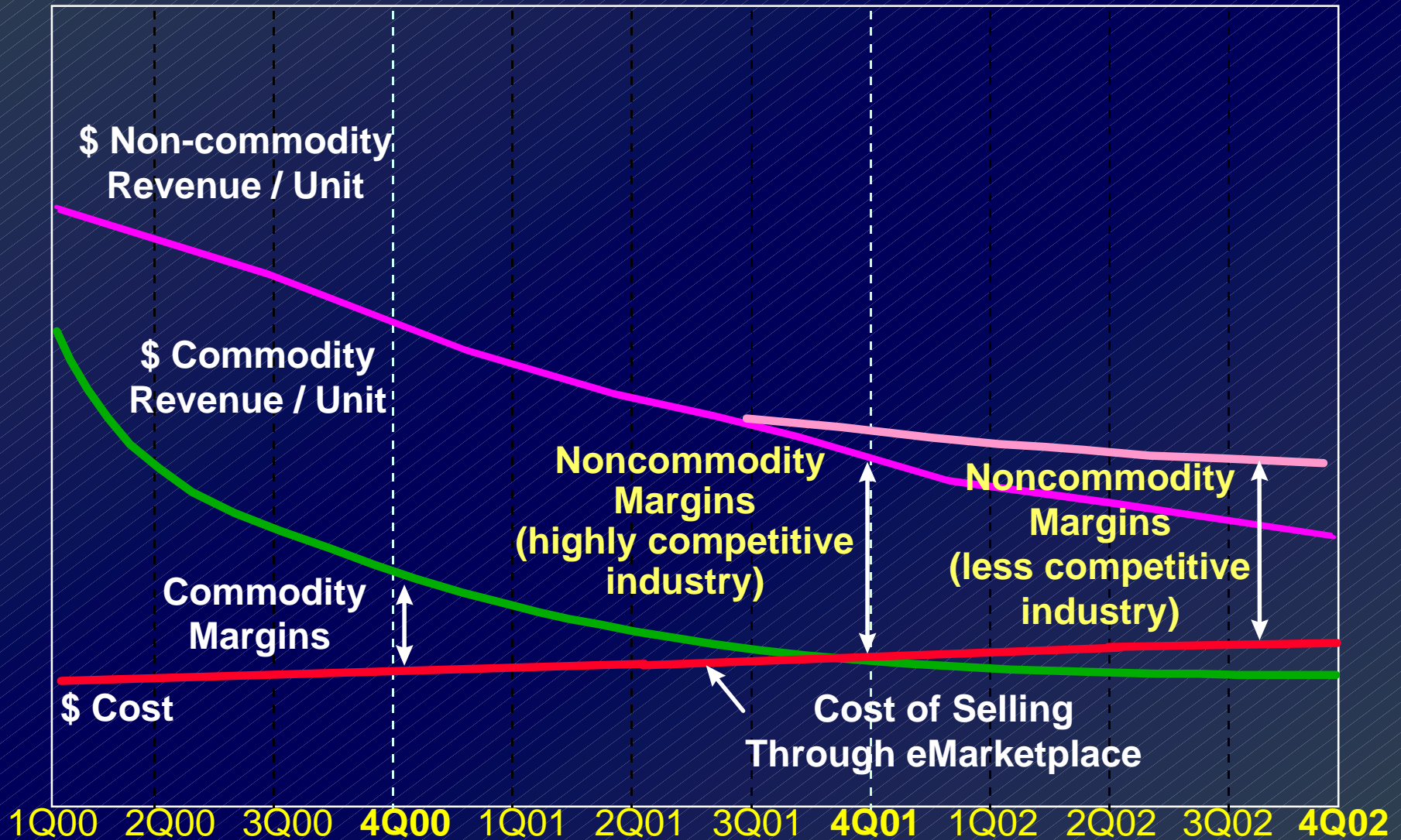
eBusiness Exports Market Opportunity Index (Circa 2004)



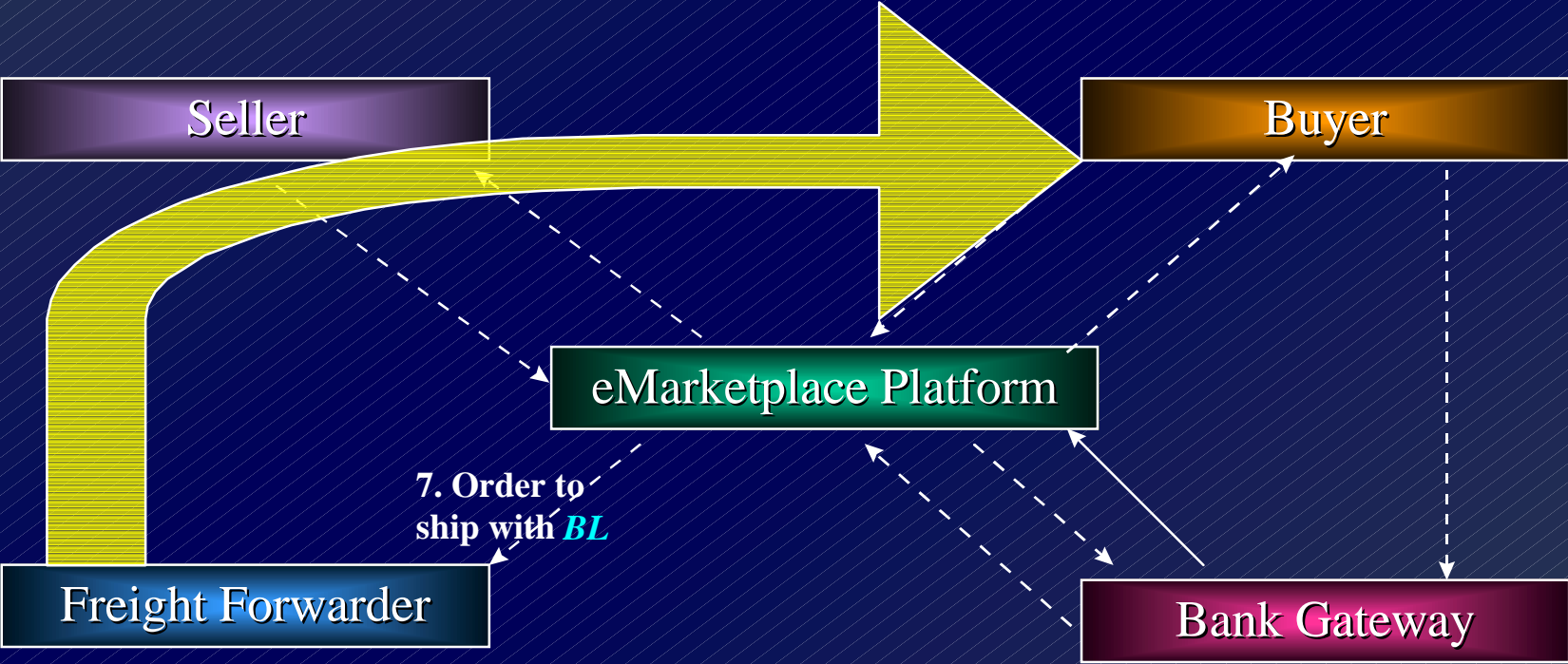
Total Number of eParticipants

- **Dynamic e-Marketplace functionality and participation in Asia Pacific arose in 2000**
- **By 2003, up to 50,000 companies will participate in a maximum of about 500 e-marketplaces in Asia Pacific as buyers and/or sellers**
- **Key point of reference: 5,000 major companies have enabled about 150,000 global companies to participate in traditional EDI to date**
-

eMarkets Force a Margin Squeeze



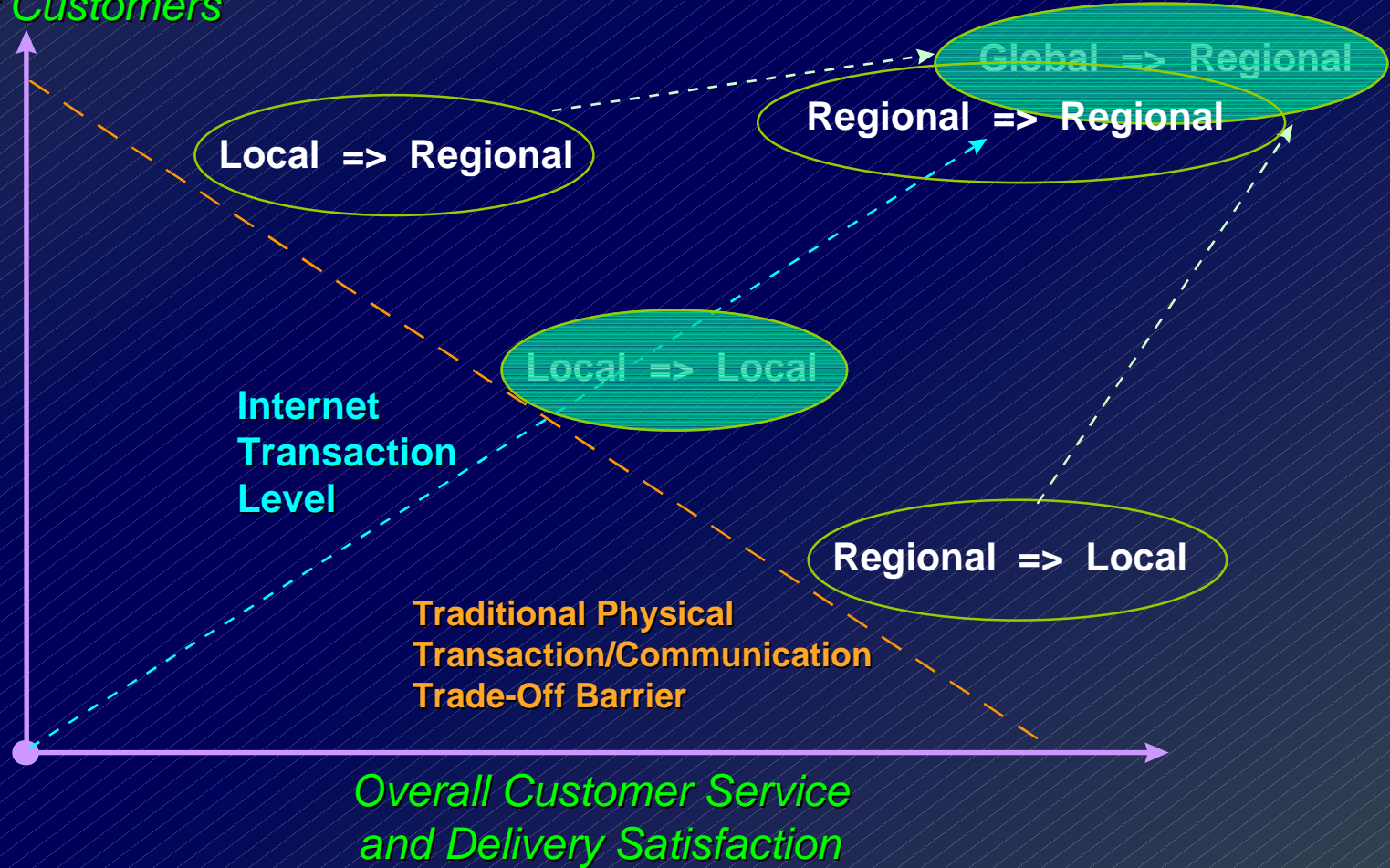
Current Supplier-Based eTransaction Model



Supplier Performance in Asia Pacific: Competitive eServices

Customization for Highest-Value Repeat Customers

Optimum Service Model



Collaborative Commerce Continuum

Collaborative
Community



Cooperative
Coercion



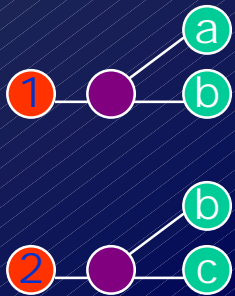
Trading
Exchange



Auction
House



Buyer Seller



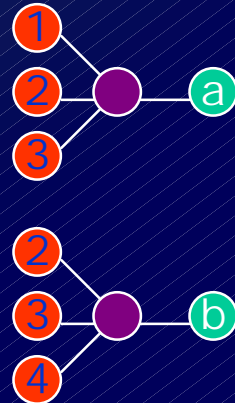
(Best3C,
ECNet)

"revenue"

B2B

Win w/Partner

Buyer Seller



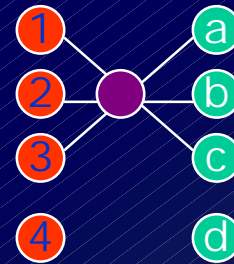
(Covisint, e2open)

"enforced
exchange"

B2B

Win w/Competitor

Buyer Seller

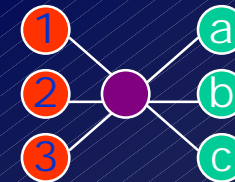


(MeetChina,
SESAMi)

"transaction
costs"

B2B

Buyer Seller



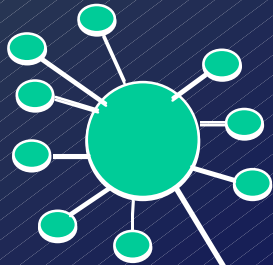
(Rebound,
FreeMarkets)

"transaction
value"

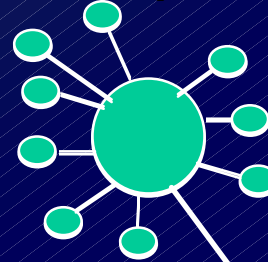
B2B

Mega Marketplaces: eSCM Interaction

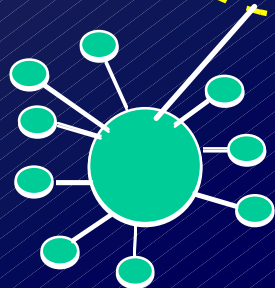
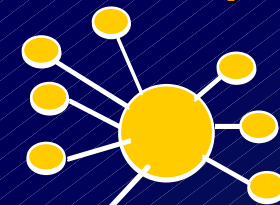
Public Marketplace 1



Public Marketplace 3



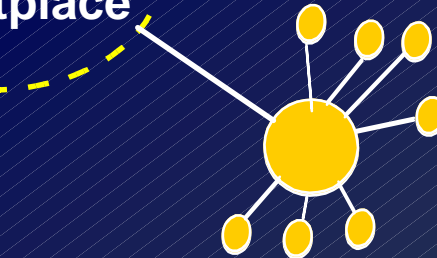
Private Marketplace A



Public Marketplace 2



Enterprise X
Community

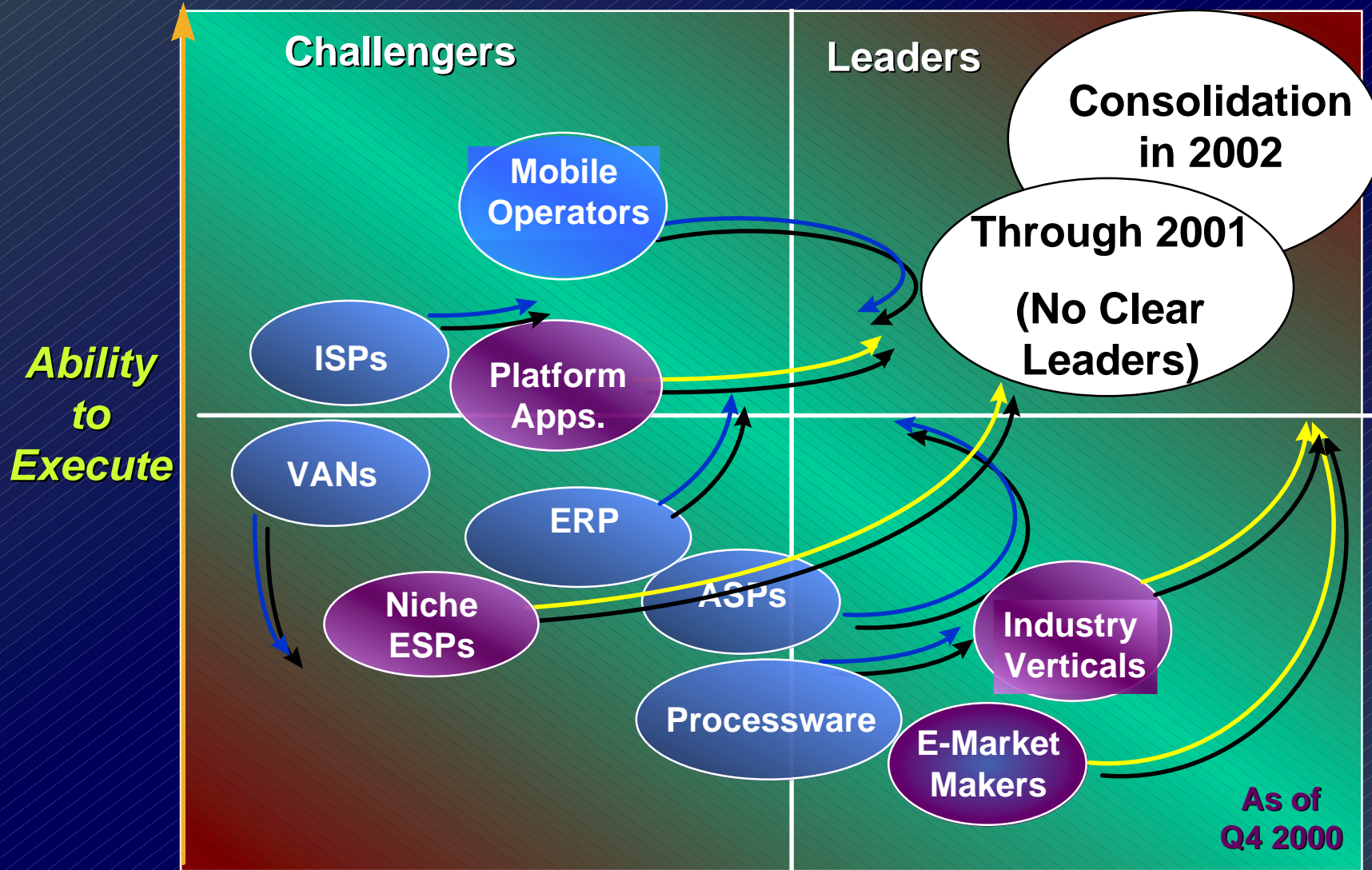


Private Marketplace B

Integration marketplace:

- Transformation and translation
- Multiple standards
- Object brokering facilitated
- Routing and Workflow
- Secure messaging

The Struggle to Deliver e-Marketplaces in Asia



Niche

2000 to 2004

Visionaries

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Gartner

Consolidation of eMarket Makers

- **Growth in Dynamic e-Marketplace functionality and participation in Asia Pacific will peak by 2003**
- **By 2003, market consolidation will see no more than five e-vertical marketplaces per industry serve up to 90 percent of the public B2B eMarketplace opportunity in Asia Pacific**
- **Too many local pure plays are still trying to become the “Internet Utility”: 9 out of 10 will end up acquired, small niche players, or entirely out of business by 2003**

eMarket Makers Explode then Consolidate



Conclusions

- **Surviving E-marketplaces must offer price transparency, liquidity and improved supply chain cost efficiency without increasing transaction risks.**
- **Neutral E-marketplaces, facing the “chicken and egg liquidity problem” will only succeed in huge global markets that are fragmented on both the buy and sell side (Plastics, Transportation, Metals).**
- **Growing International E-marketplaces are industry specific (Grainger, ChemConnect, MaterialNet).**
- **Although multiple vertical e-Marketplace are already consolidating in Asia Pacific (PNM, SESAMi) with Ventro’s difficulties, the survival of this model is doubtful**

JOHN URE: Thank you, Lane. Now we will move very rapidly on to KT before we open it up for discussion. Having had a view on China and a generic view of the market in the Asia Pacific, the focus is now on Hong Kong.

KT YUNG: (General Manager, Information Technology Division, Hong Kong Productivity Council) - Good afternoon. The bad news is this not an updated version. I sent the updated version but it has not been received, but just go to the site and then you will get the latest version any time.

Before going to my presentation, may I throw out a question to you: can you recall how many dotcoms have been mentioned in the previous two presentations? Once or twice? So I would consider, if I am going to make this presentation last year, probably you will see more people from the banks and from the VC talking about how to make dotcoms, how to evaluate the dotcoms and all these kinds of things, but that has all gone, so right now we concentrate more on the real e-business.

I think now for e-business, especially in Hong Kong, the good news is that the internet users are growing. In fact, this slide is not updated. The latest one from OFTA is November. Dial-up users are quite steady, have maintained the same, but the growth is more on the broadband users. In November it shows about 340,000 users on broadband. That is good news, and people are more concerned about the speed, and also the cost of using broadband or a dialup connection is going down. That is good news, or you can put it as an enabler for e-business.

If you look at chart 1 over there, the broadband portion right now is about 13 per cent. So it is growing. I am not going to elaborate on this chart, because Lane has mentioned Gartner. This is one from Yankee, and Gartner has another similar chart. They are almost the same. You need some time to digest everything and say whether it is correct or not, but all the consulting companies are using this kind of chart to predict growth.

Another interesting or good news is that in fact there are more and more people registering domain names in Hong Kong. If you look at the websites, the growth rate is about 1,000 every month. Although my figures here are for September, you can add about a thousand or more, up to maybe -- compared to November, it will be about 45,000.

In my next slide I want to give you is a survey carried out by Hong Kong Productivity Council last year. We did a survey of Hong Kong companies about e-business readiness. If you look, the situation may be divided into five levels. The first level is no intention. In September 1999, 60 per cent did not have any intention, but one year later the percentage has dropped. Then level 1 is "maybe in 6 months"; it is from 40 per cent to 45. Also you can see level 2 and level 3, level 4 and level 5, there is also a growing and improving trend for local companies. We are now working on a new one, but I am not going to give you the numbers at this moment because our research team is now working on that.

In this slide, I am going to give you -- just repeat the previous information. For level 0, level 1, level 2 and level 3, you can see, especially on this number, there is a growing trend that more and more people, more companies, are having a website. In fact, we have also carried out an in-depth survey for 20 companies engaged in e-business. Our finding is about *six issues*. I think Peter and Lane have mentioned about the *first one, inadequate payment and settlement systems* available in the electronic marketplace. Peter also mentioned about the *logistics; that is also an issue*. The *third*

one is that there is a lack of talent in Hong Kong, especially on the web and the business know-how.

I mention business know-how -- it is very important. Sometimes you may get a very good developer. If they are not really good at their business, then they cannot really develop anything that can help the company do electronic business. Right now, people are not talking about dotcoms; people are talking about real businesses. You cannot just create some kind of content and say, "That is a 100 million business". Nobody is going to believe it and nobody will buy that kind of a concept. People are concentrating on how to enable their existing business through electronic means, or to retain their market share. Say, for example, the banks, they have all their branches and all their ATMs. Why do all the banks have to put a lot of money into electronic banking? That is a very strategic issue. They want to maintain their existing customers, and also they want to extend their business outside the banking business, so the bank can do business in insurance, the bank can do business in, say, stock trading.

The fourth one is: so far a lot of people are very reluctant to put a lot of money in doing electronic business, because of the huge investment, and the people they are going to employ are so expensive when compared with their existing factory manager. Say programmers are looking for a salary that is good for the whole factory management's monthly salary, so they do not consider that as a viable investment.

The fifth one is they have not seen a lot of convincing and successful cases so far. That is something that all the businessmen are quite concerned about, because if you look at their real business, they are quite concentrated. They maintain a very close social circle, therefore they associate and exchange ideas. Once a special case, that everybody knows, but so far everybody is trying to wait and see who is going to be the guinea-pig. If you are going to invest, okay, just go ahead, and one year or six months later, if you are looking a good business then from a business point of view I can invest similar money. Say I can do it in two months' time, do it even better. So that is the businessman's concept.

The sixth point is information security. That is a very important issue. I just met an industrialist a few days ago, and they are going to receive a very huge order from a European company, but the European company came up with a lot of questions about the information security. They asked whether you are BS7799 certified. The guy said, "Okay, what is 7799?" That causes a lot of issues. So they came to us to see whether we can review their information security policy and say do some audit so that they can at least convince themselves that they are ready for electronic business.

My final slide is about facilitation. I think the government is doing a lot of good work, say on the Electronic Transactions Ordinance, on the Certification Authority, the PKIs, and they have also initiated ESD, although we cannot say whether ESD is a very successful one, but it will take some time to see the result.

Also the second part is very important, supporting organisations like HKPC, to continue to provide some kind of education and provide training for people, especially who want to really move to e-commerce. Also the financial sector -- I mentioned earlier about the settlement issues, and probably

all the financial centres should think about whether there is a more innovative opportunity available.

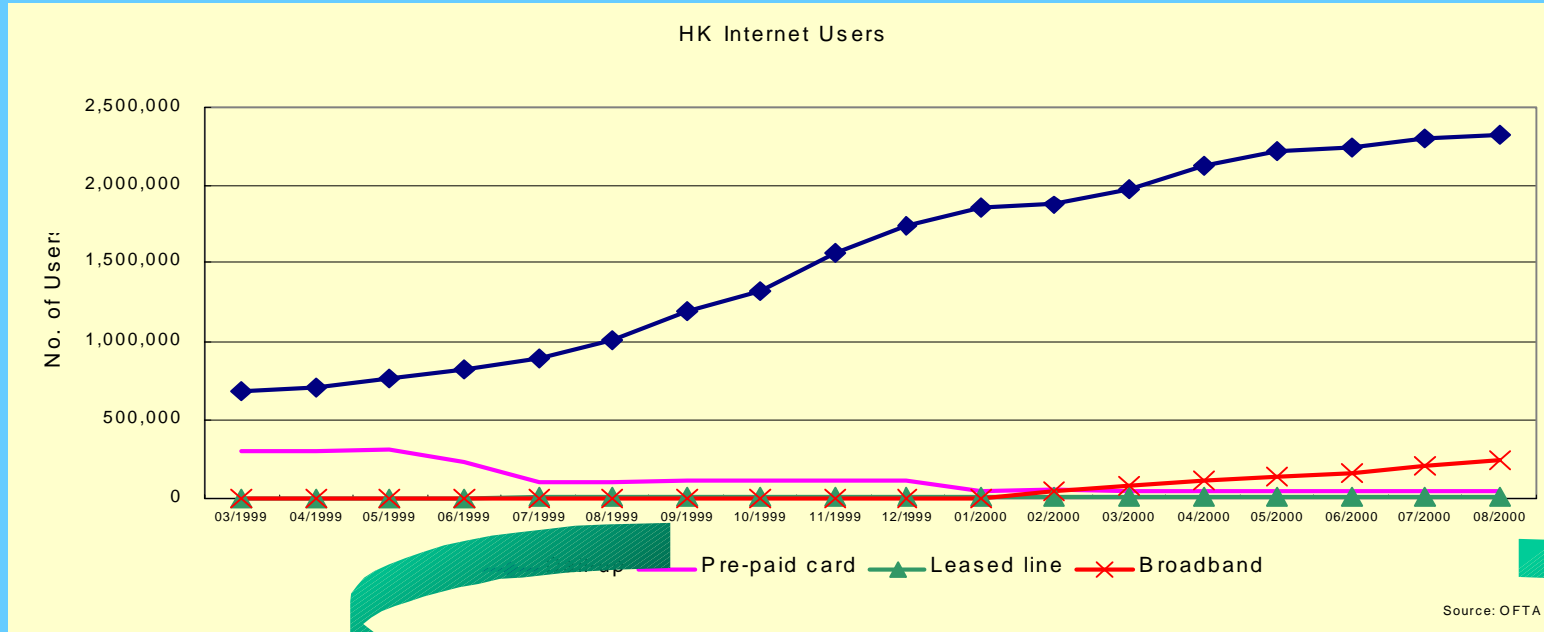
Finally, I think the industry, or especially the IT industry, should work together to build up some kind of really affordable and innovative platform, for various vertical markets, like Lane mentioned, and Peter too mentioned about this, a lot of these kinds of verticals are very important to industry. That ends my presentation. Thank you.

eBusiness Adoption in Hong Kong

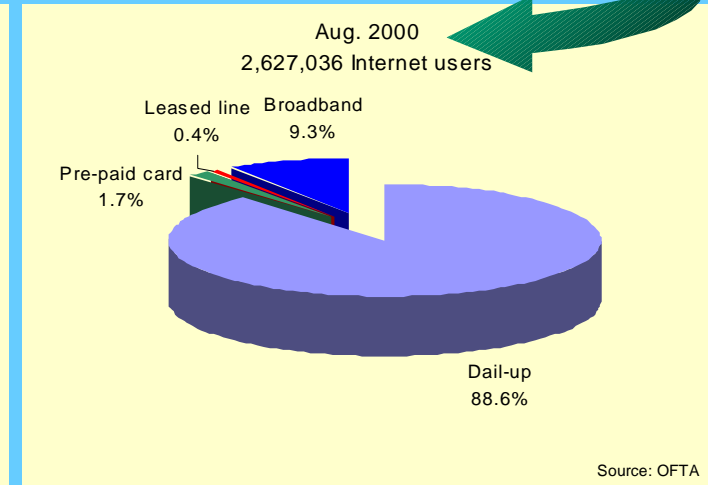
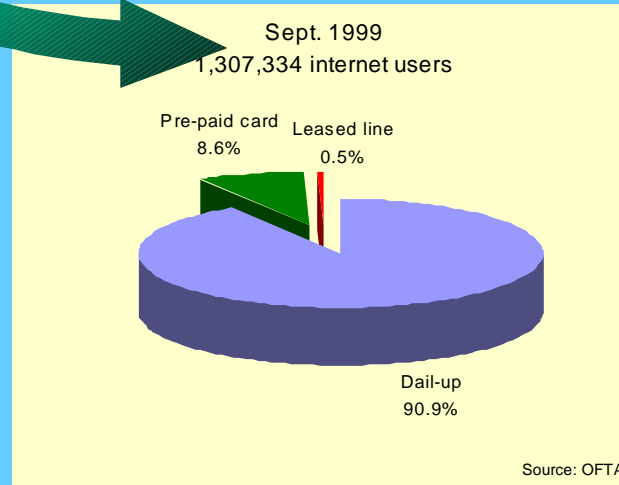
KT Yung
Hong Kong Productivity Council
February 2001

Overview of eBiz Adoption in HK

Internet Users Growth Rate

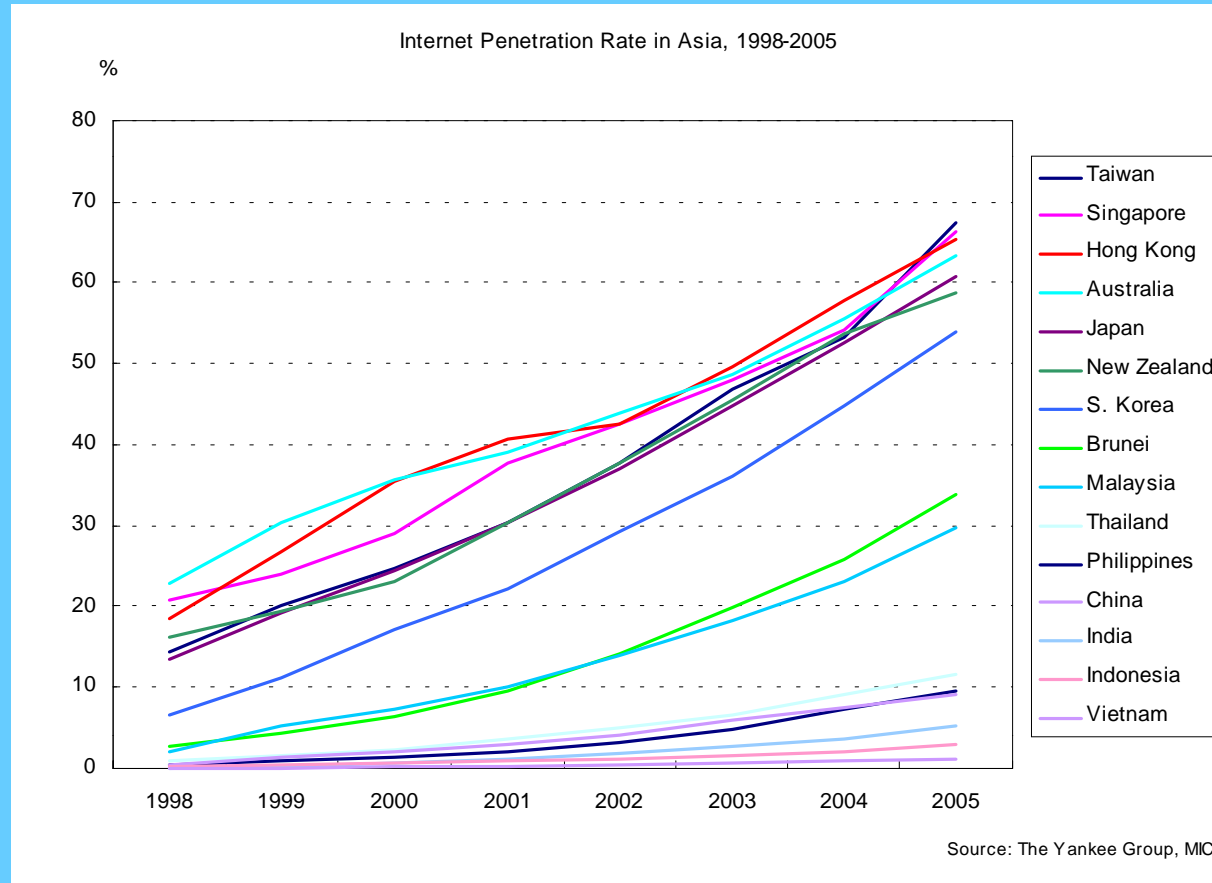


From Sep 99 to Aug 00, the no. of Internet users has been doubled



Overview of eBiz Adoption in HK

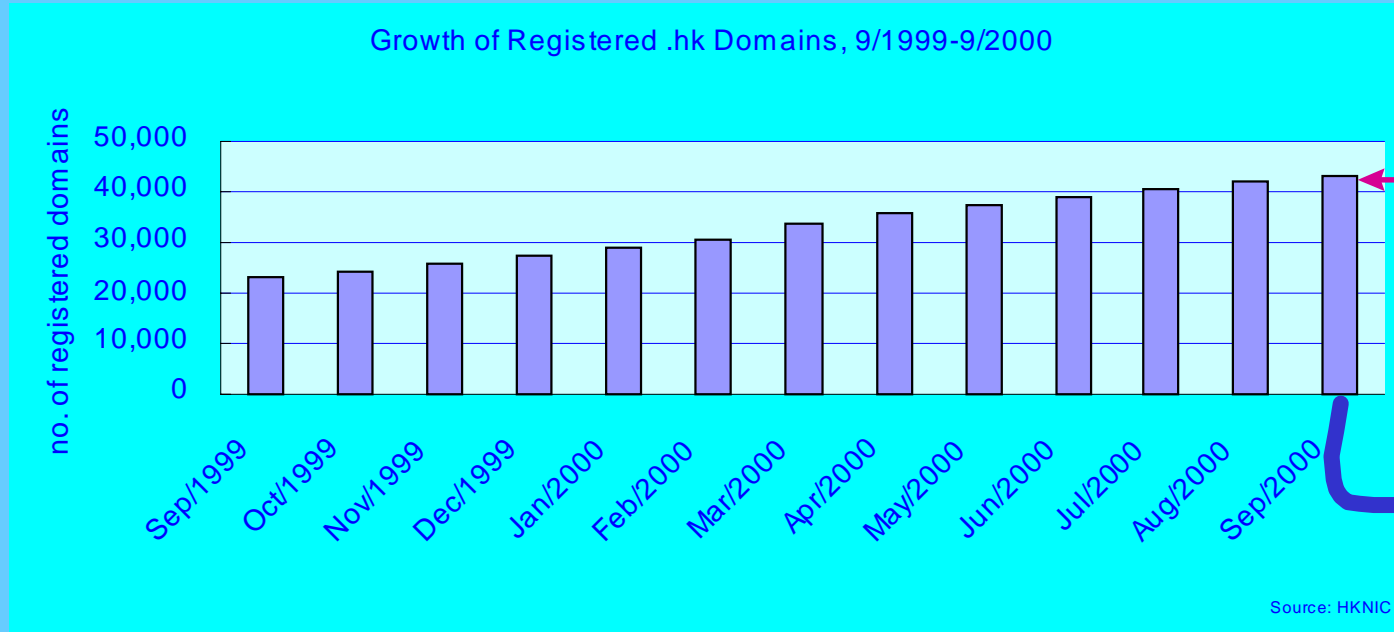
Internet Penetration Rate Among Asia



Hong Kong has a very high Internet penetration rate

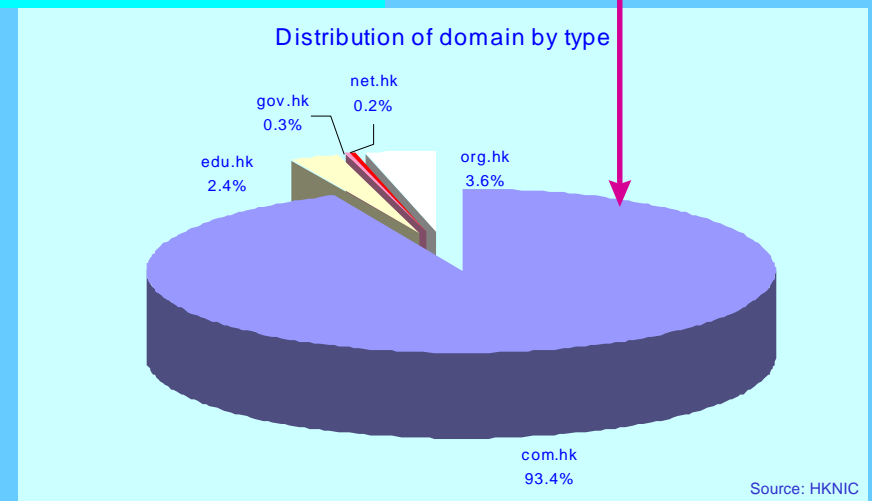
Overview of eBiz Adoption in HK

No. of .hk Domains Registered



Over 90% of the registered domains are .com.hk

Up to 9/2000, there are over **43,000** .hk domains registered, doubled from 9/1999



Overview of eBiz Adoption in HK

B2C & B2B eCommerce Revenue

	2000					2005				
	GDP (US\$m)	eCommerce Revenue			% of GDP	GDP (US\$m)	eCommerce Revenue			% of GDP
		B2C	B2B	Total			B2C	B2B	Total	
Hong Kong	182,742	72	1,827	1,899	1.0%	224,772	1,489	35,807	37,296	16.6%
Mainland	1,104,155	5	7,729	7,734	0.7%	1,602,902	453	169,293	169,746	10.6%
Taiwan	275,570	53	2,756	2,809	1.0%	362,173	1,666	57,696	59,362	16.4%
Greater China	1,562,467	130	12,312	12,442	0.8%	2,189,847	3,608	262,796	266,404	12.2%
Asia Pacific	7,181,708	3,744	66,482	70,226	1.0%	8,530,330	57,480	1,196,725	1,254,205	14.7%

Source: IDC, Zenith Media, Lehman Brothers

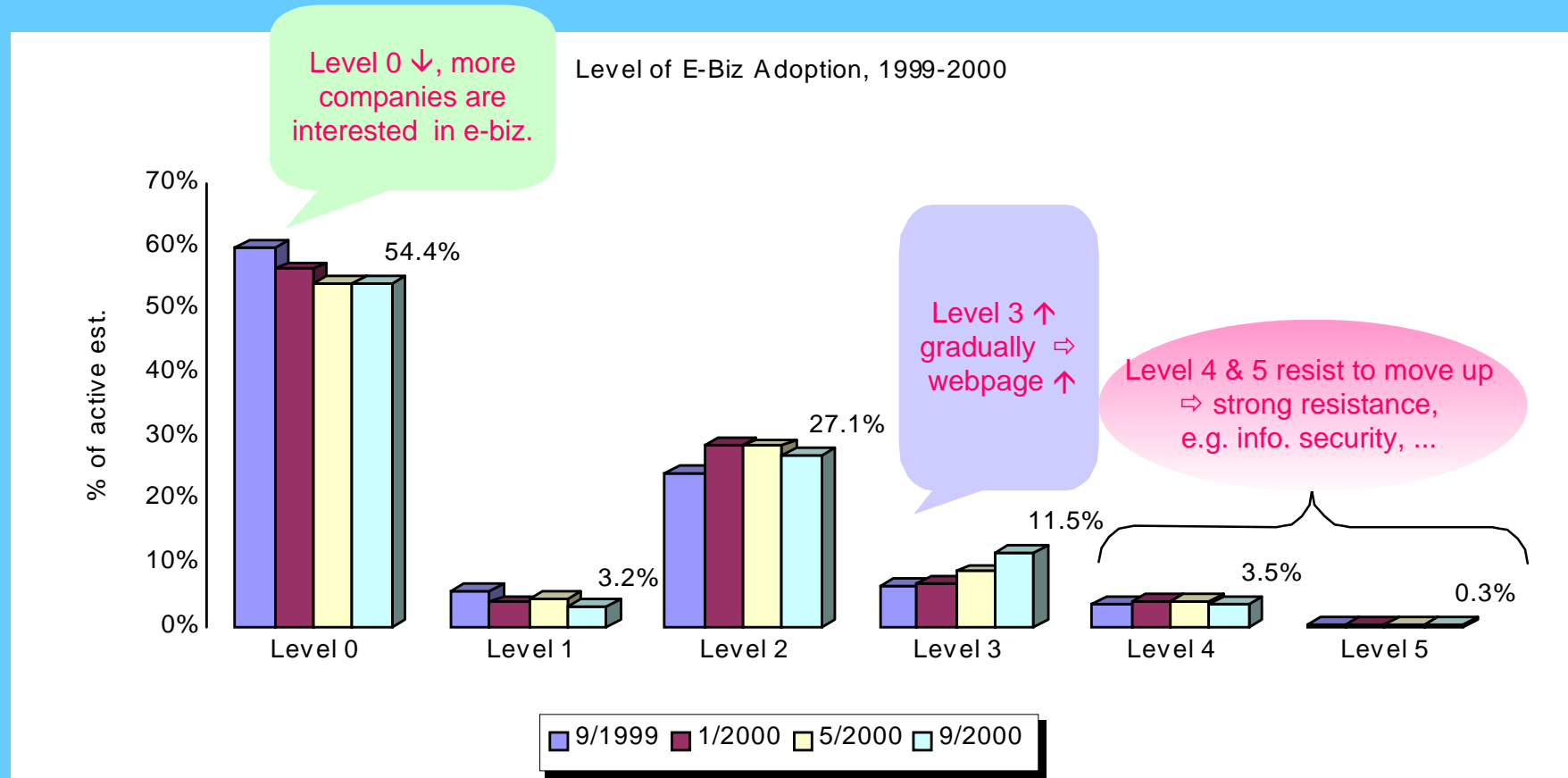
Overview of eBiz Adoption in HK

eBiz Adoption Survey by HKPC

Level of eBiz Adoption	Sep 1999	Jan 2000	May 2000	Sept 2000
	%	%	%	%
L0 - No Intention	60.0%	56.6%	54.4%	54.4%
L1- Maybe 6 Months	40.0%	43.4%	45.6%	45.6%
L2- Email	34.5%	39.7%	41.4%	42.4%
L3- Home Page	10.2%	11.0%	12.9%	15.3%
L4- Biz Integration	3.7%	4.2%	4.2%	3.8%
L5- Biz Transform	0.2%	0.3%	0.3%	0.3%

Overview of eBiz Adoption in HK

Conclusion by the Above Survey



Current Obstacles for EC Implementation

An in-depth survey for 20 Companies engaged in e-biz

1. Support from Banks for Payment Facilitation
2. High Cost of Logistics for Goods Delivery
3. Lack of Talents both in Web and Business Know-how
4. Weak Revenue Model to Support the Investment
5. No convincing success case
6. Information Security

Facilitating eBiz Development

Government: electronic transactions ordinance, certification authority, public key infrastructure, electronic service delivery, Taxation support for SME's IT adoption

Supporting organization: continuous and practical training program, incubation program, technology transfer program, information security centre.

Financial sector: more supportive, innovative B2B payment tools.

Technology enablers, trade associations & industry leaders: work closely to build up low-cost, localized and fully integrated platform for different business sectors.

JOHN URE: Thank you, KT. I should point out that the updated presentations will be on the website this week, so you can download them from there. At the risk of jumping in immediately, there are just a couple of questions I would like to pose. Lane, you put up a chart showing the Asian Pacific verticals value forecast and I am just looking down that list: mining, textiles, autos, computing components, etc. My question would be both to Lane and to KT: of that list, how many of those does Hong Kong fit into? For example, textiles and apparel is very high up on that list. As I understand it, the one example that I know of a B2B value chain done electronically at the moment is Li & Fung. That is a private one, it is a closed one; it is not a marketplace in any open sense. Is that how it is going to develop in Hong Kong? Is that the kind of traditional Hong Kong "hong" way of doing things, or is Hong Kong going to be more open in terms of its marketplace?

KT YUNG: I think, especially on the textile and apparel, John has mentioned a good indicator that Hong Kong is still a leading clothing exporter, but I can say that all these kinds of trading firms still rely very much on interpersonal skills in doing business. In terms of their merchandising, they still rely very much on people rather than just relying on electronics.

On the document side, they can use this kind of electronics to improve, say, the Customs and all these kinds of documents can be improved, but in terms of the negotiation side, they still rely very much on people.

I can see there are a lot of new generation, garment manufacturers, who are starting the dotcom companies just last year, some of them are from big families, but I do not see that they have had any success so far. Although their father or parent has been providing all the support, all the money, but still they cannot really get any business so far.

JOHN URE: The chart you put up showing the e-business readiness, I notice that it has hardly taken off at all at the level of the internal electronic systems. So the question that would arise out of that -- again, this is to anyone on the panel, or anybody in the audience -- is it going to be an issue of driving or pulling? In other words, is it going to be a migration path from the people getting their electronic management systems in place and then migrating naturally towards the e-marketplace, or is it going to be e-marketplaces which are going to suck people in and people are going to have to respond to them? Which way is it going to be?

KT YUNG: In particular on the level 5, the total integration or transformation part will be very, very slow, because all the businessmen are still concentrated on the traditional business. If there is insufficient labour around in Hong Kong, they move their manufacturing to the mainland, say initially in the Pearl River delta, and then they move even further inland to utilise all the cheap labour. Why should they concentrate on some kind of automation of the total office? I think that is the existing practice.

Especially you mentioned about the textiles and clothing, because they are still protected under the textile quota system. If they are holding a lot of a textile quota, they do not worry about it, but those people have to really take some kind of move, because a few years later the textile quota will fall, and then mainland China will compete directly with Hong Kong on it and there is no difference

between, say, made in Hong Kong and made in mainland China. So I think that is something that they have to really consider. If they do not consider that, then they will be out.

Participant: I have a question for Peter. You opened your discussion saying that these are fantastic numbers and they could all be right and they could all be wrong.

PETER LOVELOCK: No, I said I am sure they are all right.

LANE LESKELA: Because he is also sure they are all wrong.

Participant: They all show fantastic growth, yet KT said nobody is making any money on this, no successful case. Why, if nobody is making any money, why would that number continue to grow, and where do those numbers go?

PETER LOVELOCK: It would be interesting if you wanted to put Lane on the spot, to start getting him to dig down into the way they came up with their numbers. He in fact answered your question in part by picking up the differences in my numbers from the various organisations and saying, quite correctly, it depends on what they are aggregating those numbers. It is a good question: how come, if no-one is making any money, those numbers are so fantastically large? But take an example, take COVISINT, the conglomeration of auto guys in the states, that are taking their procurement into the marketplace. What you are doing is adding the demand of Ford, GM, and people are then all saying, "Here is the value of this marketplace". No-one is particularly making money off that, except the software supplier, Commerce One, some of the vendor suppliers, the SI guys, and then maybe the auto guys can justify this process by saying it is saving them a lot of money.

That is the key issue in what is playing out here with the e-marketplace. What we are usually talking about in those grandiose numbers is extrapolations of savings, not making money. This is where the guys like Commerce One and Ariba have had such a problem. The only business they have at the moment is software sales, which are tiny, and licensing sales, where they were meant to be having transaction sales; they were meant to be seeking a percentage of the click-through of every transaction going through the marketplace. But the marketplace can be justified on savings by making your internal processes somewhat more transparent, and that is supposed to happen by implementing very simple software packages.

So what you are seeing in those grandiose numbers is savings. Then the only people who make money -- it is the same old game we have seen before -- are the vendors and the systems integration guys.

LANE LESKELA: The only thing that I would add to what Peter said, quite rightly, is that to date we have got to sort of one level, and I would call this one new. I hate the term "phases" of this and that. It is really from the procurement side, from large buyers. It is WalMart's point of view, it is K-Mart's point of view, it is the auto manufacturers' point of view. That is sufficient to the level that a percentage of their contribution to the actual value, to actual GDP in the countries and in the marketplaces that they operate, is a small percentage of their business that is now attributable to this

online process. The others are attributable to all the other products and services and things that they engage in.

But this is exactly why we have forums like this. Nobody can sit here and know where all the money is going to be made five years from now. We could conjecture that there may be revenue streams that go to banks. However, if those products are highly commoditised for a financial services transaction the margins will be small, unless those are also private marketplaces -- which is really another phenomenon that we are seeing here today. I think it is very relevant to Hong Kong. It is to look at telecos actually having the infrastructure to make it all run, getting into some of the billing and payment cycle issues, financial services companies, the big banks, not very comfortably working with one another, if you will see how very little they have done in public e-marketplaces, but wanting to kind of create an ecosystem of their own, in order to have an environment of buyers and sellers.

Again, remembering it is like the way the transaction industry works today, whether they are coming or going, whether they are buying or selling, to the extent we see an exchange type of network, the exchanges hold out the opportunity possibly to increase demand as well as lower cost, on both sides of the transaction. That is probably a very significant thing for Hong Kong. For specific verticals, I will just say that the relationship to southern China still very prominent, Hong Kong is a logistics and transportation hub for many manufacturers, particularly because some of the very prominent users of some of the enabled systems right now pulling that stuff and pushing it around also in OEM supply chains are some of the manufacturers that are right across the border. So it is really financial services, streamlining the supply chain to save costs and get actual goods out there, and finally the specific verticals that pertain to Hong Kong's relationship to what is manufactured in China.

PETER LOVELOCK: Can I make a final point? KT had a lovely chart, if you go back to the presentation, in the early part, where he had numbers for 2000 for the mainland, Hong Kong, China, Taiwan, B2C, B2B. If you look at the chart, the B2C number for China is so abysmally much smaller than the B2C numbers for the other two, but the B2B side is huge; it was 7 billion or something, with 5 million for B2B sales. B2C sales in the mainland are actual sales, there is something clocked there, and of course there is an incentive there for people not to have registered these things; they get taxed. B2B, this is the B2G stuff, it is estimations of savings. That is a point I will just keep emphasising.

KT YUNG: Maybe I can just mention, the point I made about the automobile business and the airline business, all the success of using electronics -- if you look at the chart, all these industries have been using computers in their operations for a very, very long time. They have all had automation for a long time. So when you are talking about an industry, say, for example, in Hong Kong, a lot of industries are still relying on their manual system. You just cannot say, okay, just put it on a computer and do an electronic transaction. That will happen, and still, they have all the electronics, they print it out and then go through a manual system. The process or the improvement that can be got from this kind of electronic transaction is very small. When you are talking about, say for example, G2B as successful in the PRC, because there is total integration from the ordering to the manufacturing to delivery. I think that is very important. But if you look at the situation in the

Hong Kong and the mainland, they are still lagging behind for the total manufacturing process to be automated. If they have automated such a small portion at the front end, that cannot help them a lot. So they are still reluctant whether to invest that kind of money just doing that kind of small thing. Maybe they say, okay, I can do it, if you get a workforce and I can use the workforce to put in all the documents and send it, or fax it or e-mail it, that is what I am going to do, I am not going to use the electronic marketplace, because even though you offer the electronic marketplace, what they can gain from this kind of transaction is quite small.

JOHN URE: One final question before we break for coffee.

LEE MILLER: I am Lee Miller and I am actually going to moderate the second session. I am one of your hosts from Bloomberg. I just wanted to say we are using here e-commerce specifically, which is often is just a euphemism in most cases, I think, for the Internet. The reality -- Lane mentioned something about some definitions of e-commerce going back to the invention of Western Union, but as a company that runs a private network, Bloomberg has been doing it since the 1980s, there are many models actually out there of companies that provide electronically driven services that make money, that are not dot.coms.

So if you are only talking about Internet, there actually are models out there about how to make money. In some cases, it is the existing backbone or the technology. In Bloomberg's case, where we like to think that we have put down the information and the content, and people pay us for that content, but in our case we have 150,000 people paying on a private network, which is essentially run like the worldwide web or the Internet. So I just wanted -- and we will talk about this in the second session -- but there are actually companies making money through e-commerce, or, as I think Lane said, if you use the term "machines talking to machines", there are companies out there doing that successfully.

JOHN URE: On that optimistic note, let me just ask two sentences from each of our panelists before thanking them. WTO and the end of export restraining licences, will that make a hell of a lot of difference to e-business between, for example, Hong Kong and China, or none at all? Two sentences each. Peter?

PETER LOVELOCK: Two sentences? I can do this in two words: no chance.

KT YUNG: Same comment.

LANE LESKELA: Unfortunately, I will have to agree.

Session Two: (4.00 pm) Drina Yue, Chief Operating Officer, iSteelAsia; Alan Siu, Deputy Secretary, ITBB; Samson Law, Director of Business Solutions, PCCW/HKT; Chair: Lee Miller, Editor-at-Large, Bloomberg.

LEE MILLER: Welcome to the second session in our discussion on e-commerce marketing and markets in this new internet, electronic age. We are going to look, as John said earlier, a little bit closer at the direct commerce side and how some companies and organisations are doing these things. We will take a look at how one company is combining e-commerce with the so-called old economy commodities. We will also hear about some of the services PCCW has developed to assist businesses, in Hong Kong and elsewhere, go electronic, go global and become more competitive. Our third panelist – or actually he will speak second -- will provide some insight on how the government, a group we often think of in the context of regulators and licensors, but instead, in this case, it is using e-commerce and the internet to improve efficiency, reduce bureaucracy and make all of our lives better, I think.

Now I have given you a brief overview, let me get to the introductions. Our first speaker is Drina Yu. She is chief operating officer for iSteel.com, the world's leading steel exchange portal. Launched in December 1989, iSteel.com was Asia's first online exchange for trading in steel and steel products. The company offers an open and neutral marketplace for global trading. After that, Alan Siu, who is Deputy Secretary for Information Technology and Broadcasting Bureau of the government here. Alan was appointed to this position about one year ago or so, where he is now responsible for policy matters relating to information technology and film development. Before taking that post, Alan has served in a variety of senior government positions at the Transport Bureau, Finance Bureau, Home Affairs Department and the Television and Entertainment Licensing Authority. I know, Alan, you have to leave a little bit early, so we will see about questions for you.

Then our third speaker is Samson Lam. He is director of business e-solutions at PCCW, where his main task is to help companies move from the old economy to the new company, something we talked about much in the first session. Mr Lam has 12 years' experience, working before with the mobile phone industry, helping move his company from analogue to digital. He told me he got into e-business three years ago, working with small and medium size enterprises, to provide them with knowledge and applications on how to join their e-journey, and at the beginning of last year he was appointed director of the then-called B2B unit and today it is now called business e-solutions.

So these are our three speakers; a good diverse group. If, Drina, you will start us off and talk about iSteelAsia.

DRINA WAN YU: Good afternoon. It is a pleasure, an honour to be here to share with you some of my experience. I chatted with Lee a moment ago and I asked him, would you like me to go into a bit more what we call academic type of discussion or something that I can share with you, what we think of as dotcom -- what it is, how it works, how it helps industries that we participate in, and how we reap benefits from it. I guess it is definitely the latter part. I will make it very open; ask any questions you wish.

First of all, very academic, what is the e-marketplace? To us, the e-marketplace is the media, an enabler, that we can bring buyers and sellers together in a virtual, highly efficient manner, so we can serve them and give them the data we can collect and, being transparent, we will be able to create what we call a neutral exchange, that buyers and sellers can come freely and enjoy trading, and benefit from the trading.

I was born and grew up in Hong Kong, spent a lot of years here and a lot of years abroad also. To me, what is Hong Kong all about? Hong Kong is a trading port; people come in and trade. In the old days, they used telegraph or telegram, and now fax and telephone. Obviously, in the 21st century, the next generation is internet, e-commerce. We would like to make Hong Kong to be an e-commerce port for a lot of industries, so we can be the trade port of Asia, of the world. So this is something that we would like to do, given that we can exploit the e-marketplace as much as we can.

To us, there are a couple of roles of e-commerce that are very important. First of all, it provides a very efficient way to redefine and expand our customer structures. Think, in the old days, when you deal, you deal face to face, you talk to somebody, you know somebody's business card, but now, with e-commerce, it really does help you if you know what you are doing: it becomes easier, cheaper and faster to meet your new clients. You can build a much larger database with less cost. Speed is one thing. Our goal is quick and big. We have to do that in order to survive.

The next thing is, it provides what I call a lower cost alternative for you to expand your trading media, your trading know-how and your clients. People talk of the "new" and the "old" economy. No, there is only one economy. We believe in one economy. You make money the hard way, you earn it. But how? To exploit, to use internet, e-commerce, so that we can apply its strategies to our day-to-day work, so we can grow a lot faster from the traditional means. That is what I believe is the crucial role of e-commerce.

Also, it allows us, buyers or sellers, to reach directly to the other side. Because in the old days, because of the inefficiency, the non-transparency of data and information, because some people do not speak English but some do speak English and Chinese, so there was a role for the middleman. But now, as things move, it is inevitable that where the role of the middlemen does not add value it will be replaced.

Now, we would like to be the one to replace them and we would like to be the one to help them not to be replaced but rather to add value to the supply chain, so that they can participate and grow. Another role of e-commerce is that it enables a lot of information exchange. I will give examples later on why it really means a lot. I will give you an example now: in our industry, for example, in steel, in the old days, very experienced traditional steel traders, they talk on the phone, they know with this type of size or chemical composition, probably out of 15 friends they know 5 will be interested, so they call them up, they send them faxes of the pictures, and so on.

And guess what: one of the most important things is they have to guess what is the price of shipping. Because steel is very heavy. If you have to go from one port to the other, from one country to the other, usually it is by boat or, if it is inland, by train. So before they can even say

"Okay, I have to go back and bid US\$230 a ton", they would have to calculate in their head, I have to pay about \$5 in shipping", so they would automatically include it or increase their price.

But now, with the portal, what they can do is they can click and get an online proposal, and somebody can bid them \$4.50. So instead of bidding \$235, they can bid \$234.50 and outbid the other guy. Things like that. In the old days, they would have to take a gamble. Today, they do not. That is what I meant by transparency of information. It puts them actually in a much more competitive position in a day-to-day and real-life situation. I will get into later how one can build an industry and add value.

The other thing is that production cost is lower. For example, right now -- I will show you a little later, a ton of steel, what is it composed of? But actually, there are a lot of other costs associated with it, what we call the transaction-type of cost. You moved it, you shipped it, you have to put it in a warehouse, but unfortunately it rained while we shipped it, so the steel rusted on the outside, became scrap which is worth nothing, and on and on. So there is a percentage associated with it, and because there were middlemen you have to go from one place to another instead of directly. You have to stop maybe a couple in the middle.

Those are unnecessary costs that can be eliminated. So with that, again, we believe in what we call the supply-chain management support. Again, later on I have another slide to talk about that. We believe this is another crucial role that e-commerce can play for a lot of industries, steel being one of them, and that is the example that I quoted you.

Now, the third one here is the increase in efficiency for the producers and the service providers to become more competitive. I mentioned that one example. Actually, a lot of the other examples -- I mentioned a couple of times, a lot of the time people sell what they make, and that is the industries' practice, that I have 15 tons of this and 150 tons of that or 5,000 tons of that, then you come in and buy. Wouldn't it be better if we could work with the steel mills or the buyers so that they produce what is being bought, so they can schedule their production accordingly. Because, for example, in steel -- and I am sure it applies to many other industries, because there are so many SKUs, thousands of them, you have to stock so many items, but some of these items, you can actually roll it out at the last minute. For example, the sizes, the width, the thickness and all that.

So if you could do it according to somebody who wants to buy it -- let us say the shipment date can be two months from now, you can all schedule that online, and wouldn't that be beautiful? Really, when we provide an exchange, it does not mean that we have to go out and cut margins from either the seller or the buyer. No, because there are some portals and -- not us, but I am sure there are reasons for them also, but for us we do not believe in going in and saying, "Because you are a producer, your prices have to go up for your buyers to be interested to buy". At the same time, we do not want to say to the buyers, "Your prices have to go down so that you can get more choices from the producers".

Rather, I believe in e-commerce, and it is *iSteelAsia's* belief also that you can go in and eliminate cost in that chain and make the buyer and the seller, both benefit from that. So that is what I meant by the third one. This is another quite academic slide. There is a lot to it, if you look into the

experience. For example, how does the e-marketplace apply to me? Market type? There are some that are horizontal, there are some that are vertical, like ours, that are very focused in one market. It depends. If you are going to build a portal for a certain industry, I would look at the size, first of all. If the size of the industry is huge, then you do not have to be horizontal.

What we believe in is focus, because at the end of the day it is the client that matters, whether they are buyers or sellers. We want to retain them, so we want to service them "the old way", to make sure they like the service that we provide. So it is very focused, very focused on a certain industry, so we know the ins and outs of everything in an industry: the information, the prices, the trends, the regulatory environment, any anti-dumping cases, for example, that are going to be filed, gossip, even; we have "iSteelTalk" on our site, so people come in and say, "Hey, what do you think, what is going on in prices for hot rolled coils, for example, in the next quarter?", things like that.

So there are a lot of different marketplaces and each one of them requires, in my opinion, a particular way to develop it. Also, the focus, like I said, some of them are buyer-focused, some of them are seller-focused, seller-centric, and some of them are neutral, like ours. For example, in the steel industry, there are seller-focused sites. They go out and say, "Look, I represent my mill. This is my basic e-catalogue. If you want to buy anything, you come to my site, and this is everything I sell in my mill", or maybe a couple of mills get together to do that. So it is more seller-centric. There are others who go in and say they are buyer-centric. That means that, okay, here are a bunch of the buyers, you put out what you want, and then people would come in and bid and sell you what you need. Then there are others that are more, like I said, catalogue or pure matching. How do they do it? They put up a bulletin board, and the bulletin board lets people come in and post whatever they want, and people will come in and just match.

That is another way to do that, again, but you have to look at the revenue model, our revenue model, as we may commission. Some of the revenue models may work, some of them may not, and others would be what we call auction versus fixed versus an exchange, auction meaning that some of them set up a certain date, time of the week that they will have certain products; some of them even line up a number of potential sellers, and they have these buyers interested in buying a range of products. Then you can actually see the bids coming in and the buyer can choose what they want to bid, what they will pay. So some of them will be auctioned, like I said.

With our experience, for steel -- and I cannot say that it applies to every industry -- for steel, it seems like a neutral place is a lot more welcome. For example, the mills out there, in our opinion, some of them -- a lot of them actually -- compete with each other. So if I am Mill A, I am very big, I put up my site; what it becomes is my e-catalogue engine, so it is not an exchange, because at the end of the day, if he is Mill B and he is Mill C, he would not come in my site to exchange, because I know every dollar, every price they bid. Would I want to do that, if I were them? Absolutely not.

So it becomes a very non-neutral exchange. So to them it becomes their site selling. So it enables them to sell maybe easier, because people can come in and take a look at their catalogue. You can do it the reverse side, on the buyer's side. One buyer putting up is not enough liquidity, because people are not going to remember 15 dotcoms, URLs; they probably will remember two to three. So that does not work.

So what we believe in is a neutral enough site that actually will what we call bring in clicks and mortar together, that helps the day-to-day traders, buyers, sellers, stockists, bring them all together, and we promise all the information, all the trading, will be proprietary, so once it becomes a negotiation, that means they put out an enquiry and say, "I want to buy 3,000 tons of hot rolled coils", people come in and bid, they can negotiate online. They will be between me and my negotiator, and I can negotiate with 20 people at the same time, and the information will be kept proprietary, rather than becoming a mill's particular interest. So as iSteelAsia, we have no particular interest in one mill or one parcel, so it becomes a trusted what we call e-market exchange for the users.

Another thing I think is very important, and it should apply to all industries is CRM, customer relationship management. e-CRM definitely enhances performance. In the old days, like I said, when you service people, you put in a name, a voice, a face, within the company, but now, with e-CRM, it is how your site is designed, and the flow and the support you provide, that makes or breaks your customer relationship. Also, the information collected through your site from your buyers and sellers, the ability to use that information to provide additional service is exactly what I think makes or breaks a doctor or a portal like ourselves.

I have what I call a three steps approach. One, is to attract people to come, so attract visitors. You have a lot of ways to do that. People will spend a lot of money on advertising. Actually, we do not, because we are very focused. We are also careful on every dollar that we spend, so we want to make sure the investment into advertising is worthwhile. The next thing, once you have attracted potential customers to the site, in addition to your site's functionality, the appearance, the ease of use, the flow, the ergonomics and all that, is: how do you convert them, engage them into trading? We have a lot of visitors. People love to come into our site and read -- because we have very focused industry news, information; we have our own analyst reports. We have a lady who used to be in the industry that wrote for big journals, who writes analyst reports and tells us about the pricing trend, the situation; people love to come in and read that.

Our next job is, what do I do to convert them into a buyer or a seller? The third thing is to make sure we retain them, that means they come back. With that, I am not going to go into details, because there are a lot of things one can do. Personalisation is one of them, and there are many more. What I am trying to say is: there is a lot of data within the site, and if you are smart, work with your technical team. In our company, there is only one team, and it is the company team. We all work together, very focused, with what we call account management and market making, and all the others, marketing, IT, content, corporate support, all work around it. That means what our customer wants will be delivered in a very succinct and orderly way, and the team will decide as to how do we go through this flow over and over and over again, and then bring our next batch of customers coming in. I will spend just a couple of minutes on this.

I have said it before: vision, if you want to build a site for a certain industry, I would say you have to have the right vision. I always say there are three Vs and that leads you to the fourth V. The first V is vision, the next V is viability, and the third one is value; then it brings you to the fourth V, that is *victory*.

Vision -- you have to have the right idea. That has to work. Vision is 30 per cent of the game. In my opinion, execution, implementation is 70 per cent of the game. That tells you if you can bring your idea into fruition.

Viability is the other one. Is it feasible? For example, in the steel industry -- I cannot speak of others; we are very focused on steel -- the steel industry trading volume is US\$300 billion in Asia alone, number one in Asia in terms of commodity trading. In the world it is number two; petrochemicals is number one. Worldwide, about US\$700 billion trading. Is that a viable business? I think so! Is it viable because it is big? Yes. Not only that -- I will show you later how complicated it was. That means it has a lot of room, a lot of reason for the internet to exist.

The third thing is *value*. Because it is such a big industry, because in the old days there were so many middle layers, because there are so many players out there -- it is not like, for example, the diamond industry; the De Beers family own 75 per cent of them, so if I want to build a portal for buying and selling diamonds, which I love, it is not going to work because unless they play I cannot play. The best I can do is to get 20-25 per cent of the market share. So it is very difficult.

But in the steel industry there are thousands of mills out there. We have hundreds of thousands of potential buyers, meaning users. Is there room? Yes, because they all need to talk to each other. If I can provide a very efficient and lower cost means for them to do that, that means I added value. How do I add value? A lot of ways. We will be exploring that during our implementation.

So once you have the right vision, looking at what you need to do, and then you believe this is a viable business model and you are providing value, then what you need is an execution plan.

This everyone knows, and Gartner has a very good number on that too; we are talking about in Asia alone, B2B is about 1.5 trillion. This is the opportunity I talked about, that in the steel industry is a lot of things moving back and forth, and because of that we will be able to simplify it.

If you look at 1 ton of steel, 70 per cent of it is production cost, 30 per cent of it is transaction cost. So if we can cut the supply chain a little bit more, we could help the docking, trucking, handling fees a little bit, we can cut, instead of going to three ports, only go through one. There is already value there. I do not have to get the buyers to pay more or the sellers to sell less. Actually, they can sell more and the buyers can pay less, because in the middle, the 30 per cent can be saved.

This is what we propose, what we call the value proposition. People come in, I have an exchange that is neutral, that is proprietary, people come in and they can trade freely on it and enjoy information, enjoy free flow of communication, and also we have value-added services that allow them to apply L/C online, to apply for insurance quotes online, get shipping quotes online, inspection quotes online. All these things in the old days, they would have to either call ten times or send ten different faxes, and by the time they get it, it may be too late to put together a bid.

So this is the kind of value that I think we can provide, and I am sure other industries can do that. Success factors is really just a quick summary of what I talked about, all the above. I am sure some

of these ideas can be applied to other industries. For example, particularly the supply chain management, the flow of the information and also the cost-effectiveness, that because of using the internet and because of having a portal, one can provide value.

This is it. Thank you.

iSteelAsia.com

The World's First Listed Steel Exchange Portal

Business E-Commerce and E-Marketplaces

Operating in an Electronic Marketplace

Drina Yue

Chief Operating Officer

February 13, 2001

What is e-Marketplace ?

B2B , B2C ...

- A neutral forum for exchange of goods on wireless Internet
- Internet site brings buyers & sellers together in a virtual community



Role of e-Commerce

Provide an efficient way of redefining/expanding
customer structures

- Makes it easier, cheaper and faster to reach new clients
- Provides a low cost alternative for expensive “traditional” growth strategies
- Allows a producer/service provider to reach directly to the end customers

Role of e-Commerce

Play a prevalent role in optimizing SCM

- Enables direct & real time information link
- Lower cost of production of goods and services
- Increase efficiency for producers and service providers to become more competitive

Types of e-Marketplaces

Market Type

- Horizontal, or Functional
- Vertical

Customer Focus

- Buyer-centric
- Seller-centric
- Neutral Markets

Market-Making Mechanism

- Catalog
- Matching

Pricing Mechanism

- Fixed
- Auction
- Exchange

eCRM ACTIONS TO IMPROVE ePERFORMANCE

Attract visitors

**Engage/convert
to customers**

**Retain
customers**

Target right
customers

Lower customer
acquisition
costs

Improve content
relevance

Provide
satisfying
experience

Cross-selling/
up-selling

Reduce attrition

Understand
sources of
highest value
prospects

Understand
effectiveness of
individual
marketing
vehicles and
messages by
segment

Tailor content
based on
most relevant
products and
services

Improve site
usability for
target
segment

Tailor offerings
based on
customer
profiles or
purchasing
behavior

Define triggers
for inactivity/
attrition and
execute
retention efforts,
e.g.,
email
newsletters

Evaluating Portal Vision:

The Right Management -

CEO

- How do we increase sales next year?
-
- How do we cut costs?
-
- How can we be more efficient?
-
- How can we remain competitive?
-
- How do we keep our customers happy and loyal?

Questions of Concern

eCEO

- What are the new sources of economic value?
- What are we doing now that we could do cheaper online?
-
- What are we doing now that we could do better online?
- In what ways can we use the web to gain more competitive advantage?
- When every business is in the Internet, why will your customer stay with you?

Evaluating Portal Viability:

Online ePurchasing vs. Offline Purchasing

Benefits comparison

Offline Purchasing

- Standard Products
- Fixed Channel / Customers
- Competition:*
Local, Regional, Within Same Industry
- Competition:*
Quality

ePurchasing

- Mass Personalization
- Dynamic, Mass Channel / Customer
- Competition:*
Global, All Industries
- Competition:*
Speed
Technology

Evaluating Portal Value:

Elements that make B2B solution necessary:

Market Viability

- Fragmented supply chain
- Numerous middleman
- Lack of price standardization
- High search and product comparison costs

Market Size

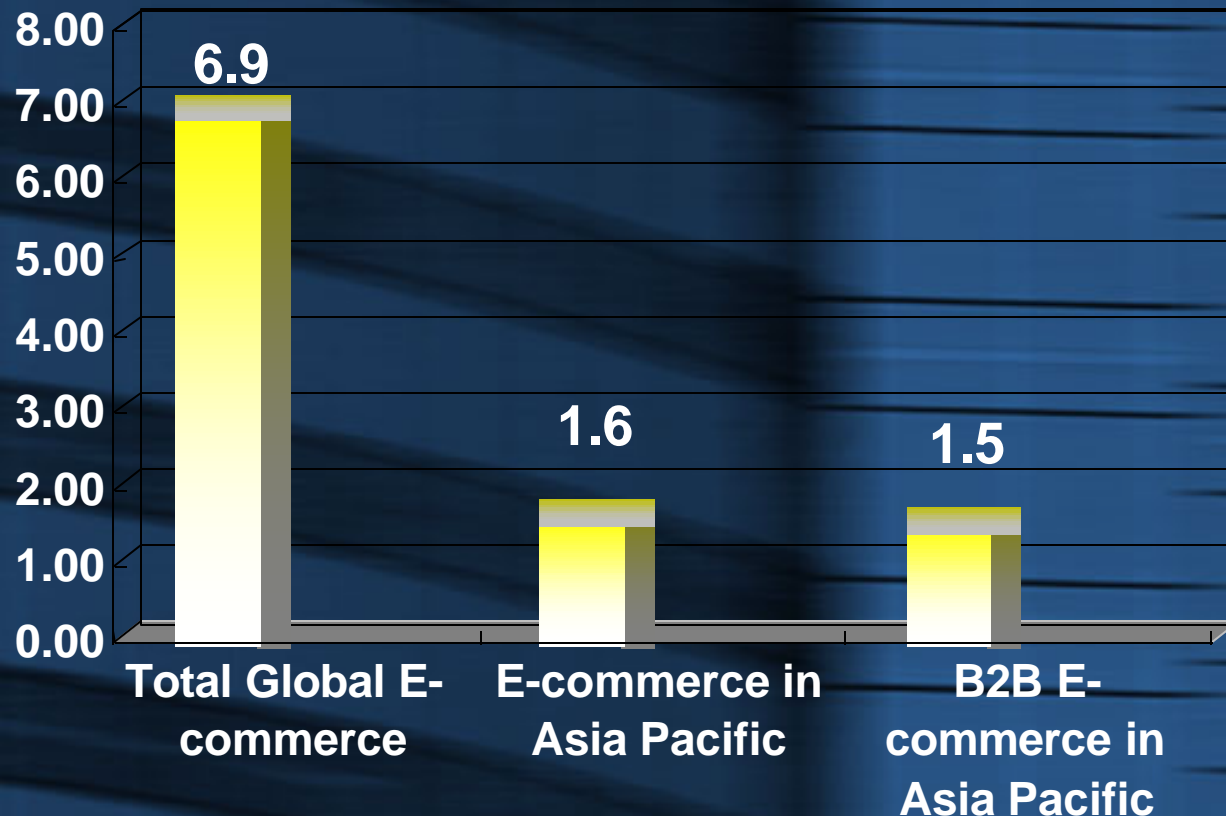
- Size is one of the key determinants
- Threshold - US\$10 billion
- Proportion of sales and distribution costs

Global & Asian eBusiness Opportunity

Asia Pacific Region's Internet Economy

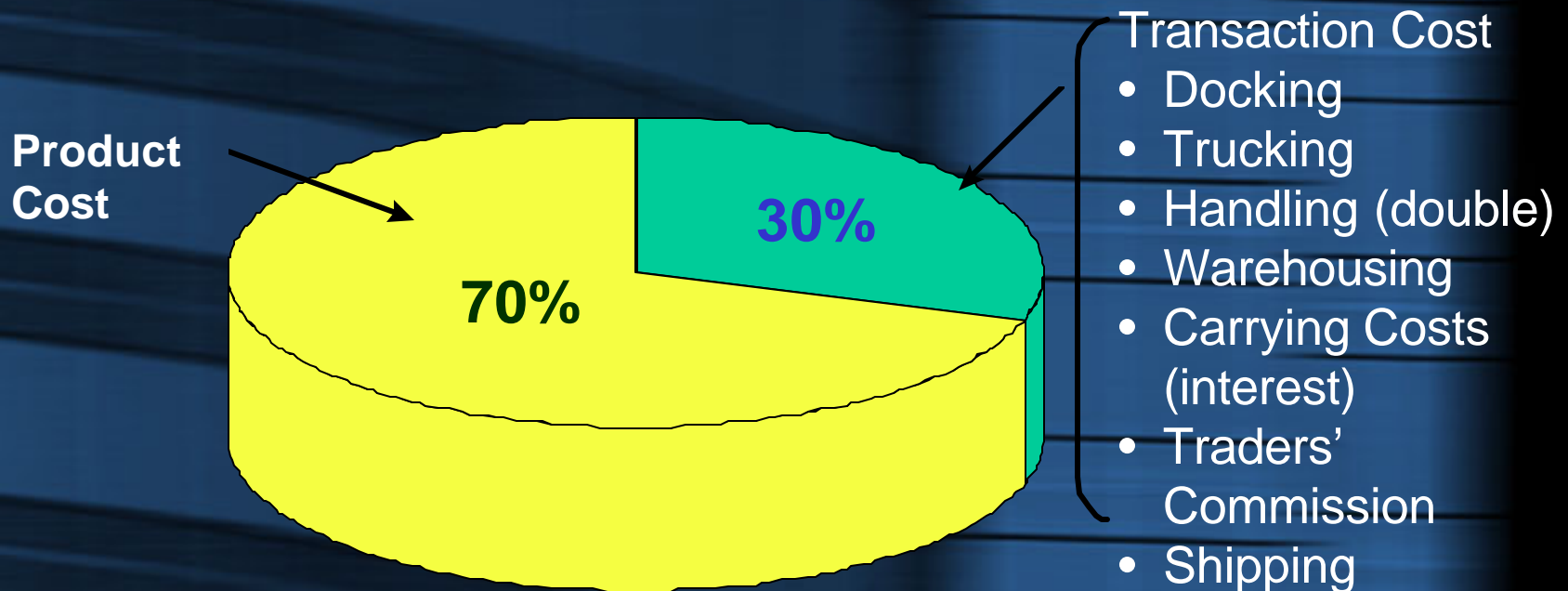
Year 2004

US\$ trillion



The Opportunity

- As a result, transaction costs represent approx. 30% of the total production cost of steel

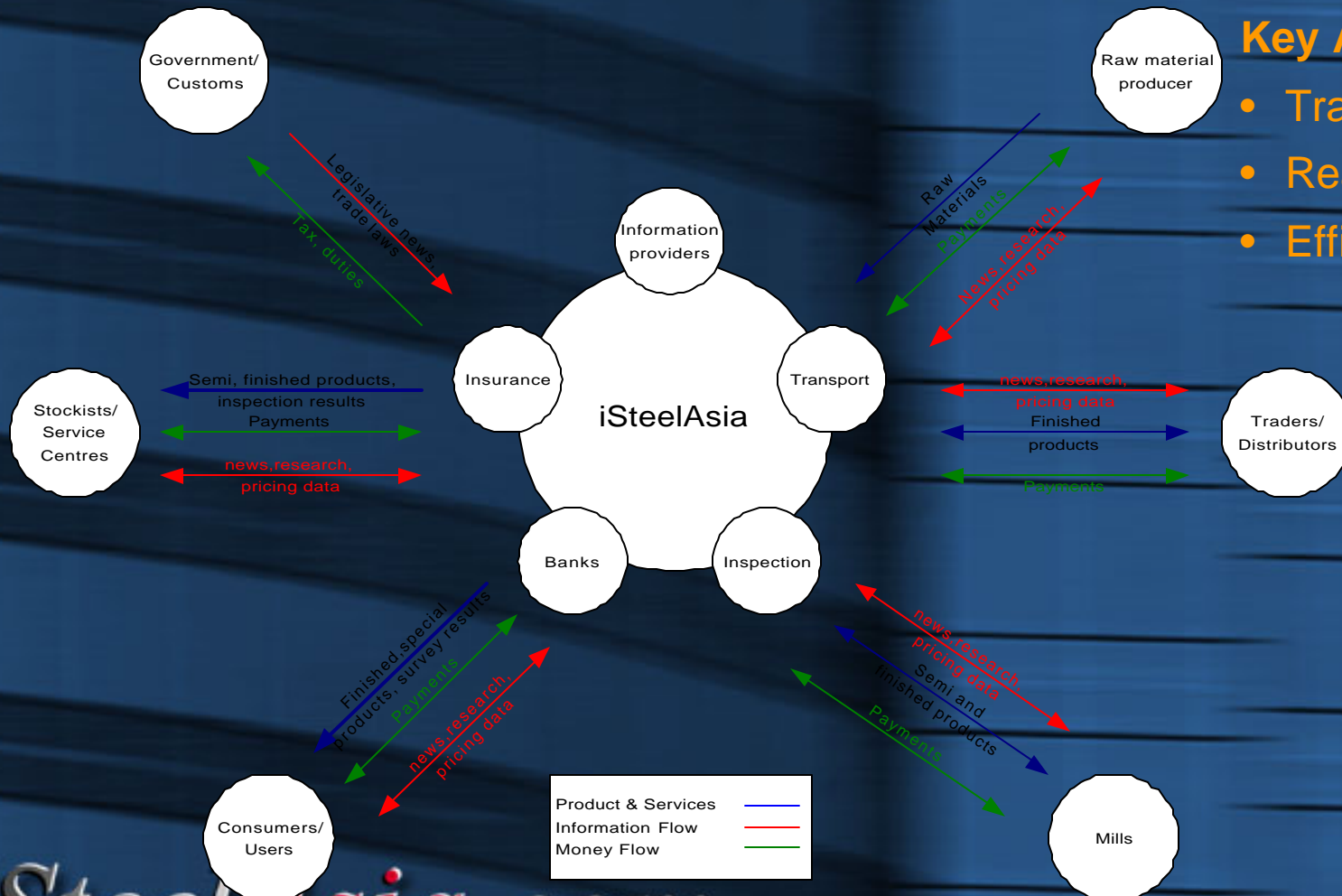


Value Propositions of iSteelAsia

- Provide unique opportunity to transform the steel ecosystem

Key Attributes

- Transparent
- Reach
- Efficient



Key Success Factors for e-Marketplaces

- Offer a clear value proposition to attract market participants
- Require intimate knowledge of the target market and its supply chain
- Provide good flow of information, efficient transactions, and a high level of value-added services to the industry
- Unique & flexible platform to support the whole transaction process

Thank You !

For more information of iSteelAsia,
please visit

<http://www.iSteelAsia.com>

iSteelAsia.com

LEE MILLER: Alan, I think you are going to talk and run, but in the meantime tell us how the government is going to make all of our lives better. Maybe we can learn quite a bit, because sometimes the government does know best.

ALAN SIU: Good afternoon, ladies and gentlemen. I am glad to have this opportunity to talk to you about e-commerce and particularly focusing on e-procurement. Drina has just given us a very good explanation of what e-commerce is all about. I do not want to repeat that, so much to say that e-commerce is the engine for driving our future economic growth. It is a major driving force for our future economic development. In fact Mr Andrew Grove, the chairman of Intel, has once said: "... in five years' time, all companies will be internet companies, or they won't be companies at all ...". This is the line taken by a multinational company's CEO. He said that some time ago and I have been quoting this in many of my presentations. So we actually had less than five years to go before we reach this position.

If you are not an e-commerce company, then you may not be able to survive in the business arena. I will come to more specific examples in my presentation later on, but we can see that in the last few years there has been sustained growth of e-commerce in the world, in Hong Kong and in the Asia Pacific. In fact industry analysts estimate that the global e-commerce value will reach US\$7 trillion by the year 2004. I believe that is the figure estimated by the Gartner Group. That is the sort of global situation in the development of e-commerce.

How about Hong Kong? In fact, Hong Kong has a very good e-commerce potential. That is not what just the government says. In fact, it is said by international agencies which have looked at the situation of Hong Kong, and compared it with other places in the world. In fact the Economist Intelligence Unit of London has ranked Hong Kong as among the top ten places in the world with the best e-commerce potential. Hong Kong is being compared with places like the US, the Scandinavian countries, Canada, Australia, UK, as one of those best places with e-commerce readiness in the world. So we have very good potential.

Forrester has also said that Hong Kong will be among the lead group of economies in Asia to register e-commerce hyper-growth, and the value of e-commerce transactions in Hong Kong will grow from US\$2 billion in the year 2000 to \$70 billion by the year 2004. So we do have very good potential in the development of e-commerce. What is the government's overall policy on e-commerce? I think, as Drina has said, Hong Kong wants to develop into an e-commerce hub in the Asia Pacific region. It is a key element under our Digital 21 IT strategy to create a favourable environment for e-commerce to flourish in Hong Kong.

What the government wants to do is not to regulate, or overregulate; we try to promote and facilitate. We want to lead by example in the adoption of e-commerce through the development of electronic government. We want to set a good model, a good example for the private sector to follow. In fact, I think many members of the public will have transactions in one form or another with the government. If they carry out the transactions with the government by electronic means and they are satisfied with it, then there is likely to be a greater opportunity that they will accept e-commerce in the private sector. So we wish to adopt e-commerce in our transactions with the

general public, with the community, whether it is G2C, to individuals, or G2B, to our business partners, so as to enhance their confidence in adopting e-commerce in the private sector.

Of course, as I have said, the ultimate aim is to develop Hong Kong into an e-commerce hub in the Asia Pacific region. To facilitate this, we have been working towards the development of a good information infrastructure in Hong Kong, that is facilitation to provide a good environment for e-commerce to flourish. We have been working on the deregulation of our telecommunications market, which has resulted in the dropping of prices, greater competition, more pro-consumer markets. All these would help to give us a good backbone information infrastructure for us to develop all sorts of e-commerce applications.

We have developed a public key infrastructure, with the establishment of certification of authorities like the Post Office's, which allows secure electronic transactions to be carried out through the use of digital certificates. We have also established a clear legal framework to enhance people's confidence in carrying out electronic transactions. We have enacted the Electronic Transactions Ordinance, following the United Nations model. So now electronic records and digital signatures have the same legal status as their handwritten counterparts. People do not need to worry about having any sort of legal challenge when they carry out electronic transactions using electronic records or signing with a digital signature.

We also try to promote e-commerce, targeting at small and medium size enterprises in Hong Kong, which comprise over 95 per cent of our business entities. As I have said, we try to develop G2C and G2B e-commerce in order to set a good example for the private sector to follow. We have recently introduced the electronic services delivery scheme -- I trust many of you may have read about it -- which allows you to carry out various sorts of transactions with the government online, such as renewal of your driving licence, registration as a voter or finding a job from the Labour Department. All these things can be done online now, 24 hours a day, 7 days a week.

At the same time, we have also introduced an electronic tendering system, whereby we carry out electronic procurement with our business partners. That is what I would like to focus on in my presentation today. The advantages of e-procurement -- I think there are some key advantages which I can talk about: price reduction, because through e-procurement we will be able to get in touch with a lot more potential suppliers, not just in Hong Kong but also overseas. Then there will be greater competition and we are bound to obtain prices which are lower than in the previous cases. So certainly in terms of saving of cost, it will give us benefits.

There will be better management of the contract execution through the adoption of electronic means. Reduction of inventory; we do not need to keep a lot of inventory all the time. Through the adoption of e-commerce, we can look at our stock position, and as soon as we think that the stock should be replenished then we can make use of electronic means to order goods to replenish our stock. So all these things can help to reduce the inventory in hand and improve our asset utilisation. Of course, overall speaking, that will help to improve our administrative efficiency in the overall procurement process.

As I have said, it is not just the government that is doing this; it is also being done in the private sector. For example, major motor operators in the United States -- General Motors, Ford, Chrysler -- they have all been working together in developing an electronic marketplace for all their 60,000 suppliers and that makes up a market of US\$250 billion, a major e-marketplace for the motor industry.

As I have said, if you are not an e-commerce company and you do not adopt the e-commerce means, then how would you be able to participate in this e-marketplace? You would lose the chance of gaining any part of this US\$250 billion market. So it is a question of survival.

The same applies to other governments. Korea has undertaken that all state-owned companies would make 50 per cent of their purchases online by the year 2001. So it is not just the private companies; it is governments worldwide that are moving towards e-procurement. If individual companies do not adopt e-commerce, then they will not be able to participate in the process.

One example which I have often quoted is one major manufacturing company in Hong Kong which is a business partner of JC Penny, major US department stores. Through the adoption of e-commerce, they have been able to cut down their goods delivery time to 9 days from 30 days in delivering goods to JC Penny, not just to their headquarters, warehouses, but actually to the sales points. JC Penny has adopted a policy that unless you go e-commerce and you can link up to their systems, they actually do not do business with you at all. So for the vendors, for the suppliers, if you do not adopt e-commerce, you will not be able to make business with these sort of partners. I can tell you that these partners are becoming more and more.

Now let us look at what are the fundamentals of the government procurement process. In general, we look for value for money. We look for open and fair competition in order to make the best buy for the government. We can divide it into three categories. There are high-value items which exceed the value of HK\$1.3 million. For these cases, we normally do through a tendering process, and there is a requirement to get specific approval from government tender boards. Then you have the medium-value items not exceeding 1.3 million, and they can be carried out, procured through tendering or quotation carried out by individual departments. There is no need to go through any central tender boards. Then you have the low-value items which individual offices or departments can purchase directly on a day-to-day basis.

For those high-value items -- public works projects, road projects, major buildings, large IT systems -- they are highly customised and they have very complicated requirements. So we can only carry out a tender process in order to procure the right projects for us. Then for the medium value items, they are less customised and the requirements are relatively simple; for example, standard equipment for spare parts. We can look at the strategy of developing an e-marketplace in order for us to procure these products instead of going through tendering process all the time. I will touch on that later on. Low-value items, straightforward off-the-shelf products, like stationery, consumables or making travel arrangements, these can be done through e-catalogue instead of also by tendering. All these would help to make our procurement process more efficient, more streamlined, and that would also help to enhance government overall operations.

I will go through them one by one. First, in order for us to do so, we have already developed one of the world's first web-based government procurement systems. In fact, the Government Supplies Department in April last year has launched an ETS system, the electronic tendering system, which allows suppliers from all over the world to receive notification of all the government tenders. They can submit their tender proposals and receive notification of our tender awards via the internet. So all can be done through the internet. So it is not just the sort of situation you have seen, people bringing huge documents and go to our tender boxes and putting them in our boxes; that is no longer the case. You can do it now all through the internet.

We are now trying to further develop this electronic tendering system, which at present applies to all our contracts which are below the value of 10 million, and also they only apply to non-works contracts. We are trying to extend them to cover higher value contracts, those exceeding 10 million, extending it to cover other contract types, like works projects, roads projects, building projects, consultancy services, and we are trying to enhance its security by adopting the Hong Kong Post issued electronic certificate as well. At present, they already use public infrastructure in order to ensure that the transactions are secure, but they are using a specially developed certificate which is not recognised under the Electronic Transactions Ordinance. Now we are moving towards using the Hong Kong Post's electronic certificate, which is recognised under the Electronic Transactions Ordinance and would make the transaction more reliable.

We are also looking at the development of the electronic marketplace for medium-value purchases, whereby we can obtain electronic quotations directly from the vendors. At present, individual departments may have to call around and get quotations from different companies, but that is not a very efficient process. Why don't we just develop an electronic marketplace and post our requirements there, and allow individual companies to respond to our requests, and we can then determine what are the best fits without going through a formal tender process. So that is a more efficient method of calling for quotations from our vendors.

For low-value products there is no need for us to call for quotation at all. We can actually develop an electronic catalogue whereby individual vendors can post their products there and we can look at these catalogues, and when we require specific products we can then directly approach the individual vendors if the price is right. This makes the whole process a lot more efficient and it also benefits our business partners, because it makes life a lot easier for them. They do not need to look at the gazette every week or monitor the government's announcements on particular tenders. They can install the means to gain access to our information about procurement, and they can also do it by putting their products to us so that we can look at them and when we think that the products are right we can make purchases directly from them.

So these are the directions that we will be moving in order to enhance e-procurement and to have better working relationships with our business partners.

Within the government itself, we are also trying to improve the process to make it more efficient. At present, individual departments, when they need some products or materials from the central stores or the Government Supplies Department, there is a lot of paperwork to be done in order for the goods to be delivered. There is no reason why we should stick to this paper process. We should

go paperless. That is why we are developing an electronic ordering store system, whereby we have developed a web-based system and individual departments can use electronic means to get in touch with the Government Supplies Departments and make orders for goods that they would wish to obtain from the central warehouses of the government supplies system.

By using a web-based system, everybody, the individual offices, would be able to gain access to the system. You do not need to have specific terminals in government departments. Everybody can use their desktop computers to do this, so it makes it more efficient.

I have touched on mainly those non-works contracts. Works contracts, why they are different -- because they are fewer in number, they are a lot more high value and there are a lot more parties involved. They often involve very bulky tender documents with plans, very voluminous submissions. So the making use of the electronic process may not necessarily be all the time more efficient. Sometimes it can create problems for us, but of course we try to see how we can make use of the electronic process to make it more efficient for us. Since this affects many parties, including those in industry, we need to take account of that and we need to adopt good industry practice so as to make it easier for everybody, but we are certainly moving in that direction.

As a starting point, we have now been issuing our works contract tenders via CD-ROM, so you do not need to carry huge government tender documents anymore. We just dish out a CD-ROM, which is a lot more handy to you, and eventually we will just do it via the internet. When you submit your bids, very soon you will be able to do it by CD-ROM; you do not need to submit piles and piles of documents to the government, but just send in a number of CD-ROMs which we can distribute to all the parties concerned. So we hope that by making use of electronic means we can make the process simpler and a lot more efficient for everybody.

So this is the sort of direction we are moving in terms of e-procurement within the government. The government is a major buyer in Hong Kong and we have a lot of business partners. We hope that by adopting e-procurement we can set a good example for the private sector to follow and we can also make the process a lot simpler, not just for the benefit of the government itself but also for our business partners.

Thank you. Sorry I need to go away early.

Presentation on
“Government and Electronic Business”
in the Telecoms InfoTech Forum
Tuesday 13 February 2001



Mr. Alan Siu, Deputy Secretary
for Information Technology and Broadcasting

Global Trends of E-business



“... in five years’ time, all companies will be Internet companies, or they won’t be companies at all ...”

Andrew Grove, Chairman of Intel

- **Sustained rapid growth of e-commerce**
- **Industry analysts estimated global e-commerce revenue to reach US\$7 trillion by 2004**

E-commerce Potential of Hong Kong



Hong Kong has huge potential to develop into an e-commerce hub



- **Hong Kong ranked amongst top 10 in the world with e-commerce potential**



- **Hong Kong will be among the lead group of economies in Asia to register e-commerce hyper-growth**
- **Value of e-commerce transactions will grow from US\$2 billion in 2000 to US\$70 billion by 2004**

Government E-commerce Policy

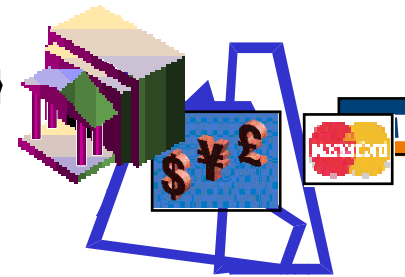
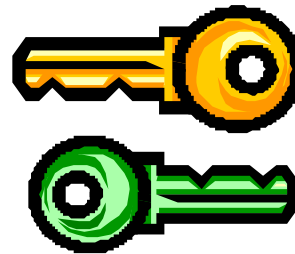


- **To create a favourable environment for e-commerce to flourish**
- **To lead by example in the adoption of e-commerce through the development of e-government**
- **To develop Hong Kong into an e-commerce hub in the Asia-Pacific Region**

Government's Role



- To facilitate the development of information infrastructure
- To establish a clear legal framework
- To promote e-commerce targeting at SMEs
- To actively develop G2C and G2B e-commerce



E-procurement



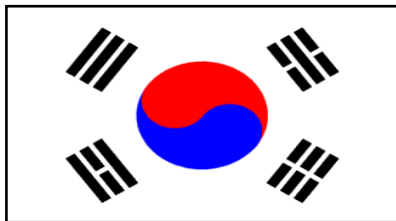
Benefits of E-procurement

- **Price reduction through access to more potential suppliers**
- **Better management of contract execution**
- **Reduction of inventory and improvement in asset utilisation**
- **Improvement in administrative efficiency**

Driving Effect of E-procurement



E-procurement is driven by powerful buyers to their suppliers



- **Electronic exchange for vehicle manufacturing to bring 60,000 suppliers into a \$250 billion B2B e-marketplace**
- **Korea has committed that all state-owned firms would make 50% of their purchases online by 2001**

Government Procurement Policy



Fundamentals of Government Procurement

Value for Money, Open and Fair Competition

High value items (exceeding \$1.3 million)

- **Through tendering**
- **Approval by Government tender boards**

Medium-value items (not exceeding \$1.3 million)

- **Through tendering or quotation carried out by individual departments**

Low-value items

- **Direct purchase by individual officers**

E-procurement Strategy



Different categories require different e-procurement strategy

**High-value items
(exceeding
\$1.3 million)**

Characteristics:

- **Highly customised, complicated requirements**
- **Examples: Public works projects, Large IT systems**
- **E-procurement strategy: E-tendering**

**Medium-value items
(below
\$1.3 million)**

Characteristics:

- **Less customised, simple requirements**
- **Examples: Standard equipment and spares**
- **E-procurement strategy: E-marketplace**

Low-value items

Characteristics:

- **Straight-forward off-the-shelf products**
- **Examples: Stationery, consumables, travel, etc.**
- **E-procurement strategy: E-catalogue**

Electronic Tendering System

The Government e-tendering platform

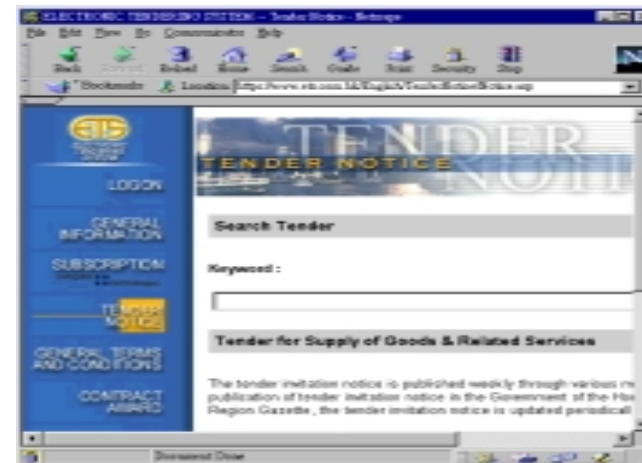


- **One of the world's first web-based government procurement system**
- **Suppliers from all over the world can receive notification of tenders, submit tender proposals and receive notification of tender awards via the Internet**

Enhancement of ETS



- **Extension to contract of higher value (exceeding \$10 million each)**
- **Extension to more contract types (e.g. works contracts, consultancy services)**
- **Extension to accept Hongkong Post e-Cert**



E-marketplace and E-catalogue



Future extension of E-tendering

E-marketplace

- **for obtaining electronic quotations**
- **for items which individual departments can procure directly**

E-catalogue

- **for electronic display of products and for making direct purchase**
- **for items which individual officers can procure directly**

Web-based ordering of stores



Government Intranet application

E-ordering of stores

- **Government Supplies Department maintains central warehouse**
- **Individual departments make orders for common and standard items**
- **Web-based ordering system to be developed**

E-tendering for Works Contracts



Characteristics of works contracts

- **Fewer in number, but high value and more parties involved**
- **Bulky tender document**
- **Special technical requirements on electronic file format (e.g. Plans, technical drawings, etc.)**
- **Relatively confined group of suppliers**
- **Industry practices**

E-tendering for Works Contracts (Cont'd)



- **Issue of tender by CD ROM and via the Internet**
- **Submission of bids by CD ROM**

Thank you

LEE MILLER: Our third speaker is Samson Lam, director of solutions at PCCW. He has experience of working initially with a lot of small and medium size companies and teaching them what they needed to really get into the internet age. As we have just heard Alan talk about, a company like JC Penny requires its suppliers to be there already. So if you will, Samson, tell us what you are doing with your customers and your partners.

SAMSON LAM: Thank you. Good afternoon, ladies and gentlemen. First of all, thank you for all of you taking time out of your busy schedule today, and more importantly for holding your attention at this time of the day.

I am very delighted, actually, to be here and to be asked to address such an important topic to such an important group of people here. In the next 20 minutes, I am going to share with you some of our views as well as some of our experience in helping business to go electronic. Actually, Hong Kong is undergoing a very significant transformation. Whatever we are able to do to sustain our leadership as the hub of Asia, whether we are able to maintain it as the gateway to the world, depends on the speed and our readiness to transform.

Transformation is actually the formula that we should work on. From the fishing village back to 100 years ago, to the trading port, to being one of the world's leading financial centres, Hong Kong has sustained its leadership position and value. With China's pace of development, especially in places like Shanghai and the market opening up, and given the timing of WTO, how can we sustain our edge? What is the next position we are actually transcending to? It is quite clear that we should aim to become the e-business hub of Asia, leveraging on our past and existing strength, as well as our unique edge of our superior infrastructure in telecoms, networks, IT and trading.

Now let us look at the important factors. There are three factors to consider. First, the impact of the WTO market opening. I think this affects our advantage point. Secondly, the current mix of trade-flows will be very different five years down the road, given the influx of foreign technologies and skill-sets. Hong Kong's trading and manufacturing communities are already relying quite heavily on costs of production to lower their costs. Will they be able to do it and yet command a value? This is the question. Finally, there is a true need for leveraging on the core competencies and the convergence of IT, IP and communications to break into new ground.

Part of the success of Hong Kong's transformation as an e-business hub very much depends on the ability to leverage on our current superior infrastructure. Let me talk about infrastructure today. We are no longer just talking about sophisticated telecom networks or even the web alone. We are now talking about the grid. We can look at it as a new e-infrastructure, made up of a matrix of vertical and horizontal, e-biz enabling solutions and value-added e-commerce applications, building on a very solid and reliable telecom or IP network that offers high-speed information exchange and data flow, for a variety of customers like government, finance, trading and manufacturing.

As such, the bedrock of this grid is a perfect network infrastructure, designed to provide the necessary connectivity, as well as the intelligence to get business and consumers plugged in. We have invested in the past 10 years about US\$5 billion in the infrastructure. Today, PCCW has

developed a world-class ATM-based broadband network. It is the superior Asia Pacific network that forms the base for what we call the grid.

Our innovations have set the broadband standard in Hong Kong. Basically, over 95 per cent of territory residential and commercial areas are being covered. Our joint venture with Telstra, Australia's largest communications company, will deliver broadband connectivity to 40 points of presence. This includes places which are familiar to us: for example, this includes Australia, New Zealand, Hong Kong, China, Japan, Korea, Singapore, Thailand, Malaysia, Indonesia and The Philippines, with connectivity to the United States, Canada, the UK and Germany.

The convergence of IT, IP and communications have actually facilitated the provision of integrated solutions. That is to say, from supply chain management to enterprise resource planning, collaborative communication systems, to valuable ancillary services such as logistics, settlement, insurance and letters of credit and trade declarations, which actually address the very important issue of making different systems work together to serve the business needs of yourself and your counterpart at the other end of the world. We actually do not recommend that you throw away the old system, but rather work on it and build a better system, a more enhanced system for your future requirements.

Our collaborative platforms will actually allow different systems to talk to each other effectively, and our focus is to enhance savings. Our focus is to improve asset efficiency, new business and underlying margins that create value. As the internet will continue to evolve and converge, the balance of value is clearly moving increasingly towards the provision of business and consumer with functionality over the infrastructure. We talk about functionality that can deal with complex and rapidly changing business processes, to offer better and more convenient e-living to business and consumer alike.

Our approach and model is to provide a comprehensive sweep of e-offerings. To give some example, we are working with various partners to provide consultancy, the e-strategy of how an organisation can web-enable their existing business. We also provide support for web solution and applications. We have also moved right up the value chain in providing e-solutions, system integration.

In the infrastructure, we have unparalleled broadband connectivity, supported by our sophisticated data centre and intelligent network service, which is part of our managed services. Our well-established Asia Pacific network infrastructure will serve as a solid foundation on which PCCW can fully and innovatively integrate our system architecture capability and expertise in e-solution development, which will provide integrated value-added solutions along the e-journey.

Hong Kong is in a unique position. To capture the opportunity of an e-business hub, our history and experience makes Hong Kong people the master of business and trade dynamics. Our culture of being highly flexible and intuitive in identifying and capturing opportunities can make us successful despite ups and downs in the world economy. We are very focused on value creation, and on the pace of adopting and adapting new and better modes of operation. Most important of all, we are able to do the above because of our head-start with current super infrastructure that enables the

efficient flow as well as natural ability to transform ourselves. There have been certain models established in the West in e-commerce, e-marketplaces, and exchanges, but it is impossible just to bring it to Asia and expect it to work. Given the differences in culture, in market maturity, in scale, in technology sophistication and in infrastructure support between the West and Asia, a bridge is actually required to move towards a new Asian business concept that actually matches with the different Asian way of doing business.

At PCCW, our focus is actually to facilitate a little bit of e-Comprador, that actually bridges such transitions, with PCCW serving as the group which services such development. The opportunity in the Asia Pacific is huge and would involve comprehensive business and trading networks and services. The level of application-based solutions, like procurement, financial settlement and physical logistics, to name a few, is serving to enable new business models, to achieve greater automation of transactions, optimisation of business process and greater collaborative exchange of information to stay interconnected. For example, the formation of our trading hub, MartPower, with Cathay Pacific Airways and Pacific Century Insurance as the key participants in the great multiple vertical to offer seamless, borderless trade efficiencies, and provide fully integrated values added in terms of logistic procurement and financial support.

This would be the base of the regional trading hub that provides electronic and seamless trading among regional business. This is further illustrated by our recent initiative in driving the e-transformation of the finance and stock trading community and e-government in Hong Kong. The launch of the eIPO service for Hong Kong exchanges and clearing, to provide an integrated internet-based system and web-hosting facility for the Hong Kong exchanges and clearing, this will actually result in a very successful IPO of Mass Transit Railway. The second is the development of the AMSV online Stock Exchange for the Hong Kong Stock Exchange, which includes the development and the management of all the voting systems, a multiple workstation system, the ORS, order routing system, which offers investors and brokers trading convenience and greater access to the market via different communication devices. The MWS, the multiple workstation system, is the broker-based trading solution for higher volume trading and makes for a shorter transaction time.

The signing of the Individual Call Centre Agreement with the government for a US\$6 million project with the government efficient unit, using PCCW's latest technology and CRM solution, customer relationship management solution. The initiative will enhance operations of the government by providing the public with a single number for making enquiries, or even complaints, on environmental and candidate matters, in the pilot stage. The centre will eventually support 16 different departments, providing them with comprehensive one-stop support.

For Hong Kong and the Asia Pacific to be successful in the e-business arena, the following factors must be fulfilled. *First*, the scale for driving economic value. *Second*, liquidity. Sufficient business and transaction flow are important to attract more trade. *Third*, we need to build and expand on existing practice, culture, to deliver true value via a more streamline (Inaudible) flow. *Fourth*, marketplaces, their focus purely on getting rid of the intermediary will not be able to attract traders, hence the focus should rest on value creation. *Fifth*, government bodies play a very important role

in establishing protocol. *Finally*, any platform of technology adoption has to be robust and scalable to match growth.

The above are just some examples of how we can help business go electronic. By expanding assets to infrastructure, we create new width and help businesses and the public assess the best choice of applications, connectivity and value-added services, to innovate and change with the times of today's e-transformation. The mission will continue to be important and critical, given the ongoing need for more customisation and integration of enterprise and lifestyles. Inevitably, we are moving towards a more sophisticated range of transactions and information exchange, and getting multiple parties connected in a business transaction. This is important, important in the sense of our commitment as a key enabler of the e-transformation, as well as an accelerator of the new economy, and to bring enhanced operation dynamics and new opportunity to companies and consumers in Hong Kong and the rest of Asia.

Thank you.

Telecommunications Information Technology Forum

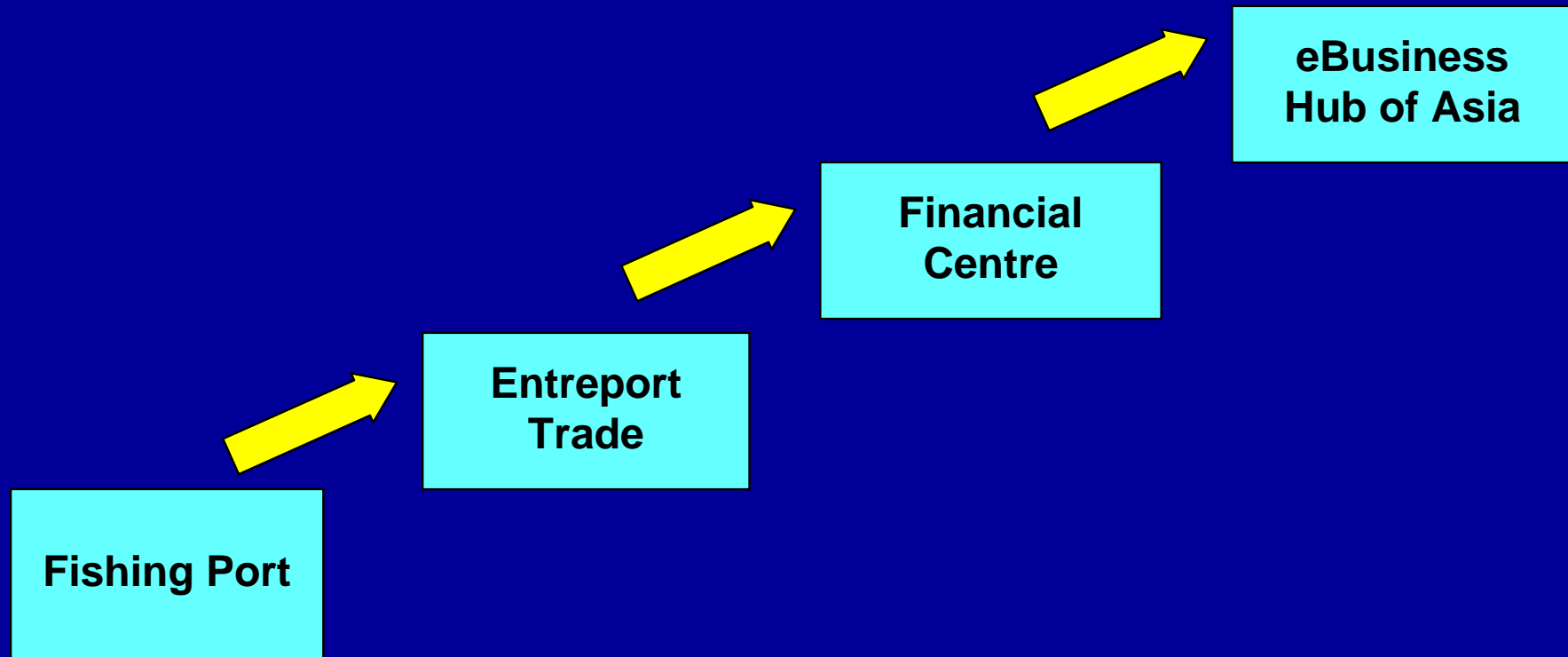
Helping Business Go Electronic

Samson Lam
Director of Business eSolutions
PCCW

13 February 2001



TRANSFORMATION IS THE FORMULA TO SUCCEED



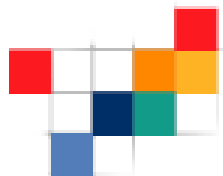
THREE KEY PREMISES TO CONSIDER

WTO will create some discontinuities which would provide opportunities

The current mix of trade-flows between Greater China and ROW will change

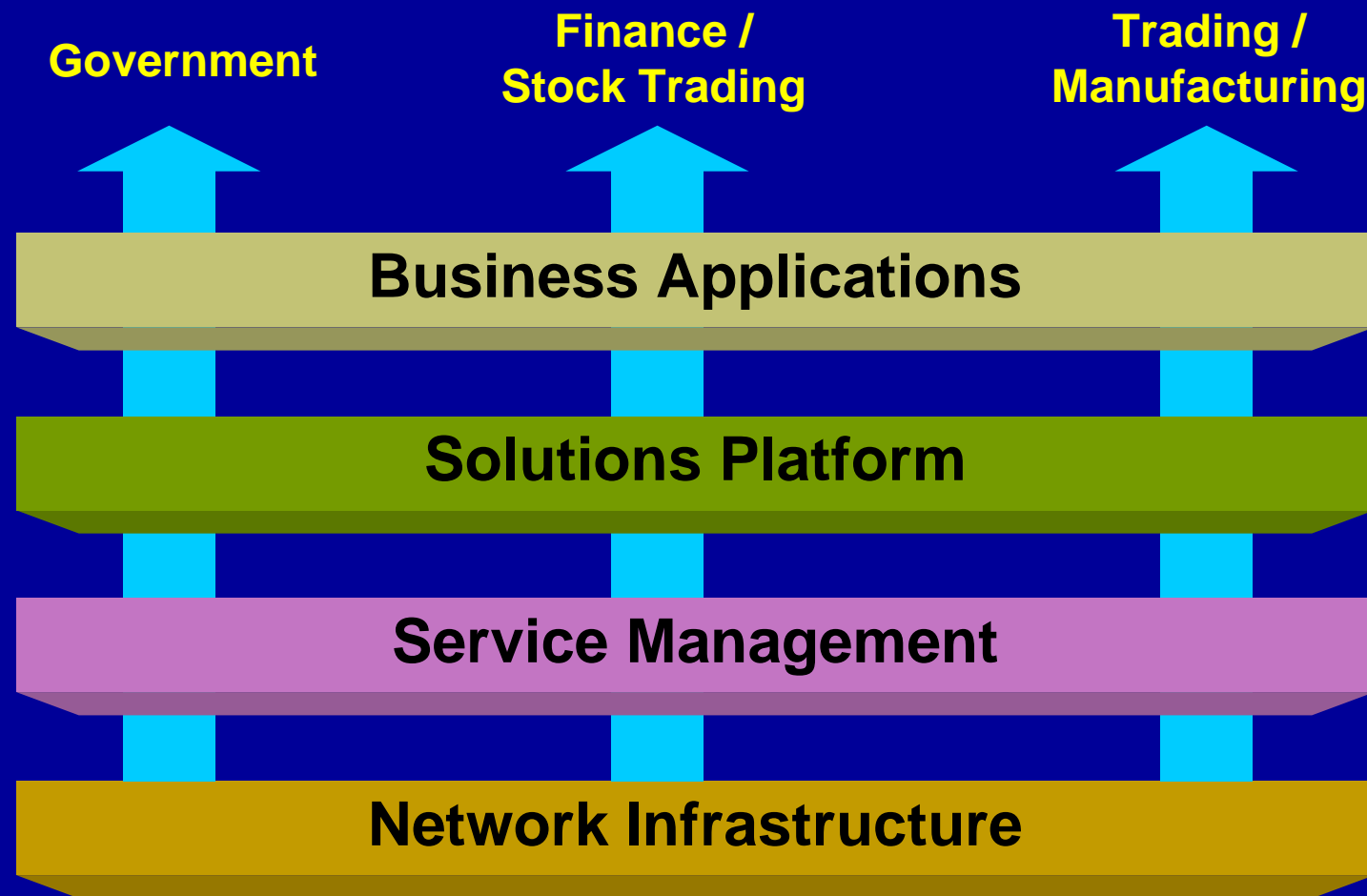
HONG KONG
eBusiness Hub of Asia

Hong Kong companies must leverage their core competencies and the convergence of IT and IP technology to break new grounds



PCCW
電訊盈科

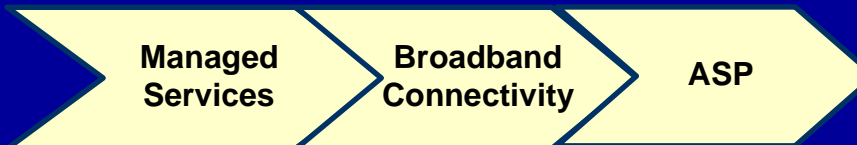
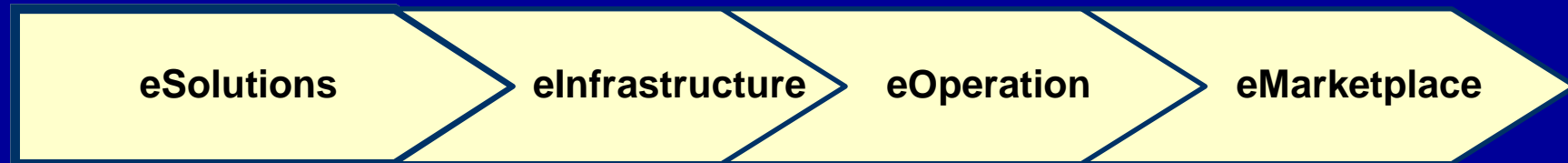
A NEW FORM OF “e-INFRASTRUCTURE”



CONVERGENCE OF IT, IP, COMMUNICATIONS

- **Develop Integrated Solutions**
-
- **Address interoperability among disparate systems and cultures**
-
- **Transform legacy systems to meet new challenges**
-
- **Enhance efficiencies: cost savings, asset efficiency, market reach**
-
- **Enhance margins**

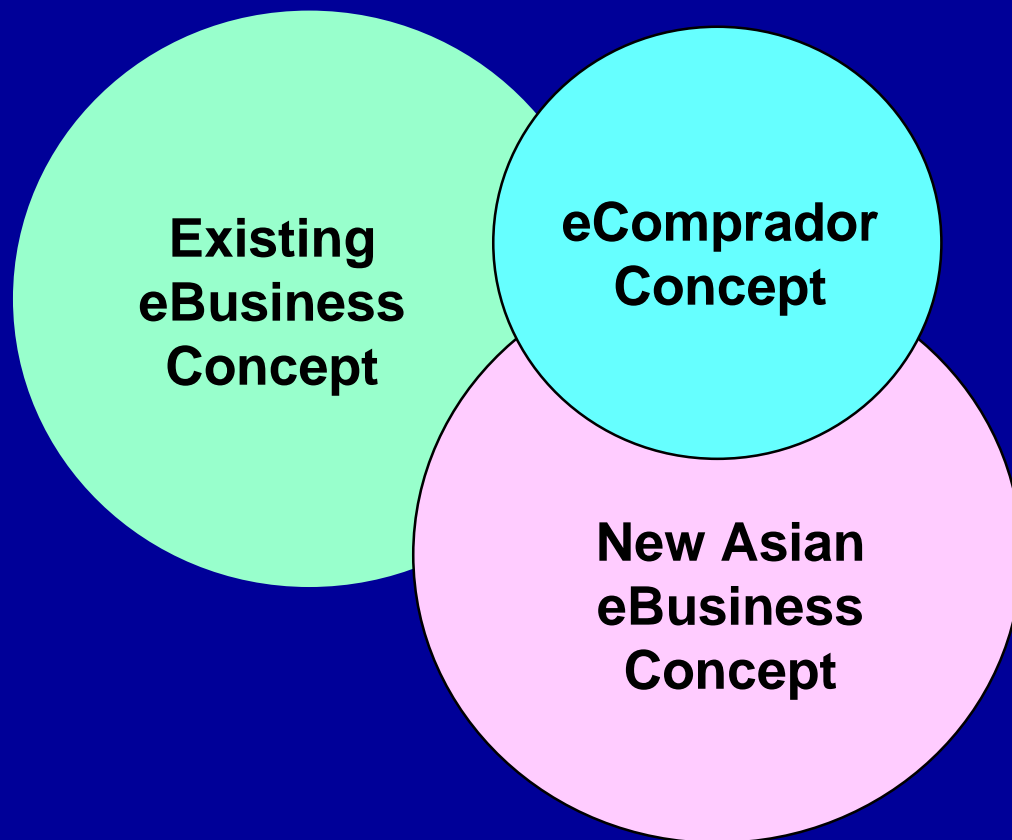
OUR APPROACH



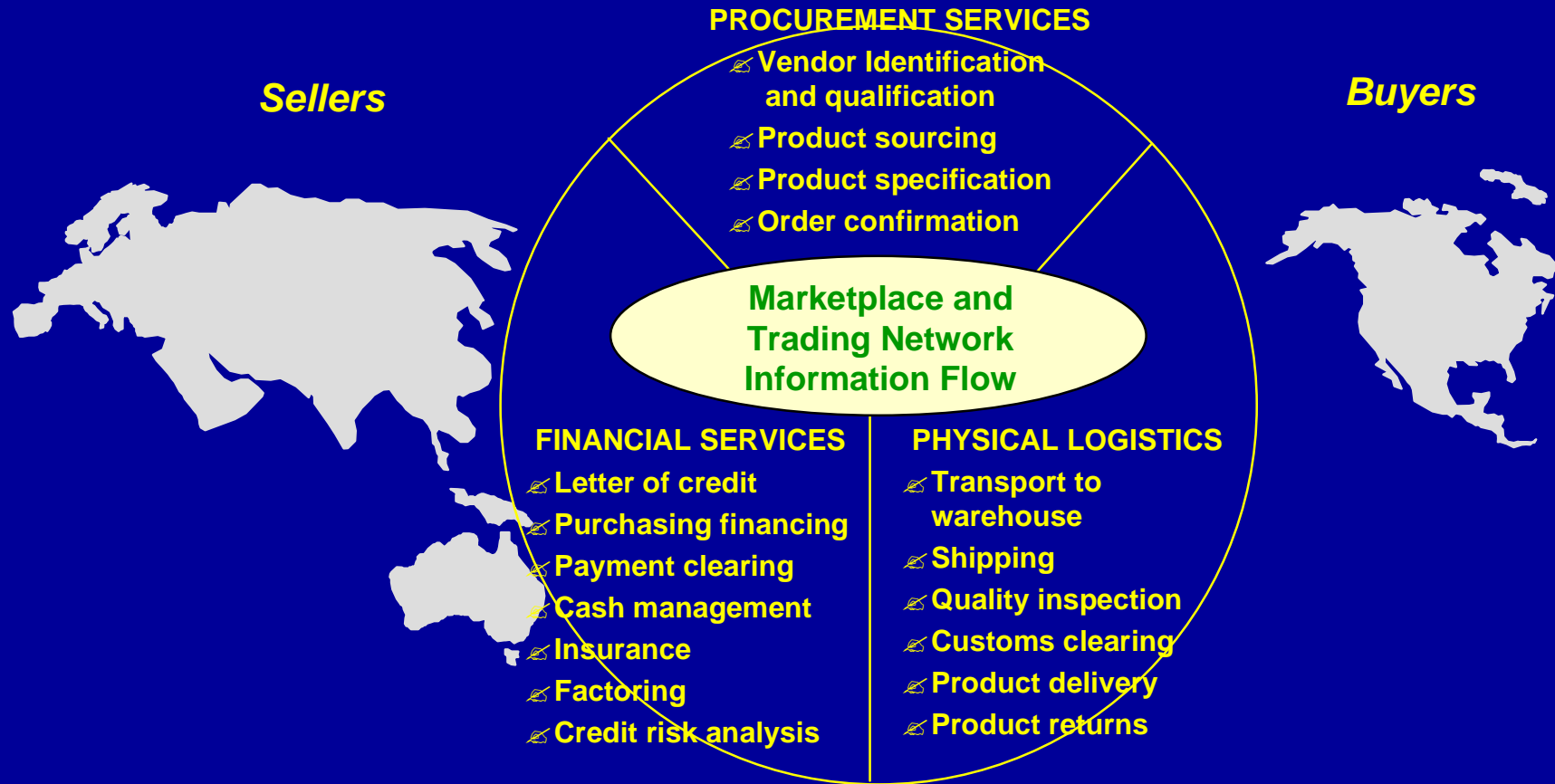
THE UNIQUE EDGE

- **Master of business and trade dynamics**
-
- **Culture of high flexibility and opportunity capture**
-
- **Speed to implement and benefit from new mode of operation**
- **Superb communications infrastructure to facilitate transformation and linkage to rest of the world**

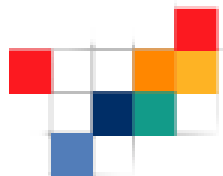
BRIDGING THE GAP



THE ASIA PACIFIC OPPORTUNITY



- Business to Business e Commerce play where buyers and sellers meet to do business
- Horizontal play across multiple customer industries and product segments



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TRANSFORMING BUSINESS MODELS

- **Expanding paperless, borderless trade**
© MartPower
- **Enhancing capital markets productivity**
® eIPO
-
- **Automating trading platforms**
® HK Stock Exchange
-
- **Realizing e-Government objectives for operation efficiencies**
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CRITICAL SUCCESS FACTORS

- **Scale and network effect**
- **Liquidity**
- **Build on unique trading culture, core competence and unique differentiating edge**
- **Creation of value > destruction of value**
- **Regulatory environment for common protocol**
- **Robust technology and infrastructure**

OUR COMMITMENT

**Key Enabler of e-Transformation and
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**Bringing enhanced operation dynamics and
new opportunities to enterprises and
consumers**

LEE MILLER: We have about 10 minutes for questions, because I want to have John wrap things up just before he leaves. Does anybody have any questions? If not, I will kick off with the first question. Somebody has a question at the back left. Please identify yourself and if you are asking a specific person.

Participant: I have a question for Drina. Talking about the iSteelAsia marketplace, just now you have mentioned about the supply chain integration. I would like to ask if you could share your experience in integrating the whole supply chain; how do you do that, how do you manipulate the difficult relationships among different parties?

DRINA WAN YU: That is an excellent question. It all really depends on the client that we work with. For example, if the client, let us say, is a mill, each mill, their level of sophistication is different, that means how ready they are to get online, how ready they are to be able to feed the information as to their production schedule. So, to answer your question, first of all, like I said, we are very focused, very deep, so we know our clients and we also have different ways to integrate with them, if they are not e-enabled. Some of them honestly -- we will have to help them so that they will be able to get online, just to go online so that they can trade. There are others that are already beyond that stage, that we can actually go in and help them, so that now they can tie in a lot of information. For example, what we are trying to do is to have a certain aspect called e-cataloguing. That means if a buyer wants to come in, if they want to buy certain type of products, let us say hot rolled coils. Automatically, they will be able to, if they want to, given the size, we have the link to certain producers that have that type of product; they can put in that kind of information and they can start their dialogue immediately, so they do not have to go through a lot of searching.

Participant: How do you handle transactions, because behind the transactions you need to take care of the financial issues, the delivery issues and probably the legal issues.

DRINA WAN YU: Absolutely, yes. There are a lot of issues out there, and we do not intend to solve all of them on day one. For example, e-signature, there are only a few countries, a couple of them actually, in Asia that recognise it. So those that do not, they still have to follow through after they conclude the deal online. They have to follow through with a chop, the Chinese way, or a signature, so there is a follow-through. But, if you think about it, if they can apply L/C online -- a lot of our deals are done through L/Cs -- if they can apply it online, confirm it online, which is cheaper than the way we do it nowadays, offline. If they can get quotes on the shipment online, if they can already start talking to banks so they do not have to run to the bank, but an L/C application is already typed up, they do not have to type in everything; some of the information is already typed in for them. All they have to do is just put in a few more. All these things help the users -- it does not matter whether they are buyers or sellers -- to actually increase their efficiency. More than that, they have a documentation trail later on that they can follow through. So these are the values that we believe we add in, so that our users are coming back.

DAVID WONG: So basically it is some information exchange or sharing. Have you tried to quantify the benefits of your buyers or sellers?

DRINA WAN YU: I think it is very difficult to quantify. Let us say if I do not have some of these value-added services, I am 30 per cent less or 20 per cent less. Honestly, I do not know. I would assume that because I have this, we were able to trade over US\$160 million online last year. I cannot tell you, out of the 160 million, it is because I had this help I was able to do it; if I do not, I will trade 60 -- I do not know. But I think the message I have is you have to somehow add value to the chain. You cannot just say -- if you say, "I am going to put in a site and people will flock in and trade", that is a dream, that is not true. You have to have some way of letting people who are coming in feel like that, by trading, they benefit.

LEE MILLER: Other questions?

Participation: Hong Kong is fast, Hong Kong is flexible, Hong Kong has not time for nonsense, essentially. Unfortunately, standards are slow, standards are boring, standards take forever. The other governments around Asia, and increasingly we are seeing mainland China, Beijing, are taking the time to get involved in standards, but Hong Kong says the private sector should sort all that out. Where do we get this balance is essentially my question to both panelists. Do we need the government to get more involved, or should they continue as they are, or should the private sector do it for government, because governments also are slow, or should we should let it carry on?

LEE MILLER: Samson, why don't you take that one, since you are dealing with a lot of the small and medium size enterprises?

SAMSON LAM: Certainly, standards, it is important to speed up the adoption. Our government does not recommend the standard for technology, so they leave it neutral. As a result we have TSM, we have PCS and we have CDMA. The good point of that is that we are actually enjoying the benefits of different technologies. The market will eventually tell which will be the best, and the provider of the standard will have to improve, or to exceed customer expectation in order to stay there. The issue is, here, I would say that to get everything ready, standards are important. What the Hong Kong private sector can turn to is about the standard being adopted by your trading partner. That is one thing you can consider to adopt. If you have people using a particular standard, it may be making sense for you to have them. At the very beginning, I would see people might like -- might have to have a multiple standard. Eventually, they will come down to a few, or one or two standards. I would say the more important task right at the beginning is to educate people along the whole value chain to be moving together. Just like if you have to play football, you have to train up the goalkeeper and the forwards and the back; any single player cannot actually do a good show.

DRINA WAN YU: I was in the telecom industry also for 20 years before I got into the steel industry. I have to agree with what Mr Lam said. One thing I am very proud of the Hong Kong Government is, they are playing the role of a facilitator. They also do not drive in and impose standards unless it is needed. I always believe in market driven. In the industry that we are in, standards is not a big issue. Maybe even on the internet, maybe XML -- people talk about XML. Okay, XML, we have some pseudo-standards. There is no official standard of this and that yet. Rather, I do believe, like I said, we are market driven. That means when a lot of the leaders get together, and let us say in the steel industry, us and maybe one or two more, and they say, "This is

the way how we think XML can trade", let that be it. I do not see any need to spend a whole lot of government effort in defining all the details of that.

That may be a little bit different than telecom. When you talk about CDMA 2000, Wideband-CDMA versus a lot of the others, then you may need to have some regulation. But like I said, for the industry that I am in, I am actually very proud at this point that the government has been doing a very good job at facilitating making Hong Kong an e-hub, rather than imposing unnecessary standards on trading.

LEE MILLER: We have time for one very quick question, if somebody has one. If not, I would like to thank our speakers, Drina Yu and Samson Lam. Also at Bloomberg we would like to thank PCCW for supporting this event, and obviously the overall sponsor and organiser of the Telecoms Infotech Forum, organised by the Telecommunications Research Project. John, you can have the last word.

JOHN URE: Thank you, Lee. Just again, thanks especially to the sponsor, PCCW-HKT, and to all our panelists; Drina, who I serve with on the Information Infrastructure Advisory Committee with, and thank you, Lee, and Bloomberg for being here