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Market size does not equal profit

Joining the likes of Boom.com, Charles Schwab and TD Waterhouse, Hutchinson Whampoa (CSFBdirect) and Pacific Century CyberWorks (2cube Securities) have recently entered the increasingly crowded Hong Kong internet brokerage market. In the rest of Asia, over 100 additional internet brokerage firms have been set up, each banking that their local cyber-trading markets will experience the same dizzying growth as those in the US and South Korea, where online trading is 35 per cent and 61 per cent of total volume, respectively.

Internet brokerage market growth will vary considerably country by country. Aside from Korea, the highest potential markets in Asia are in Japan, Australia, Taiwan, Hong Kong and Singapore. The latter two will become increasingly attractive as commission deregulation continues, allowing for alternative discount-based value propositions from new online entrants.

Even in the most attractive Asian internet brokerage markets, online brokerages are discovering that a large potential market is not necessarily a very profitable one. The first challenge is building up a scale customer base. The acquisition costs are non-trivial and the competition for customer accounts is fierce. The second challenge is cross-selling additional products to generate revenue above and beyond trading commissions. The breakeven economics of trading commissions will need to be offset by profitable cross-selling of additional financial services offerings – credit cards, unit trusts, lending products and advisory services. Finally, the winners will need to achieve differentiated levels of customer loyalty.

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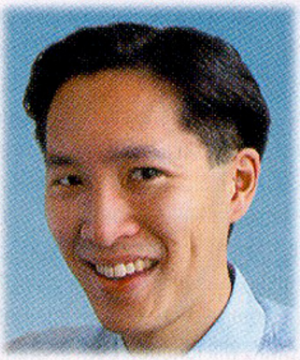

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