



Roland Berger
Strategy Consultants

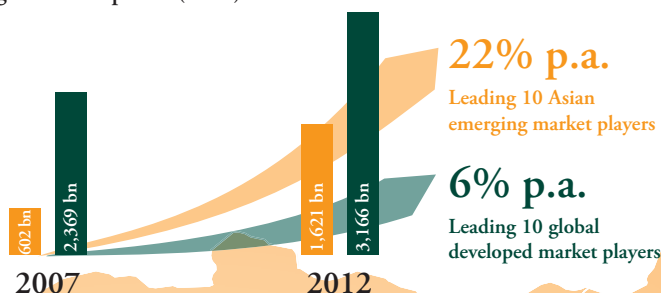
EMERGING MARKET PLAYERS ON THE RISE

DISCOVER HOW MARKET EXPANSION SERVICES PROVIDERS HELP EMERGING MARKET PLAYERS DRIVE GROWTH, EXPANSION AND REGIONAL INTEGRATION

*Third Global Market Expansion Services Report
Executive Summary*

Emerging and developed players...

Revenues for the top ten global developed and the top ten emerging Asian companies (USD)



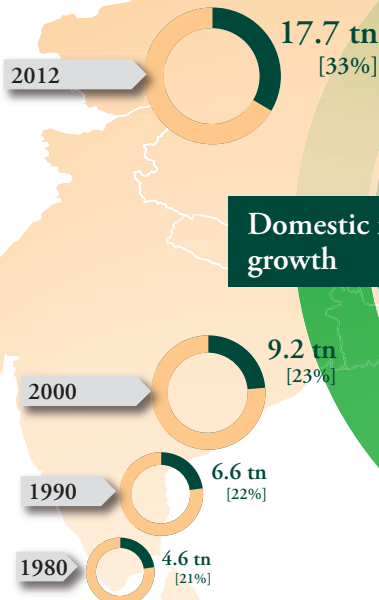
...and their needs

Top 3 reasons for partnering with MES providers

- 1 Access local market know-how and experience
 - 2 Access local customers and distribution networks
 - 3 Cost efficiency
- 1 Benefit from economies of scale
 - 2 Access local market know-how and experience
 - 3 Access local customers and distribution networks

Market growth

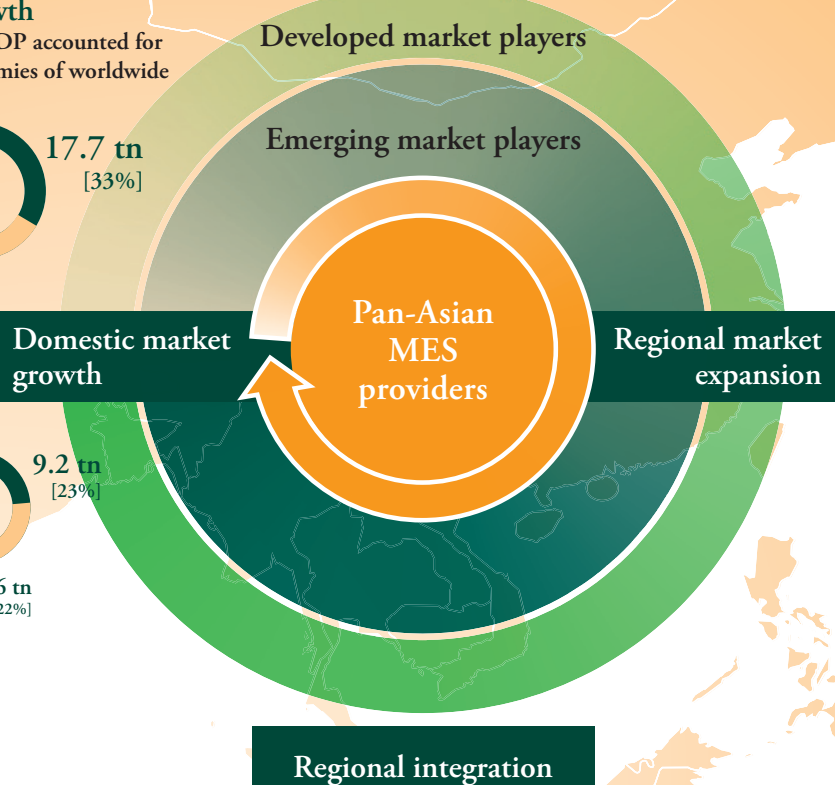
Share of total GDP accounted for emerging economies of worldwide GDP (USD)



Market expansion

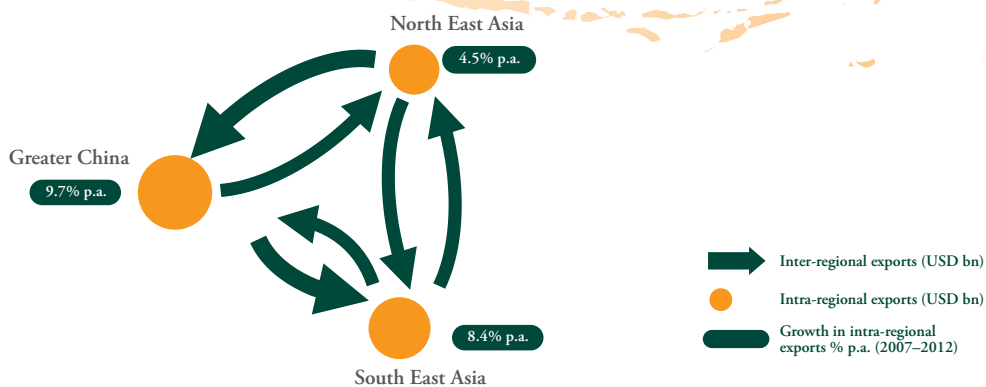
Market Expansion Readiness Index (MERI) across Asia Pacific 2013 – geographic overview

Globalizers	Hong Kong	87
	Singapore	74
	Japan	71
	South Korea	69
Expanders	Taiwan	69
	China	68
	Australia	67
	Malaysia	67
Explorers	Thailand	65
	New Zealand	64
	India	57
	Vietnam	53
Scouts	Indonesia	50
	Philippines	46
	Cambodia	45
	Sri Lanka	45
	Myanmar	44
	Laos	40



Intra-Asian trade

Inter-regional and intra-regional merchandise exports within Asia (absolute figures 2012, annual growth rates for intra-regional exports in 2007–2012)



Introduction

In today's global two-speed economy, characterized by fast growing emerging markets and stagnating developed markets, a new key player has taken the stage, the emerging market multinational. In contrast to its developed market peers, who have been driving globalization for decades, many emerging market players have just started expanding internationally. Awash with cash and a good understanding of emerging market mentality, they seem to be well positioned to benefit from promising growth prospects of emerging markets, in particular in Asia where demand for premium goods is spurred by the rising middle classes. At the same time, many emerging market players start recognizing that they can be even more successful expanding in or into new markets when partnering with specialists.

These factors have accelerated the rise of market expansion services, or MES, delivered by companies whose specialized knowledge spans the entire value chain and whose expertise has been established in many of these emerging markets. Their services portfolio enhances the ability of client companies to expand into new emerging markets, or to grow business in those emerging markets where they already have a presence, while reducing the risks and fixed costs associated with investing in expansion initiatives.

Emerging MES markets are growing and evolving

The future prospects for the MES industry proved to be bright. The global market expansion services volume reached USD 2.5 trillion in 2012, having increased by more than USD 300 billion in terms of transaction value in the past two years alone. This growth dynamic is expected to continue until 2017, when the forecast volume will stand at USD 3.6 trillion. Hence, the global MES market is again outperforming the global consumption market.

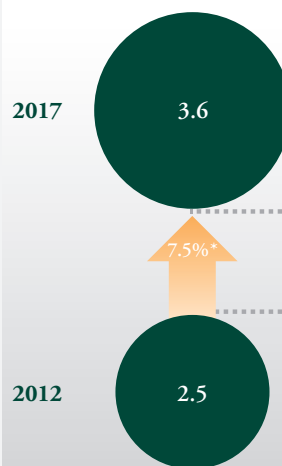
Emerging economies around the world are home to growing middle classes that have an appetite for consumer goods and healthcare products to which, until recently, they had little or no access. From Asia Pacific to Latin America, to Africa and the Middle East, consumer demand has sparked an increase in intra-regional trade that is powering domestic and region-wide economic growth. Total GDP in emerging markets rose from USD 4.6 trillion in 1980 to USD 17.7 trillion in 2012. That is more than one third of total global GDP, and the figure is rising rapidly: according to a 2011 Asian Development Bank study, the Asian region alone could account for over half of global output by 2050.

"We see entry into new markets as our key strategic goal and as an essential part of our corporate development."

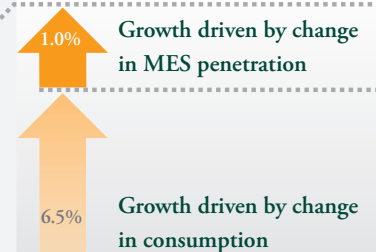
Marketing Manager, medium-sized Chinese engineered products company

The MES growth premium

Global MES market (USD tn)



Global growth driven by...



* 8.3% annual growth expected for Asia (CAGR 2012–2017)

Global consumption market versus global MES market (CAGR 2012–2017)

Sources: Euromonitor, Espicom Business Intelligence, Global Industry Analysts, SRI, UNCTADstat, Roland Berger Strategy Consultants analysis

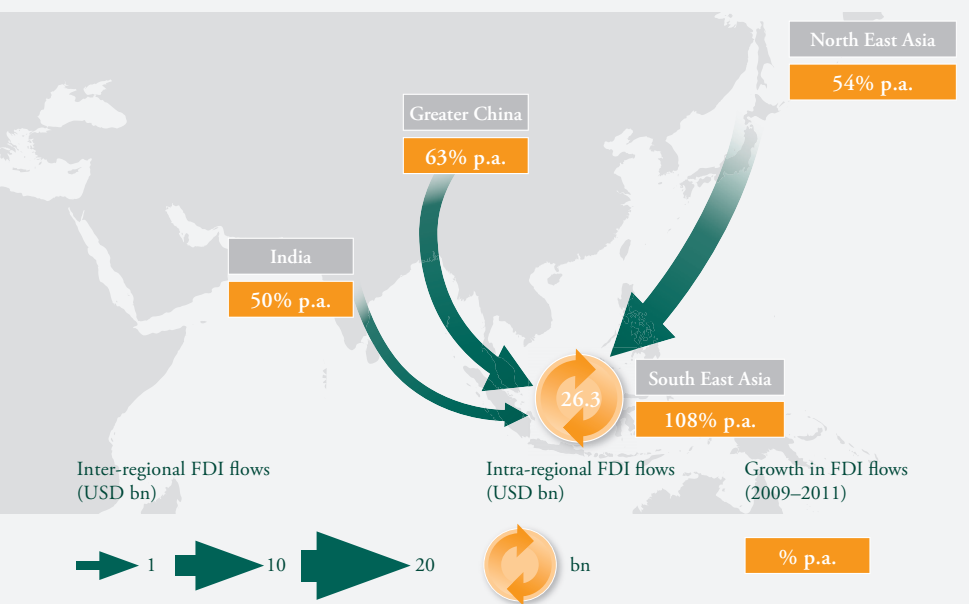
Governments as well as economic and geopolitical organizations have responded to these trade developments by implementing regulatory reforms that facilitate international commerce and market expansion. Asia is a prominent case in point. With Chinese and South East Asian firms ramping up their foreign investments and commerce, bolstered by low to zero import tariffs since the China-ASEAN Free Trade Agreement went into effect in 2010, trade flows within the region continue to gain strength. This trend is expected to continue as the ASEAN Economic Community (AEC) drives the region toward economic integration by 2015. That integration would make ASEAN, with a population in excess of 600 million and nominal GDP of more than USD 2 trillion, the third largest world economy after China and India, whose inhabitants exceed 1,350 million and 1,200 million respectively.

Expectations for the region are high: in ASEAN member countries, foreign direct investments – from within the region and beyond – have topped the 50% annual growth rate. The IPO market is thriving. Malaysia alone had the fourth-highest level of IPO activity in 2012, behind the US, China, and Japan. Moreover, responses to public offerings have been strong. The rise of the middle classes resulted in Asian economies being no longer the “extended workbench of the West”, but increasingly developing into promising sales markets. As goods move more freely, regional supply chains will emerge, and economies of scale are expected to improve, which will further strengthen the climate for successful market expansion.

In fact, when Japan’s figures are included, the Asia Pacific region has already overtaken Europe as the largest regional MES market – and soon, that will be true even without Japan. Strong growth, forecast through to 2017, will drive the Asia Pacific MES market up to a total volume of roughly USD 1.1 trillion, making it by far the largest such market in the world.

As domestic growth, economic integration and intra-Asian trade continue to accelerate, a new breed of Asian companies is emerging – so called emerging market players – who need expert assistance in managing the challenges inherent in expansion into new or existing emerging markets in the region.

Booming foreign investments in ASEAN economies



Inter-regional and intra-regional FDI inflows to the ASEAN region
(absolute figures 2011, annual growth rates 2009–2011)
Sources: AEC, Roland Berger Strategy Consultants analysis

Emerging market players on the rise

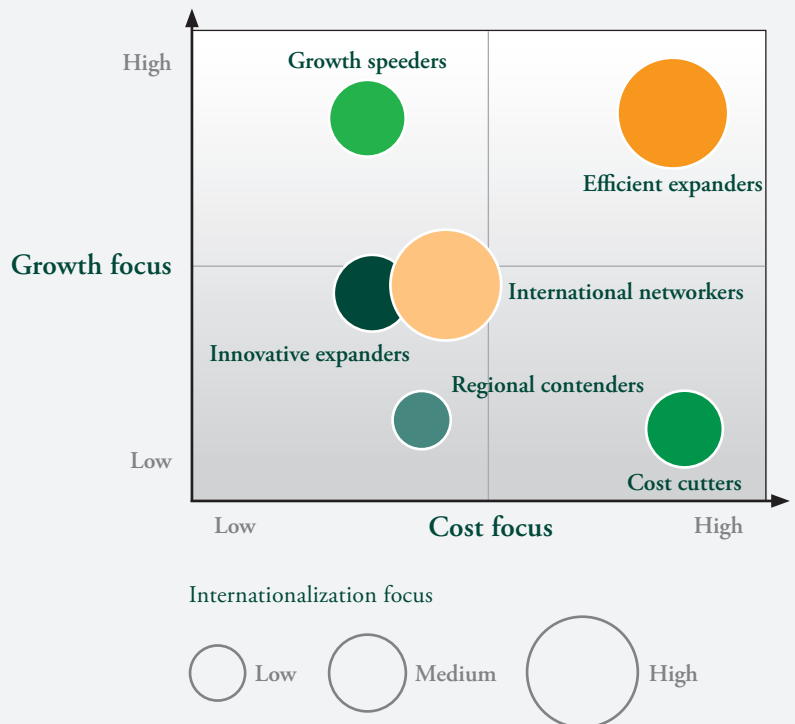
As Western developed market players face saturated home markets and seek new growth opportunities, the emerging market players are proving formidable competitors on a playing field that increasingly favors them. Their advantages include established local networks, knowledge of, and an affinity for, local customs and habits, plus the agility necessary to adapt quickly to a dynamic environment. These key advantages have driven significant success: over the past five years, the top ten Asian emerging market players have grown at an annual rate of 22% – almost four times faster than the 6% annual growth delivered by the world's top ten developed market players.

Powered by this domestic success, they are now primed to seek additional opportunities in new markets. Like their Western counterparts, these emerging market players have set their sights on the opportunities coming to the fore within their regions and beyond. To do so, companies need to overcome language barriers, know local regulations, comply with local content requirements, have the necessary financial and human resources, understand different markets and mentalities and ultimately gain access to local infrastructures and customers.

The need for these skill sets are powerful drivers of the MES industry, particularly in Asia, and will drive new growth opportunities for the region.

The extent to which emerging economies are expanding their markets varies significantly across the region. Emerging market players from not yet highly developed nations such as Laos and Cambodia are still primarily focused on satisfying local demand. By contrast, companies from more mature economies such as Malaysia and China are often active beyond their home market and are experiencing very strong growth there.

Emerging market players with six distinct strategic profiles



Clusters of emerging market players
Source: Survey data

*"We value MES providers' capability
in marketing and
strategic decision-making."*

General Manager, large Chinese consumer goods company

Success strategies of emerging market players in Asia

Emerging market players adopt one of several approaches to mastering the complexities of the emerging market environment. Based on our survey of around 250 emerging market players, six types of players emerge:

- **Growth speeders** try to achieve above-average growth and outcompete other local and Asian companies, whatever the cost, and with little regard for questions of efficiency. To succeed, they must have the capacity to scale their organizations in line with growing production capacity.
- **Cost cutters** have turned increased efficiency into a competitive advantage as they started to address the specific need for low-cost products in emerging Asian markets. Their focus is building mass market brands tailored to the needs of low-income and tradition-minded customers. To that end, they are most in need of increased efficiencies in internal processes that will meet the demand for a reduced cost base.
- **Efficient expanders** have developed from growth speeders and cost cutters by combining a focus on growth and cost efficiency with keen attention to brand equity. They closely examined the individual steps in their value chains and actively used partnerships and service providers to further improve their overall position. Like growth speeders, they must have the capacity to scale their organizations in line with growing production capacity, but they also must strictly control their costs and investment needs.
- **Innovative expanders'** key strategic priorities are product innovation, growth and customer satisfaction. When Western products started to become more readily available on Asian markets, innovative expanders chose to compete by improving their own product quality and tailoring it to local customer needs. Their approach requires strength in both their R&D and their sales and marketing units.
- **International networkers** put internationalization, strategic alliances and corporate image and reputation at the top of their agenda. They use these alliances to fill gaps in their internal capabilities and ensure their continued existence and success. It is essential that their alliances with strong, capable partners support their market positions without compromising their corporate independence.
- **Regional contenders**, the majority of which are small and medium-sized enterprises, focus on beating the competition. This is the most common type of emerging market player found across Asia. Under intense pressure from local and multinational competitors, they are unable or unwilling to partner with strong allies and so are forced to fight on their own. To succeed on such terms, they need strong local market know-how and networks.

*"Pure export business is never
a long-term solution."*

Marketing Manager, medium-sized Chinese engineered
products company

Efficient expanders are best positioned in emerging market environments, since they recognize the need to escape the pure cost focus and take on an expansion mindset while keeping efficient in execution to be successful in the long term. They also realize that they need to partner for selective steps in the value chain which may be more effective and efficient in driving market expansion. Therefore, it is no surprise that efficient expanders in our study consider market expansion services the preferred option to expand in and into new markets.

MES – the future growth model of emerging market players

The need for MES providers' expertise is growing among emerging market players as their focus turns to growth and efficiency. While the export model – selling products via exporting partners – has been the option chosen most often for entering new markets, organic growth of existing business is preferable for emerging market players that are already established through a subsidiary. Export offers the advantages of fast, low-risk access to foreign markets. However, companies have found its downsides to include lack of transparency on how their products are sold in the target market, difficulty in shaping customer perceptions of their brand, and limitations in realizing the markets' full potentials.

Market expansion services are gaining popularity because they allow companies to implement a solution that combines the quick market access and asset-light business model found in the export model, plus the proximity to customers that emerging market players seek.

This popularity is increasing the demand for MES as companies recognize that it can help them multiply their growth potentials, reduce costs and boost efficiency and effectiveness. Market expansion services will replace the export model in the long term as they are quickly gaining momentum among emerging market players.

An essential additional measure of the value of MES providers is their ability to meet the demand for this level of expertise throughout a region that is home to diverse cultures, languages, business traditions and legal systems. Local market know-how and experience are two of the key motives that draw emerging and developed market players alike to MES providers. The strongest of those providers offer the additional competitive benefit of a high-quality product portfolio that they can leverage on their clients' behalf to enhance their product positioning and make those products more attractive to middle-class consumers in the target market. MES providers also help to achieve growth at low risk and are able to perform market-oriented activities, such as sales and capillary distribution, more effectively and at a lower cost than the manufacturer's own organization. This optimizes not only operating and financial efficiencies, but also the client company's capacity to focus on its core business and pursue its full potentials for global market penetration and growth.

MES – driving the cycle of growth in Asia

Asia offers a particularly strong example of how emerging market players have joined developed market players as drivers of regional growth and integration in emerging markets. Coupled with macroeconomic and regulatory trends, MES providers act as facilitators for accessing new markets and are instrumental in creating a foundation for expanding business among emerging and developed players.

Thanks to their extensive local expertise and reach, pan-Asian MES providers in particular are well-positioned to support both emerging market players and developed market players in their processes of growth and expansion. Their geographic reach coupled with local market knowledge and infrastructures makes them key potential partners for ambitious emerging market players. Hence, MES providers are driving regional market growth and actively contributing to the integration of the entire Asia Pacific region.

"We don't have required networks in the new market at the beginning, and in the long term we do not have enough resources to develop the market alone. Therefore, we rely on MES providers."

General Manager, small Thai healthcare company



For the complete report and further information, please visit www.marketexpansion.com.

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