MARTET EXPANSION SERVICES:
TAKING OUTSOURCING TO A NEW DIMENSION

First Global Market Expansion Services Report:
Introducing A New Industry
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Market expansion services (MES) is one of the most promising sectors in the outsourcing industry. It adds exceptional value and, unlike traditional outsourcing, its focus is on sales growth and increasing market share – not only on efficiency gains and cost cuts.

The global expansion services market is projected to grow from USD 2.2 trillion in 2010 to 3.1 trillion in 2015. Over this period the MES market is anticipated to expand by 7.1% p.a. This is faster than the expansion of consumption markets, which is expected to grow at 6.1% p.a. over the same period.

The main drivers of expansion services are a growing middle class in emerging markets, which is giving consumer and industrial markets a major boost, and the ongoing manufacturer focus on core competencies, which helps push the penetration rate of MES.

With Latin America rising from a lower base line, Asia Pacific is believed to be the most promising MES market, with 11.3% growth p.a. It is predicted to overtake Europe as the largest MES market by 2015.
Healthcare and consumer goods are anticipated to have the highest MES penetration rates with 44% and 16%. At 9.2% p.a., MES market for engineered products is presumably set to grow the fastest by 2015.

Expansion services market growth (2010 – 2015) and penetration rate by industry (2010)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Annual growth rate, 2010-2015</th>
<th>2010 MES penetration rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Goods</td>
<td>+7.6%</td>
<td>16%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>+4.8%</td>
<td>44%</td>
</tr>
<tr>
<td>Engineered products</td>
<td>+9.2%</td>
<td>8%</td>
</tr>
<tr>
<td>Specialty chemicals</td>
<td>+5.6%</td>
<td>10%</td>
</tr>
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Whereas small and medium-sized enterprises (SMEs) often look for market knowledge, experience and resources, multinationals will increasingly seek a partner with a superior local network to drive growth and efficiency gains.

The MES provider market is developing in three main directions: first, increasing geographic coverage; second, growing portfolios of value-added services; and third, greater integration of individual services.

Regional and international cross-industry MES providers are best positioned to benefit from further growth and industry consolidation. This is because such providers can achieve economies of scale from their large scale operations and pose high entry and exit barriers due to their integrated service portfolio.

Sources: Euromonitor, Epicom Business Intelligence, Global Industry Analysts, SRI, UnitedSTAT, Roland Berger Strategy Consultants analysis

1) The study focuses on core MES industries and their respective sub-industries. Certain sectors with MES market potential, such as information technology, are not addressed in this study.
2) Market size refers to the transaction value of goods handled by MES providers. Revenue reported by most MES providers can comprise of fees or value of goods sold or a combination of both. Therefore, it is not representative to calculate market shares based on revenue. Furthermore, there is no single player active in all geographies and industries, thus meaningful market shares can only be derived from detailed market analysis.
3) The MES growth rate refers to the annual growth rate of the transaction value handled by MES providers.
4) The MES penetration rate refers to the total transaction value handled by MES providers as a percentage of the total consumption market.
Preface

A new industry has emerged…

Globalization is an irreversible trend. And so it should be – it drives international specialization and accelerates the efficient international division of labor. However, the rules of the game are changing constantly and companies have to regularly redefine their core competencies. Reliable outsourcing partners help companies do exactly that. They allow companies to focus on what they do best as they tap into new and changing markets.

Outsourcing is no longer what it once was. DKSH is a prime example of a new breed of company that focuses on the processes that require intense customer interaction, thereby taking outsourcing to new levels. At DKSH, this specialist support is called “market expansion services”. Providers of market expansion services help their partners and manufacturers to grow in existing markets and enter new markets by gaining access to customers, setting up marketing, sales and distribution structures and thereby exploiting their full business potential.

… and will continue to grow

Today, true growth potential is to be found in the emerging economies. The fast-growing middle classes in particular fuel this growth – which is why we made them a focal topic of this study. Companies seeking growth and new outlets, however, need to understand how those markets can be targeted. That expertise is the core competency of a market expansion services specialist. By delivering highly customized, end-to-end integrated services, market expansion services providers can generate new impetus for their clients by reshaping their business operations in a new and unique manner.

Market expansion services is a relatively young industry and its business models are only just emerging. It has therefore not yet received much attention in the specialist literature. DKSH, a leading market expansion services provider, and Roland Berger Strategy Consultants have therefore decided to team up to present the first comprehensive global report on the MES sector. This is the first publication in a series that we trust has the potential to become an industry standard.

Our report is based on extensive research and includes the findings from over 100 interviews with industry executives and thought leaders. The study is designed to help decision makers fully understand what market expansion services are all about, what the market potential for these services is, and how you can benefit from them.

We hope you enjoy reading this study and look forward to your suggestions and comments.

Dr. Jörg Wolle
President & CEO DKSH Holding Ltd.

Dr. Martin C. Wittig
CEO Roland Berger Strategy Consultants
A. GLOBAL OPPORTUNITIES

"Expanding into new markets is at the top of many CEO agendas."

Manager Asia Pacific, large German consumer goods company

Focus on core competencies drives outsourcing

Should you make or buy? The question has been around for a very long time. In the early days, the Ford Motor Company had everything it needed to convert raw materials into finished cars – including a wholly owned rubber plantation in Brazil and iron ore mines in Minnesota. Today, by contrast, even the steel mill that supplies Ford’s River Rouge Plant is operated by a Russian steelmaker.

While the pioneers of outsourcing originally focused on production processes, the discipline has since broadened its scope to include support services, from cleaning and maintenance to payroll management. Overall, it is fair to say that outsourcing has changed the face of global business.

This is not to say that outsourcing is invariably a simple issue. Sometimes it involves more hassle than it is worth. And for that reason, companies today are taking a long, hard look at the supposed benefits. These must always be weighed against the loss of control, the need to align processes, to manage interfaces with service providers and to cope with the overall organizational complexity that outsourcing involves.

The strategic shift toward a focus on core competencies has changed the face of industry. The prevailing dogma said that you should focus on your core business and markets, and sell off the rest. That idea was initially designed to counter corporate diversification and avoid what had become known as the “conglomerate discount”. Companies streamlined their portfolios and focused on the markets they could serve best.

In time, the concept of core competency was expanded to include corporate activities: focus on what you do best and leave everything else to other players who can do it better and more cost-efficiently, because that is their core competency. This trend toward specialization has obviously given the outsourcing industry a major boost.
As companies evolve, they sometimes redefine what they consider their core competencies. Even so, the logic of specialization will remain and become even more intense given the emergence of information technology and globalization.

Globalization: from cost cutting to market expansion

Globalization is both the result and one of the key drivers of specialization. Global production footprints and deliveries to the remotest corners of the earth have become a reality for many companies. But globalization has not only changed the way companies create value and deliver goods, it has also created new business models.

Initially, companies went global mainly to benefit from cost differentials between regions. They generated the bulk of their sales in their home markets, but set up a global footprint for their back-end processes and began sourcing from different regions to reduce their cost base. The idea was to gain a competitive edge over competitors in their home markets. In the process, companies relocated mostly labor-intensive non-core links in their value chain to countries with lower factor costs.

Given the limited growth opportunities in more developed regions of the world, companies also started to go global in order to conquer new markets. This constituted a major paradigm shift: Why not sell to the less developed regions of the world that so far primarily provided inexpensive labor for production? Although per capita income is still comparatively low in these regions, large populations and excellent economic growth prospects promise tremendous business opportunities for international companies. At the same time, ever more companies hailing from these emerging markets have grown to a respectable size in their own right by exporting to other emerging and less developed economies.

Spotlight on UNIQLO – concentrating on core competencies in a globalized world

UNIQLO is Japan’s leading clothing retail chain and achieves excellent results in terms of both sales and profit. UNIQLO has chosen a unique business strategy and business model that focuses exclusively on its core competency, which is designing, marketing and selling fashionable casual apparel. While the company retains tight control of the entire business process, all non-core activities are rigorously outsourced. As a consequence, the production team merely gives guidance and assistance to partner factories, while the logistics team advises and directs all externally managed supply chain partners. This concept allows UNIQLO to accelerate its entire retailing process, giving it a clear edge over its competitors.

Source: Public company information

Spotlight on Nestlé – increased focus on emerging economies

Nestlé, the leading food and nutrition company, has developed a specific business model called “Popularly Positioned Products” (PPPs) that focuses on the specific needs of around three billion lower-income consumers worldwide. PPPs offer these consumers high-quality food products that provide high nutritional value at an affordable price and in an appropriate format. The strategy relies on local sourcing, local manufacturing and local distribution. With an increasing number of consumers trading down in the current economic environment, PPPs and other low-price initiatives are proving popular in developed markets, too. PPPs have achieved very high growth rates through hundreds of separate initiatives worldwide.

Source: Public company information

International trade flows shift to Asia

A look at international trade flows helps us understand the ongoing changes in the global economy. Over the past five years, international trade has grown at a rate of 4.8% p.a. despite the economic crisis. In the past, international trade was driven by the exchange of goods and services between highly developed countries. Yet growth in trade between North America and Europe amounted to no more than 1.2% between 2006 and 2010.
Strong growth of trade flows to and within emerging markets

Figure 1: Inter- and intra-regional merchandise exports from Europe and North America to emerging regions and within (absolute figures 2010, annual growth rates for intra-regional exports in 2006-2010)

Sources: UnitedSTAT, Roland Berger Strategy Consultants analysis

So where did all that growth come from? The answer is that trade has shifted to new marketplaces. Today, exports from developed economies to less developed ones in South America, Africa, and Asia are growing at annual rates between 6% and 11%. Trade flows toward Asia are particularly interesting. In 2010, South America, Africa and the Middle East imported goods worth no less than USD 1 trillion from North America and Europe. At the same time, trade flows to Asia jumped to USD 1.4 trillion, outgrowing exports to other regions by 40%. Interestingly, less developed regions are also increasing their exposure to intra-regional trade.

The Asia Pacific region, for example, has already overtaken North America in terms of intra-regional exports and today represents the world’s second largest trading area, after Europe. Growth in intra-Asian trade is expected to remain vigorous as overall consumption continues to

"We often lack access to customers. Our market expansion services provider has often paved the way with its useful network."

CEO, Singapore-based consumer goods company
Global opportunities rise, trade barriers decline and cross-border collaboration intensifies (e.g. in ASEAN). Asia has also evolved into a major industrial production powerhouse, assuming the role traditionally shared by Europe and the US as companies in those regions reconfigure their entire value chains and adopt global footprint outsourcing policies, both in manufacturing and in providing services to Asia (see Figure 1).

**The rise of market expansion services providers**

Market players’ focus on core competencies, coupled with increasing globalization, has given rise to a new breed of companies: market expansion services (MES) providers. These companies help other companies to grow by doing what they do best, and to develop their markets by expanding globally.

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**Taking the outsourcing industry to a new dimension**

**Figure 2: MES within the outsourcing landscape**

**Spotlight on AstraZeneca – moving global purchasing to China**

China is playing a key role in AstraZeneca’s sourcing operations as the company takes steps to transform its existing “in China for China” concept into an “in China for global” strategy in selected business fields. For example, the drugs company is gradually withdrawing from producing its in-house active pharmaceutical ingredients (APIs) and, instead, using China as the central hub of its outsourcing activities. In that process, the plan is for its sourcing center in China to ultimately cater for the vast majority of the company’s global purchasing volumes – thereby generating significant savings.

Source: Public company information
MES providers help companies find their way through the labyrinth of local practices and conditions when entering new markets or expanding in existing ones. Roland Berger’s interviews with more than 100 experts show that the challenges appear to be similar across different industries and geographic regions. At the top of the list are peculiarities in local regulatory and legal systems, cultural differences, local languages, difficulties in accessing local customers, and the lack of local market knowledge. Such situations are in some industries aggravated by the fact that would-be exporters are unfamiliar with domestic infrastructures and face massive competition from local incumbents.

These challenges can be tackled in many different ways. The specific solution depends on the size of the company involved, the geographic markets it covers and the industry in which it operates (see Chapter C for a more detailed analysis).

Many companies simply do not have the internal skills or resources to build up their own operations in globally distributed markets. Moreover, they are mostly unwilling to bear the full risk of such a venture. This is where the strengths of MES providers come into play. Their value proposition is to help companies expand into new markets and develop existing business abroad. They provide integrated front-end processes in marketing and sales, logistics and distribution, customer service and support. Their business models are based on services that typically involve close interaction with customers and help address specific local needs.

As companies enter new markets or grow their existing ones, MES providers organize and run their entire value chain for almost any product. This unique value proposition makes them an integral part of any expansion effort. In today’s increasingly globalized world, it requires little imagination to appreciate that their role is about to become even more important.

**Market expansion services and outsourcing**

Traditional outsourcing can be broken down into three categories:

1. **Business process outsourcing (BPO)** – Outsourcing specific business processes such as payroll management
2. **Information technology outsourcing (ITO)** – Outsourcing IT-related processes such as IT maintenance services, software development, and testing
3. **Knowledge process outsourcing (KPO)** – Outsourcing research, analytical tasks and services in the area of market, legal or clinical research

Conventional outsourcing providers generally focus on one or more of these categories. Their value proposition is that they can perform the processes in question more efficiently. Whatever the case, they specifically aim to reduce the costs of their clients (see Figure 2).

MES, by contrast, occupy the premium position in the outsourcing landscape by reducing costs and improving revenues. Their purpose is to enhance clients’ access to new markets and help them to better exploit existing markets. In so doing, they focus on front-end processes (such as marketing and sales or customer services) that are highly interactive. As a result, clients can increase market share, penetration and coverage while reducing fixed costs and operational complexity. In this way, MES providers add substantially more value than traditional outsourcing organizations.

"Market expansion services providers need to be much more than distributors. They must take real responsibility for our products in the market."

Manager Asia Pacific, large German consumer goods company
## B. MARKET EXPANSION SERVICES

**Comprehensive end-to-end solutions along the value chain**

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<th>Strategic support in market entry and development</th>
<th>Research and analysis</th>
<th>Marketing</th>
<th>Sales</th>
<th>Logistics and distribution</th>
<th>Customer service and support</th>
</tr>
</thead>
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<td>&gt; Market research</td>
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<td>&gt; Importation</td>
<td>&gt; Installation and commissioning</td>
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<tr>
<td>&gt; Market entry studies</td>
<td>&gt; Public relations</td>
<td>&gt; Key account management</td>
<td>&gt; Warehousing</td>
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<tr>
<td>&gt; Applications research and support</td>
<td>&gt; Product management</td>
<td>&gt; Product training</td>
<td>&gt; Stock management</td>
<td>&gt; Repairs and maintenance</td>
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<tr>
<td>&gt; Testing</td>
<td>&gt; Brand building</td>
<td>&gt; Order taking and processing</td>
<td>&gt; Invoicing, cash collection</td>
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<tr>
<td></td>
<td></td>
<td>&gt; Stock reporting and planning</td>
<td>&gt; Transportation and delivery</td>
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<td>&gt; Product packaging</td>
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<th>Backflow of information from customers to clients</th>
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<tbody>
<tr>
<td>Market expansion services provider</td>
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</table>

> "We aim to have the best market expansion services provider in each country. But having a single partner for an entire region helps us reduce complexity and cost significantly."

CEO, large North American technology company

### Why market expansion services?

MES providers help companies grow their business in new and existing markets. They make it easier for partners to gain market knowledge, enlarge their sourcing base and tap into revenue opportunities, thereby helping them increase their share of the market. They can pave the way to geographic expansion. Unlike traditional outsourcing providers, they help companies with primary or front-end business processes that involve a substantial level of direct customer contact.

Examples include marketing and sales, logistics and distribution, and customer services. These activities are predominantly driven by the specific local needs (e.g., cultural factors, regulatory requirements) that companies have to take into account when they enter new markets. There are also industry-specific services, such as scouting for suppliers or testing products in
The low-risk, high-return option for growth

MES providers help companies tap into substantial market potential at relatively low cost and risk. Manufacturers do not need to invest heavily in local assets and resources: they can draw on the infrastructure of the MES provider. Hence, MES providers offer major benefits compared to other forms of market entry or development (see Figure 4).

Profiles of different market expansion services providers

At the end of the last century, the distribution of products to distant geographic markets was still mainly handled by dozens of medium-sized trading companies and thousands of small local traders. The trading industry was consequently highly fragmented and complex.

Multinational trading companies were significant players in those days. Their evolution dates back between the 16th and 18th centuries, when large, integrated firms known as “chartered trading companies” traded between Europe and the rest of the world, primarily on the basis of monopoly government contracts. The British and Dutch East India companies are regarded by some...
as the first “modern multinationals”. However, by the middle of the 19th century these European chartered trading companies had disappeared as government monopolies were abolished.

As globalization progressed, manufacturers increasingly recognized that market information and knowing customer needs were essential for further growth. With the rise of the internet and global trade, the long-standing business model of the trader buying and selling products had become obsolete, forcing trading companies to reconsider their value propositions. Furthermore, with the further development and professionalization of Western industries, a need for a wider range of services emerged, such as market entry studies, merchandizing, performance reporting and after-sales support.

Many trading houses proved unable to reinvent their business models. They continued to operate in the traditional style – and saw their business volumes decline. They were eventually taken over or went out of business. Others, however, began to develop into solutions providers for specialized products and services. This trend toward specialization generated portfolios of dedicated services that manufacturers could choose from, and ultimately led to the emergence of today’s MES providers.

This emergent business category itself has since experienced significant consolidation. High-caliber MES providers such as DKSH have acquired smaller players that were not able to develop into specialized value-adding service providers. But the competitive landscape in the MES sector is still highly fragmented. To understand this, it is useful to categorize the different players in terms of geographic and industry coverage (see Figure 5).

1. Local single-industry MES providers: Local niche players act in a single country and provide services to one specific industry. They are often family-run. Though negligible on an international scale, niche MES providers can still grow to a respectable size in large countries.

2. Local cross-industry MES providers: These only operate in one country, but cover several industries. They are much smaller than regional MES providers and are usually family-run. Their focus is geographically limited owing to a lack of regional market knowledge and insufficient financial resources needed to build up additional infrastructures abroad. Their distinctive value proposition is a strong local foothold and access to local customers.

3. Regional single-industry MES providers: These providers operate in several geographic markets but in one industry only. Their value proposition is their industry specialization coupled with cross-border activities. One potential challenge is their ability to achieve critical mass in each country and thus ensure operational efficiency and synergies.

4. Regional cross-industry MES providers: These providers have operations in several countries and also offer their services to companies in several industries. Their value proposition is rooted in their regional coverage and the ability to realize synergies spanning different

“Even large local players often do not understand what our cultural and compliance expectations are. Our experience with an international market expansion services provider is much better than what we’ve seen from local providers.”

Commercial manager Asia Pacific, global consumer goods company based in Germany

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Commercial manager Asia Pacific, global consumer goods company based in Germany
countries and industries. They benefit significantly from economies of scale (e.g. shared central services, back-office and logistics infrastructures).

5. **International single-industry MES providers:** These providers operate internationally and focus on covering the entire value chain within one specific industry. A common example can be found in the pharmaceutical industry where global MES providers offer complete solutions from distribution to logistics to marketing and after-sales services. The value propositions of such providers are their extensive international coverage, capacities satisfying the complex needs of large pharmaceuticals firms, experience and expertise within the industry and cost efficiency in operations. The potential downside here is the full exposure of such providers to industry-specific risks.

![Figure 5: Playing ground of different MES providers](image)

6. **International cross-industry MES providers:** These providers operate internationally and across various industries. The value proposition of such providers is their ability to provide customized and complex solutions that fulfill the needs of large multinational companies who manufacture a diverse range of products across different industries. In common with other international providers, they provide operational cost efficiencies, extensive networks and infrastructures. Their size and scope allow them to achieve economies of scale and build a platform for high value-added services. SMEs with limited resources can potentially rely on such holistic solutions for their international expansion into global markets, but with limited capital investments. Likewise, their diverse coverage reduces potential risk exposure within certain industries or regions. These providers prove to be best positioned in the MES market (See Figure 5).
"Despite our position as a multinational consumer goods company, a market services provider can help us to further penetrate selected markets."

Commercial manager Asia Pacific, large international consumer goods company based in Switzerland

Key challenges facing companies aiming to expand

While some challenges for companies wanting to move into new markets or grow their business in existing markets vary depending on the specific industry and country, others are common to virtually all situations. Many companies struggle with a limited understanding of local regulatory issues relating to product registration and legal or tax requirements, for example. Frequently, they have insufficient knowledge of local markets with high entry barriers and enjoy only limited, if any, access to local customers.

These challenges apply just as much to the large multinationals with local production facilities as to small and medium-sized enterprises (SMEs). In many cases, however, SMEs and multinationals face different challenges as they seek to expand into other markets. Two factors appear to be significant here: the clients’ current degree of market expansion and the size of the companies involved.

Matching services to the clients’ current degree of market expansion

Companies have different outsourcing needs depending on whether or not they already have a market presence and, if so, how that presence is set up. Market expansion services providers tailor their services to companies’ specific requirements. Three basic patterns emerge:

1. Companies not yet present in a market, but aiming to enter it: Some companies are not yet present in a given market but have excellent, innovative products to sell there. They are looking for a reliable partner to help them gain a foothold. These companies often lack the knowledge, experience and resources to independently access new markets with high entry barriers, but are still keen to tap into sales potentials in the regions that interest them. With the help of an MES provider, they can quickly enter markets at much reduced risk and without any fixed overheads. For
them, MES providers often cater for the whole value chain from marketing and sales to distribution and after-sales activities for an entire country or region (an “integrated approach”).

**Spotlight on the Dockers® brand – expanding with a strong partner**

The Dockers® brand – a Levi Strauss & Co. brand of men’s casual apparel – aims to position itself as the premium menswear brand in Thailand’s highly competitive clothing industry. In collaboration with DKSH, the company developed a marketing and sales strategy. This called for a focus on Dockers’® brand core products, regularly investing in seasonally changing visuals, fixtures and furniture, and opening a flagship store and a number of shop in shops in Bangkok. The Dockers® brand is currently expanding outside Bangkok and now has over 15 outlets all over Thailand.

**Source:** Company information

2. **Companies present in a market via outsourcing, but not satisfied with their current partner:** There are companies that are already present in Asia thanks to outsourcing services, often to a single service contractor. However, their current partners lack the expertise, network, service quality and platform to deliver the desired results. They may not be obtaining blanket coverage of a region or benefiting from a state-of-the-art IT infrastructure, or they are limited to stand-alone services. Such companies may be seeking a partner offering end-to-end services. Switching to an integrated services supplier can result in top-line growth and efficiency gains.

3. **Companies present in a market with their own sales and distribution infrastructure who are looking to boost performance by switching to an MES provider:** There are companies that understand the importance of a specific market and have their own sales and distribution presence there, but do not engage in outsourcing. The need to focus on core competencies (due to growing cost pressures, a lack of critical size, substandard performance or stagnating local subsidiaries) forces them to decide which locations they wish to operate themselves and which peripheral tasks to farm out. Here, MES providers can offer valuable support. They can integrate their client’s local subsidiaries into a wider platform and thereby reduce their fixed costs, complexity and risk. They can also perform sales, distribution and after-sales activities more efficiently and effectively than the client using their own resources. As the integrity of the value chain steadily becomes more important, international MES providers also have clear advantages: with their own strict guidelines, they ensure good corporate governance and ethical behavior.

**Spotlight on Oerlikon Systems – growing further with focused local support**

Oerlikon Systems, a business unit of OC Oerlikon Ltd., is a worldwide provider of production equipment for the semiconductor, data storage, PV and nanotechnology industries. In a joint analysis conducted with DKSH, Oerlikon Systems realized that the cost base of their local entities in Taiwan and China constituted a competitive disadvantage, especially in an economic downturn, and that access to well-established management teams and local key accounts would help them develop business much faster. Therefore, both parties agreed that DKSH should take over Oerlikon’s sales and service organizations in Taiwan and China, and would be responsible for all sales and after-sales activities (on behalf of Oerlikon Systems) in these countries. Within a very short time, DKSH with its geographical and infrastructure advantage substantially increased sales and market share of Oerlikon’s leading products and solutions in both markets.

**Source:** Company information
Tailor-made approaches for SMEs and multinationals

Why would large multinational companies use MES providers? After all, multinationals presumably have the deep pockets and resources needed to attend to new markets themselves.

In general, they see research and development, marketing and, to a certain extent, manufacturing as their core competencies. These are the activities they do not outsource. For other parts of the value chain, they turn to third-party providers. Those needs are accentuated in emerging markets, where even large multinationals face high entry barriers. This is where MES providers come in: they can penetrate comparatively inaccessible markets more efficiently, more effectively and at lower cost because they have superior local networks. To multinationals, the decision to partner with an MES provider is a rational decision driven by a calculated assessment of costs and benefits.

SMEs, on the other hand, are mostly niche players with less scale and scope than multinationals. SMEs struggle to access markets because they lack market knowledge, experience and resources. They need a market entry platform that allows them to minimize risks and fixed overheads, and overcome obstacles while deploying limited resources. To them, MES providers offer an ideal market entry platform (see Figure 6).

SMEs build on their partners' strong local, industry, technical or product expertise. MES providers offer an integrated approach that covers the whole value chain. They allow SMEs to achieve the same level of excellence in emerging countries as in their home markets, even though their "presence" is supplied by an MES provider. For SMEs, the decision to partner with an MES provider is therefore based strongly on mutual trust.

Efficiency is a key value proposition for multinationals

Large multinationals need MES providers that support and complement their local presence and networks, if such exist, and offer integrated but modular services.

"As an SME, we simply do not have the sales resources and cannot bear the risk of being present in all our markets ourselves. We rely on a strong partner for market expansion."

CEO, Singapore-based medium-sized consumer goods company
Big and small companies have different needs

![Bar chart showing reasons for partnering with MES providers](chart.png)

Source: Roland Berger Strategy Consultants survey

MES providers serve large multinationals along several dimensions. They:

- Improve market coverage and market share while reducing fixed costs
- Complement the in-house network where a third-party provider can deliver services more efficiently and effectively than the multinational itself (e.g. higher operational excellence in sales/distribution and value-added services, logistics, cash collection, merchandizing, etc.)
- Complement the in-house network with a strong IT backbone that can deliver accurate, in-depth and extensive market information, and where the multinational’s own systems can be directly integrated

Large multinationals usually choose specialized outsourcing partners and prefer solutions designed for an entire region. They favor MES providers with the critical mass that is able to deliver high quality and cover several markets. Hence, for large

"We prefer to handle large customers ourselves. But we need a market expansion services provider to deliver the same skills to smaller customers that we are not able to handle directly."

Marketing manager, Japanese chemical company
multinational clients, the focus is typically on regional and cross-industry MES providers.

**Combination of strategic advice and all aspects of execution is key value proposition for SMEs**

SMEs need MES providers that offer them a complete platform for entering a new or an existing market. They:

- Deliver commercial advice and help define a market strategy, drawing on their in-depth market knowledge of a specific country or region
- Provide a market entry platform, including establishing the necessary business contacts both in the customer’s environment and in respect of local authorities
- Provide a fully-fledged local value chain, including sales, marketing, logistics, distribution and after-sales tasks, as well as other value-adding services that allow clients to minimize their fixed asset and risk exposure

SMEs choose outsourcing partners that can offer highly integrated services and can build up the entire value chain locally. Like large multinationals, SMEs also prefer solutions that are designed for an entire region. This is because they want to reduce complexity – provided the regional players have at least the same service level and market coverage in the country in question as a national player. SMEs tend to look for MES providers that have strong links in their own domestic market and a good cultural understanding of that market, rather than pure-play local organizations. Cultural barriers are then easier to overcome and a deeper level of trust can usually be achieved.

**Success criteria for MES providers**

Market expansion is invariably a long-term project that involves lasting partnerships. Choosing the right service provider is therefore a decision of strategic importance.
Market expansion services – the formula for success

Experience shows that companies attach the most importance to “soft” factors such as managing personal relationships and communicating openly. Companies also mention that service providers must be able to offer sustainable long-term relationships based on financial stability.

Market coverage and access to customers is a key requirement for most companies when it comes to market expansion. MES providers are often chosen on the basis of their marketing and sales expertise, combined with their distribution network. Whereas SMEs demand broad coverage of all relevant countries within a region, larger players require widespread channel coverage in individual countries.

Depending on the industry, handling competitor products can be a delicate issue for MES providers. In the consumer goods and healthcare industries, MES providers must be able to guarantee that separate teams are working for competing brands. If this is the case, handling competitors’ products is usually not an issue. On the contrary, it can even be seen as an advantage since it gives MES providers more critical mass and negotiation leverage in their dealings with the respective retailers. Manufacturers in other areas – especially in engineered products and technology industries – often insist that their MES providers do not handle competing products (see Figure 7).

Western manufacturers also prefer large international MES providers that offer solutions designed for entire regions rather than local markets. The general view is that cultural fit and a common understanding of the way business is done usually makes the relationship easier and more successful.

To summarize: an MES provider needs to offer broad market coverage as well as an excellent local platform. Manufacturers must be able to rely on the provider’s proven track record, guaranteeing both experience and expertise in the relevant market and industry. And last but not least, the service quality in the country and industry in question must be top-notch (see Figure 8).
D. MARKET EXPANSION SERVICES BY REGION AND INDUSTRY

Consumer markets dominate

The global picture is highly diverse and fragmented – both by region and industry

We estimate that the global MES market\(^1\) generated sales\(^2\) worth USD 2.2 trillion in 2010. Industries demanding MES usually require a local marketing and sales platform, a strong network and customized services (relating to sales, marketing and technical product specifications, for example). This study looks in particular at the consumer goods, healthcare, engineered products and specialty chemicals industries.

From an industry perspective, consumer goods (worth USD 1,387 billion) account for the lion’s share of MES sales, followed by healthcare (USD 529 billion), engineered products (USD 259 billion) and specialty chemicals (USD 41 billion). At over 40%, the penetration rate (total transaction value handled by MES providers as a percentage of the total consumption market) is clearly highest for healthcare as the customer-oriented value chain steps have the strictest requirements (complexity, standards, capillary distribution), followed by consumer goods with 16%, driven by the relatively high market fragmentation. Both the engineered products and specialty chemicals industries have penetration rates below 10% (see Figure 9).

From a regional perspective, Europe\(^3\) (at USD 615 billion) generated the highest volume of MES sales in 2010, followed by Asia Pacific\(^4\) excluding Japan (USD 499 billion) and North America (USD 472 billion). Latin

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1) The study focuses on core MES industries and their respective sub-industries. Certain sectors with MES market potential, such as information technology, are not addressed in this study.
2) In this study, sales refers to the transaction value of goods handled by MES providers. Revenue reported by most MES providers can comprise of fees or value of goods sold or a combination of both. Therefore, it is not representative to calculate market shares based on revenue. Furthermore, there is no single player active in all geographies and industries, thus meaningful market shares can only be derived from detailed market analysis.
3) Europe includes the Commonwealth of Independent States (CIS), i.e. Russia, Ukraine, etc.
4) Asia Pacific includes Australia, New Zealand, India, Greater China, North East Asia (excl. Japan) and South East Asia.
America accounted for USD 252 billion in sales followed by Japan (USD 205 billion) as well as Africa and the Middle East (USD 174 billion). The emerging regions show both the highest historical growth figures (all in excess of 9% p.a.) and the highest penetration rates (see Figure 10).

Higher outsourcing rate for MES in consumer markets than industrial markets

The industries with the greatest need for a local platform and capillary network are those producing manufactured goods. They mainly include consumer goods, pharmaceuticals and healthcare, plus parts of the engineered products industry and specialty chemicals.

The chemical industry must be regarded as a special case. Basic chemicals are mostly sold in large volumes with no add-on services. They also require dedicated distribution networks that are geared toward bulk quantities (e.g. pipelines, vessels and trains). For these reasons, basic chemicals are not covered by this study. On the other hand, specialty chemicals are often sold in low volumes and at high prices. These chemicals require a capillary network and specialized services (e.g. testing, formulation, product innovation and compliance management) and are therefore an important industry for MES.

Products whose technical complexity necessitates extensive customization require continuous and direct interaction between manufacturers and customers. In these cases, since the interfaces between manufacturers’ various internal departments and the customer are crucial, most processes are managed in-house. In other words, demand for MES is lower for highly customized than for more standardized products. This is particularly the case in the context of plant engineering (involving

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### Figure 10: MES market by region (USD bn, 2005-2010), MES penetration rate (2010)

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

<table>
<thead>
<tr>
<th>Region</th>
<th>2005</th>
<th>2010</th>
<th>MES penetration rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>417</td>
<td>472</td>
<td>15%</td>
</tr>
<tr>
<td>Europe (incl. CIS)</td>
<td>487</td>
<td>615</td>
<td>14%</td>
</tr>
<tr>
<td>Japan</td>
<td>187</td>
<td>205</td>
<td>17%</td>
</tr>
<tr>
<td>Latin America</td>
<td>147</td>
<td>252</td>
<td>22%</td>
</tr>
<tr>
<td>Africa &amp; Middle East</td>
<td>110</td>
<td>174</td>
<td>25%</td>
</tr>
<tr>
<td>Asia Pacific (excl. Japan)</td>
<td>302</td>
<td>499</td>
<td>17%</td>
</tr>
</tbody>
</table>
**Market expansion services by region and industry**

By region and industry

In line with the above exclusions, this study therefore focuses on the relevant industries for MES, i.e. consumer goods, pharmaceuticals and healthcare, specialty chemicals and parts of the engineered products industry. We will look at each industry in detail and conclude each section with a brief description of regional differences.

Healthcare is a very attractive industry for MES with a penetration rate of 44%. This high outsourcing rate is mostly due to bundling benefits in sales and distribution that help leverage economies of scale in this highly fragmented end market (e.g. pharmacies and hospitals).

With a penetration rate of 16% worldwide, consumer goods boast the second highest outsourcing rate. This comparatively high outsourcing figure is also mainly due to high fragmentation levels (e.g. number of outlets) in the retail markets of the emerging world (see Figure 11).

The global MES market for specialty chemicals has a penetration rate of around 10%. Particularly in the specialty chemicals industry, integrated providers offer important benefits such as value-added services (e.g. formulations, product development or applications support), which makes them increasingly important.

The market for engineered products (counting imports only in emerging markets) has a penetration rate of below 10%. The reason for this relatively low outsourcing rate is that technology companies still retain major parts of the value chain in-house due to the complexity of their products. Even though this rate is increasing, many engineered products manufacturers still rely on single service contractors that specialize in one specific element of the value chain (e.g. logistics).

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**Figure 11: Global size of consumption and MES market, MES penetration rates by industry (2010)**

Sources: Euromonitor, Epicom Business Intelligence, Global Industry Analysts, SRI, UnitedSTAT, Roland Berger Strategy Consultants analysis

<table>
<thead>
<tr>
<th>Industry structure defines MES share</th>
<th>Consumer markets</th>
<th>Industrial markets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Size of consumption market [USD bn]</strong></td>
<td>Consumer goods: 8,662</td>
<td>Healthcare: 1,204</td>
</tr>
<tr>
<td></td>
<td>Engineered products: 3,354</td>
<td>Specialty chemicals: 412</td>
</tr>
<tr>
<td><strong>Market breakdown</strong></td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>16%</td>
<td>44%</td>
</tr>
<tr>
<td></td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Size of MES market [USD bn]</strong></td>
<td>Consumer goods: 1,387</td>
<td>Healthcare: 529</td>
</tr>
<tr>
<td></td>
<td>Engineered products: 259</td>
<td>Specialty chemicals: 41</td>
</tr>
<tr>
<td></td>
<td><strong>Total consumption market</strong></td>
<td><strong>MES market</strong></td>
</tr>
</tbody>
</table>

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*entire production systems or power plants, for example* which, in consequence, is also excluded from our analysis.

*In line with the above exclusions, this study therefore focuses on the relevant industries for MES, i.e. consumer goods, pharmaceuticals and healthcare, specialty chemicals and parts of the engineered products industry. We will look at each industry in detail and conclude each section with a brief description of regional differences.*

*Healthcare is a very attractive industry for MES with a penetration rate of 44%. This high outsourcing rate is mostly due to bundling benefits in sales and distribution that help leverage economies of scale in this highly fragmented end market (e.g. pharmacies and hospitals).*

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Consumer-driven markets, i.e. consumer goods and healthcare, are the most attractive markets in terms of growth and size. They accounted for more than 85% of the global MES market in 2010. Industrial markets, i.e. specialty chemicals and engineered products, account for less than 15%. The main reason for this is that setting up a local platform for marketing and sales and gaining access to a highly fragmented local customer base is a far greater challenge for customer-driven industries. With fewer customers, industrial companies find it much easier to organize that element of the value chain.

Market sizes and penetration rates vary for different industries. This also applies to their requirements along the value chain. All the industries we looked at have a particularly high demand for support in logistics and distribution, while the differences lie mainly in value-adding services. Moreover, all the industries require external assistance in sales and marketing, which leads to a high overall degree of outsourcing. However, the importance is particularly high for engineered products. Here, MES providers can offer technological competence and knowledge gained from local clients.

A similar situation exists with after-sales support, which is particularly important for engineered products. Here, services can account for up to 40% of total sales (see Figure 12).

Every industry has its own specific needs

![Figure 12: MES demand by part of the value chain](source)

Sources: Expert interviews and survey by Roland Berger Strategy Consultants

Consumer-driven markets, i.e. consumer goods and healthcare, are the most attractive markets in terms of growth and size. They accounted for more than 85% of the global MES market in 2010. Industrial markets, i.e. specialty chemicals and engineered products, account for less than 15%. The main reason for this is that setting up a local platform for marketing and sales and gaining access to a highly fragmented local customer base is a far greater challenge for customer-driven industries. With fewer customers, industrial companies find it much easier to organize that element of the value chain.

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Asia and the southern hemisphere drive MES business

Industries in detail

Consumer goods: moving from local to global

The consumer goods sector essentially covers affordable finished goods that are consumed by a large proportion of the population. Cumulatively, the world’s ten largest producers of consumer goods occupy only slightly more than 10% of the global market. This figure illustrates that, despite the scope of global brands, the consumer goods market remains highly fragmented and locally driven.

Figure 13 shows global demand for MES by region. It depicts market sizes and penetration rates in 2010 and growth rates for the period 2005-2010. The regions in the top right-hand corner of the illustration are the most dynamic and thus most accessible for MES. Regions in the bottom left-hand corner have the lowest demand and the slowest growth level over the past five years.

Emerging markets account for roughly half of the MES market in the consumer goods industry and exhibit much higher penetration rates than the developed markets. At over USD 330 billion, Asia Pacific (excluding Japan), accounts for the lion’s share of the emerging markets and shows the highest growth rates, second only to Latin America. Penetration rates in emerging economies can be explained by the highly fragmented retail structure and low concentration of suppliers. Large MES providers usually have an advantage over small players as market leverage in dealings with the retail trade is an important success factor. Note that Europe includes both Western Europe and Eastern Europe including Russia; growth of the European
MES market is therefore largely driven by Eastern European and Russian markets and not by Western European markets.

Healthcare: helping reduce complexity and ensure integrity of supply chain

The pharmaceuticals and healthcare industry includes prescription drugs, over-the-counter (OTC) products and medical devices. The distribution of healthcare products is complex, as it must meet exacting standards in terms of lead times, capillary distribution and product quality – none of which are core competencies of the pharmaceutical companies. As a consequence, drug companies are heavily dependent on market expansion services providers offering top-notch services relating to sales, logistics and distribution. This is mainly reflected in the high penetration rate of MES in relation to total market demand. However, rising cost pressures and ongoing increased focus on core competencies provide scope for even higher market expansion services penetration rates.

North America and Europe are by far the largest expansion service markets for healthcare products (see Figure 14).

Emerging regions, on the other hand, show faster growth and higher penetration rates. The latter are mainly driven by factors such as increasing wealth and high investments in healthcare systems. The integrity of the supply chain is a critical factor in these markets.

Engineered products: bundling specialist competence in fragmented industries

We define engineered products as including industrial machinery and equipment such as engines, motors and small generators. Plant engineering is excluded from our analysis, since heavily customized product features and project-based production keep demand for MES inherently low.

The engineered products sector is highly fragmented with no homogenous categorization. Relevant sub-industries are highly specialized and technological requirements vary considerably depending on both the industry concerned and the areas of application. One common characteristic of engineered products, however, is their long lifecycle coupled with a high level of product customization and the need for after-sales service support.
Europe benefits from the Asian growth engine

The manufacturer landscape is also highly fragmented, with multinational companies dominating selected sub-industries. However, most sub-industries also attract a large number of smaller companies, many of which specialize in a specific technology or area of application. Though manufacturers’ basic core competencies revolve primarily around R&D and production, the importance of after-sales services has increased significantly over the past decade. Given that growing competition results in narrower margins, manufacturers see services as an attractive way of reversing this trend. Market players that sell engineered products need both knowledge of the local market and access to the customer’s top management.

Purchasing in this segment is mostly of strategic importance, given the high purchase values and long lifecycles involved. Owing to the resource-intensive nature of the business, locally trained specialists are key in guaranteeing a strong local footprint. Thanks to their integrated business models, market expansion services providers are the ideal source of assistance for manufacturers of engineered products as they offer service and support along the entire value chain.

The total market size depicted in Figure 15 is based on individual import ratios for emerging regions. For these regions, we assume that only foreign companies make use of market expansion services providers. Local manufacturing companies mostly operate either with their own resources or use local services providers.

Our research shows that emerging markets account for half of the expansion services market for engineered products, with Asia Pacific accounting for almost one third. Interestingly, MES in developed markets such as Europe is growing quickly as imports from Asian countries increase, partly due to outsourced manufacturing. As a consequence, we expect that engineered products companies from Asia will also need increased support as they seek to distribute their products in Europe.

Specialty chemicals: offering alternative cost-effective solutions
Specialty chemicals are used in numerous industries and therefore target a broad and highly diverse market. The largest product segments are pesticides, specialty
polymers, electronics chemicals, surfactants and construction chemicals. The chemical industry depends to a very considerable extent on how its end-user industries develop.

Overcapacity and the increasing relocation of production to low cost Asian countries have exposed industry players to unrelenting price pressures in recent years. This situation has caused manufacturers to step up their cooperation with market expansion services providers.

The penetration rate in emerging markets is much higher than in developed ones. This is mainly due to the more fragmented nature of the market and the higher barriers to entry. Knowledge of local market specifics and an established network of competence and contacts of market expansion services providers are very costly to emulate, resulting in high barriers to entry. Asia, as one of the largest expansion services markets in the specialty chemicals industry, boasts the highest growth rates (see Figure 16).

**Emerging markets as growth drivers**

Generally speaking, the developed markets for expansion services (Europe, North America and Japan) have penetration rates of around 15%. This compares to 17% for Asia and over 20% for Latin America, the Middle East and Africa (see Figure 17). The higher rates for emerging markets are mainly due to the fact that emerging markets...
Asia Pacific grows from a large base

Over the past five years, Asia Pacific, excluding Japan, has proven to be the most important and attractive MES markets in terms of growth and size. Overall, it is the second largest market worldwide, boasting a total volume of approximately USD 500 billion, second only to Europe including the Commonwealth of Independent States (CIS). In the Asia Pacific region, however, growth rates were much higher between 2005 and 2010. In Asia, the market for MES is growing in all categories due to overall market growth and increasing penetration rates. Latin America and Africa and the Middle East are growing on a par with Asia Pacific, albeit from a significantly lower baseline (USD 252 billion and USD 174 billion, respectively).

The regions differ in terms of market size, growth, penetration rates and the specific demand for MES in different parts of the value chain. Across industries, logistics and distribution are usually outsourced, often to single service contractors. The need for more third-party support in sales and marketing in emerging markets is mainly driven by the complexity of these markets, which require specific competencies.
E. OUTLOOK FOR THE MARKET EXPANSION SERVICES INDUSTRY

The middle class fuels the growth engine

<table>
<thead>
<tr>
<th>Megatrends</th>
<th>Key drivers</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growing middle class with increased wealth</td>
<td>Growth in end-user market and industrial markets</td>
<td>Growth in demand for market expansion services</td>
</tr>
<tr>
<td>Emerging markets as growth engines</td>
<td>Increase in MES penetration rate</td>
<td></td>
</tr>
<tr>
<td>Increased focus on core competencies</td>
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</tbody>
</table>

Figure 18: Key trends influencing MES demand

Trends – the rise of general consumption and industrialization

To describe the future of the global expansion services market, we will look at three megatrends. The first trend is the rise of the middle class and, hence, of general consumption and industrialization. The second is that emerging economies are growing much faster than the developed markets. Finally, companies are increasingly concentrating on their core competencies. This latter aspect is mainly driven by the need to focus, given the rising complexity of business, cost pressure and the new opportunities offered by information technology to instantly exchange information and knowledge at low cost. The combined force of these three megatrends is impacting the key drivers of the expansion services market: the development of end consumer markets and increasing penetration rates for MES (see Figure 18).

The expansion services market is directly impacted by the incomes and purchasing power of the middle classes in regions such as Asia Pacific or Latin America. In recent years, these regions have seen their wealth increase significantly, especially as the middle classes have grown in size. Consequently, people are far more willing and able to spend their money on high-quality consumer goods and leisure-related products. These phenomena have a direct and positive effect on the size of the end consumer market and indirectly influence the growth of the market for MES. This trend is particularly evident in South East Asia where the growing middle class is a major driver for growth.

Stagnating consumer markets and keen competition in Europe and the United States are encouraging many Western companies to shift their business toward emerging markets. The much higher growth rates in these economies are directly influencing both the end consumer market and the outsourcing penetration rate. Ultimately, they are therefore driving growth in the expansion services market.

As already outlined at the beginning of this report, the increased focus on core competencies is a main driver for outsourcing. The trend is nurtured by a strong
desire and need of corporate leaders to concentrate on elements of the value chain that they master best and to delegate the other activities to specialized third-party service providers. The rise of new information technologies offers companies new opportunities to purchase and source these services. At the same time, modern information technologies also allow companies to control their outsourced value chains in real time and gain relevant customer insights. MES providers with a scalable IT platform are best suited to benefit from this trend that will become even more important in the future.

These factors are combining to push business beyond traditional boundaries and drive outsourcing rates. They significantly impact the growth of the expansion services market. In this context, the rise of the middle class deserves more attention. South East Asia, one of the fastest growing regions, presents a good case to better explain the link to the growth of MES (see ‘Special focus – the growing middle class in Asia’).

Prospects – continuing to grow

The global expansion services market is expected to grow to USD 3.1 trillion by 2015. The emerging economies will likely continue to show significantly higher growth than developed regions. Some emerging economies are expected to catch up and even outgrow developed regions in terms of market size. This is the case for Asia Pacific (excluding Japan), which is anticipated to overtake Europe (including CIS) and become the largest regional MES market in 2015 (see Figure 19). The evolution of Asia Pacific clearly confirms expectations that the emerging world will become the new engine of the global economy, with substantially higher growth rates than in the developed world.

The industrial global MES landscape in 2015 is unlikely to differ from that of 2010. The consumer goods industry is projected to still account for the lion’s share (more than 64%) in 2015, followed by the healthcare (22%), engineered products (12%) and specialty chemicals (2%) industries. The stable positioning of the consumer goods industry is due to the constantly growing world
population and the rise of the middle class in emerging markets, factors which are likely to fuel demand.

The outlook for the healthcare industry is quite different in the developed and emerging markets. While growth in emerging markets is predicted to be even stronger, as their populations gain better access to healthcare products and services, the developed markets are becoming increasingly cost-conscious regarding health-related expenditure.

Global MES is projected to grow faster than the overall consumption market over the next five years

Between 2010 and 2015, MES is estimated to grow about 1% point faster than the overall market as outsourcing rates continue to rise (see Figure 20). This trend is mainly driven by two factors. As discussed earlier, the emerging markets in particular offer promising growth prospects mainly driven by the growing middle class. Many Western companies, for example, are aiming to expand their business into the emerging markets and are looking for partners to do so. For them, MES providers offer an ideal solution, helping the latter to outgrow the overall market over the next five years.

Between 2010 and 2015, MES predictably grow faster in Asia than in Europe or North America

In Asia, MES is projected to grow faster than in Europe or North America over the next five years (see Figure 21) outpacing Europe as the largest MES market by 2015. This is due to a combination of the rise of the middle class, the generally substantially higher growth rates in emerging markets and the increasing attractiveness of sourcing, manufacturing and selling goods in Asia. The outlook for Latin America and Africa & Middle East is also relatively positive, with even faster growth (12.7%
Asia Pacific expected to overtake Europe

![Global MES penetration rate and growth of global MES by region (2005-2015)](chart)

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

and 10.5% respectively), but also to some extent uncertain given the dynamic political environments. This will lead to MES providers from slow-growing regions trying to enter the faster expanding regions through acquisitions.

Market expansion services for industrial goods are likely to grow even faster than for consumer markets

Industrial goods markets are set to outgrow consumer markets in the next five years (see Figure 22). This is mainly due to the substantial growth of investments in emerging markets as the industrial base in those markets experiences a technological uplift. Furthermore, many emerging markets are investing heavily in infrastructures and therefore need new technological and chemical components.

Industry dynamics – benefiting from consolidation

These growth patterns will have a direct impact on the structure and dynamics of the industry. Three major trends are likely to shape the MES industry over the next five years, leading to further consolidation.

From local to regional services

Manufacturers increasingly have a need for regional solutions. These, however, only succeed if their MES provider can provide excellent service levels on a country-by-country basis, with deep local market coverage and know-how.

In Asia, some local and regional MES providers, as well as international players, are aiming to broaden their geographic coverage, but face serious obstacles given the strong barriers to entry. The situation is similar in
Growth in consumer markets creates additional demand in industrial markets

**Consumer markets**

**Consumer goods (USD bn)**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumption market growth</td>
<td>1,387</td>
<td>1,998</td>
</tr>
<tr>
<td>MES market growth</td>
<td>+7.6% p.a.</td>
<td></td>
</tr>
</tbody>
</table>

**Growth driven by... (annual rate, 2010 – 2015)**

<table>
<thead>
<tr>
<th></th>
<th>Consumption market growth</th>
<th>MES growth premium</th>
<th>MES market growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>+6.5%</td>
<td>+0.4%</td>
<td>+4.8%</td>
</tr>
<tr>
<td>2015</td>
<td>+1.1%</td>
<td>+4.8%</td>
<td>+7.6%</td>
</tr>
</tbody>
</table>

**Healthcare (USD bn)**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumption market growth</td>
<td>529</td>
<td>668</td>
</tr>
<tr>
<td>MES market growth</td>
<td>+4.8% p.a.</td>
<td></td>
</tr>
</tbody>
</table>

**Growth driven by... (annual rate, 2010 – 2015)**

<table>
<thead>
<tr>
<th></th>
<th>Consumption market growth</th>
<th>MES growth premium</th>
<th>MES market growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>+4.4%</td>
<td>+0.4%</td>
<td>+4.8%</td>
</tr>
<tr>
<td>2015</td>
<td>+0.4%</td>
<td>+4.8%</td>
<td>+7.6%</td>
</tr>
</tbody>
</table>

Figure 22: Growth of global MES markets by industry (2010-2015)

Sources: Euromonitor, Espicom Business Intelligence, Global Industry Analysts, SRI, UnudadSTAT, Roland Berger Strategy Consultants analysis
**Industrial markets**

**Engineered products (USD bn)**

- 2010: 259 USD bn
- 2015: 403 USD bn

**Growth driven by... (annual rate, 2010 – 2015)**

- Consumption market growth: +7.9%
- MES growth premium: +1.3%
- MES market growth: +9.2%

**Specialty chemicals (USD bn)**

- Annual growth rate: +5.6% p.a.
- 2010: 41 USD bn
- 2015: 54 USD bn

**Growth driven by... (annual rate, 2010 – 2015)**

- Consumption market growth: +4.8%
- MES growth premium: +0.8%
- MES market growth: +5.6%
Latin America, where the sub-regions are also highly fragmented in terms of size and stage of development. However, expansion services are widely dominated by medium-sized players that are less sophisticated and more locally focused. This is especially true in the consumer goods industry. The healthcare market, on the other hand, is relatively concentrated and thus, MES providers operate more on a regional level.

In North America and Europe, by contrast, many MES providers operate on a regional level, depending on the extent of their industry specialization. In Europe, we need to distinguish between the more developed markets of Western Europe and the emerging economies of Eastern Europe and CIS. Generally, MES providers in Western Europe are more sophisticated, thereby offering their services on a more regional level than their counterparts in Eastern Europe and CIS.

The Middle East and Africa are dominated by local providers that are not expected to develop into more regional players in the medium term. They focus on standard services centered on logistics designed to cope with poor infrastructures.

From standard to more value-added services
We expect MES providers to further develop their portfolios in the direction of value-added services and solutions, such as market entry feasibility studies, after-sales services or field marketing. Manufacturers are becoming more professional and, as a result, are demanding services that add more value. Additionally, information technology is becoming increasingly important as an integrated part of the service offering. Clients benefit from a more integrated flow of information from the markets. Moreover, MES providers are best suited to tap into customer knowledge and make use of market intelligence.

The degree of transformation from standard to more value-added services essentially depends on the sophistication of the expansion services market. It is common for MES providers in North America and Europe to offer additional services on top of their standard service portfolios. Providers in emerging regions are also aiming at broadening their service portfolios with

Spotlight on Bunzl plc – successfully reinventing itself
Bunzl plc is a multinational distribution and outsourcing company headquartered in London, United Kingdom. The company was founded as a family business specializing in haberdashery (small articles for sewing, such as buttons, ribbons, zips) in Slovakia in 1854. After WWII, the Bunzl family moved the business to Austria and then finally to London. In London, it became established as a manufacturer of cigarette filters and many other paper and plastic products. It went public on the London Stock Exchange in 1957 and expanded through acquisitions. In the process of restructuring, the company sold off business units that were not profitable, and focused on its core competencies. In 2002, it eventually sold off its paper manufacturing business – its former core business. Today, the company is a global distributor of a diverse range of non-food consumables, including food packaging, cleaning and hygiene supplies, personal protective equipment and carrier bags. Bunzl has operations in 23 countries: almost half of its business is conducted in North America, with major operations in Europe and a smaller presence in Australasia and Brazil. Bunzl is a good example of a business that adapts its business model to globalization and new growth opportunities.

Source: Public company information
US-based McKesson Corporation, a major distributor of healthcare systems, medical supplies and pharmaceutical products, was founded in 1833 as an importer and wholesaler of botanical drugs. It achieved expansion through selected strategic acquisitions that allowed it to dominate international healthcare distribution. They included companies such as Per Se Technologies, RelayHealth, and Practice Partner. The latter is now known as McKesson Technology Solutions, the company’s healthcare IT arm. Its distinctive ability to acquire technology and innovative business operations allows McKesson to stay ahead of its competitors. The company provides extensive network infrastructures to the healthcare industry and was an early adopter of cutting-edge technologies such as barcode scanning in distribution, pharmacy robotics and RFID tags.

In addition to its offices across North America, McKesson also maintains international subsidiaries in Australia, Ireland, France, the Netherlands and the United Kingdom. McKesson is an outstanding example of growth through strategic acquisitions, ultimately driving technological innovation for an entire industry.

Source: Public company information

A consolidating industry

These three trends are a strong indication that further consolidation of the industry may be expected. Developments clearly favor larger, international and cross-sector MES providers that are able to offer regional, value-added and integrated solutions. Large regional and global players are likely to out-compete the smaller ones.

Given the attractiveness of the industry, additional players may want to enter the field. Two potential
groups are of particular relevance: large conglomerates and logistics providers. Conglomerates play a crucial role in many emerging markets. They are usually active in a broad range of industries and cover the whole value chain but mainly cater for their in-house operating units. Therefore, they can be considered peripheral MES players in some markets. As many of these conglomerates strengthen their regional or even international presence, they would potentially be well positioned to offer MES. Their lack of focus and close interlinking with their own operating companies, however, make it very unlikely in most cases that they will evolve into pure MES providers. On the contrary, they will more likely be forced to increasingly concentrate on core competencies as they mature and hence become promising clients for pure MES providers.

International logistics providers have a strong incentive to move toward offering more value-adding services and may be well positioned to do so, considering their existing access to clients. Given their focus on logistics, however, they mostly lack the necessary resources and capabilities as well as the local customer relationships to become a dominant force in the MES market in the near future.

In general, high barriers to entry make it very difficult for smaller MES providers or for conglomerates and logistics companies to compete with the leading MES providers. As seen earlier, the MES business model has evolved over time and is based on a strong platform of relationships, skills and technology that is very difficult and costly to emulate. MES providers operate as a nexus connecting international clients with local customers by leveraging an established network.

Given the high barriers to entry to the industry, we expect industry consolidation and M&A activities in the industry to continue on a high level over the next five years. At present, MES markets such as those in China are heavily fragmented, even on a regional level. They will probably experience more consolidation. Such consolidation will drive the efficiency and effectiveness of MES providers and help them leverage their knowledge, networks and expertise. The North American and European MES markets are less fragmented and feature only a few large multinational players. We therefore expect to see less consolidation in these areas.
**SPECIAL FOCUS – THE GROWING MIDDLE CLASS IN ASIA**

**Exponential growth over two decades**

<table>
<thead>
<tr>
<th>Asia Pacific’s middle class population (m)</th>
<th>2010</th>
<th>2020</th>
<th>2030</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>572</td>
<td>1,740</td>
<td>3,228</td>
</tr>
</tbody>
</table>

+9% p.a.

<table>
<thead>
<tr>
<th>Asia Pacific’s middle class population [% of global middle class]</th>
<th>2010</th>
<th>2020</th>
<th>2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>28%</td>
<td>54%</td>
<td>66%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Asia Pacific’s middle class consumer spending [% of worldwide consumer spending]</th>
<th>2010</th>
<th>2020</th>
<th>2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>24%</td>
<td>42%</td>
<td>59%</td>
<td></td>
</tr>
</tbody>
</table>

*Figure 23: Size of Asia Pacific’s middle class including India (2010-2030)*

*Sources: OECD, Roland Berger Strategy Consultants analysis*

**A fast-growing phenomenon**

The middle class is the fastest growing segment of the world’s population. Our definition includes those people who are able to live comfortable lives, i.e. enjoy healthcare, stable housing and education, and are able to spend between USD 10 and USD 100 on a daily basis.

The middle class is growing particularly rapidly in the Asia Pacific region. Today, less than one third of the world’s middle class lives in the Asia Pacific nations. However, the two billion threshold is expected to be crossed shortly after 2020. By 2030, fully two thirds of the world’s middle classes is projected to inhabit this region (see Figure 23).

While China is likely to contribute most to the growing middle class in Asia Pacific, the rate at which its middle class is expanding was already slowing down in 2010. Growth rates are anticipated to nevertheless continue to accelerate in the remainder of the region. The South East Asia region exhibits particularly high growth rates and deserves special attention.

A related phenomenon is urbanization. Research shows that the degree of a country’s urbanization is positively correlated with wealth. In Asia, the population living in urban areas is expected to grow from 43% in 2010 to 66% in 2050 according to United Nations Department of Economic and Social Affairs (UNDESA).
Higher income drives demand in South East Asia

Rapidly increasing purchasing power

The growing middle class is a phenomenon across all Asian regions. However, middle class growth in the largest nations of South East Asia is higher than in the rest of Asia, including China. Indonesia and Vietnam look especially promising, with a middle class that is expected to grow by more than 10% annually between now and 2020. In Indonesia, the middle class is predicted to almost triple by 2020 (see Figure 24).

In countries with a strong growing middle class such as Indonesia, the Philippines, Vietnam and Thailand, consumer habits will presumably change:

- The quality of consumer goods and products for everyday needs may increasingly rise to Western standards.

**Figure 24: Size of the middle class in the largest SEA countries (2010-2020)**
Sources: OECD, Goldman Sachs, Roland Berger Strategy Consultants analysis
Higher disposable incomes will lead to greater demand for consumer durables

Status consciousness will lead to increasing luxury brand penetration

Healthcare expenditure is expected to continue the pace of growth witnessed over the last 15 years as medical care becomes increasingly sophisticated and the population ages

Not only consumer habits are changing with the growing middle class; industrial markets will also be strongly affected:

- Increased local production needs for consumer markets indirectly also fuel greater demand across most industrial sectors
- The increasing sophistication of production equipment will plausibly continue to increase demand for ingredients and technologies in the industrial markets
- In general, machinery and equipment producers are likely to benefit from rising demand

Consumers’ increasing status consciousness is already lifting demand for high-quality Western products, which partly substitute local items to satisfy daily needs. Rising brand awareness presents a unique opportunity to consumer goods and luxury goods producers from Europe and North America. This is because Asian consumers generally perceive Western products to be of superior quality.

In addition, market opportunities exist for both Asian and local brands as they attempt to target the growing middle class with better quality products and services, for instance by offering unique and value-added shopping experiences in modern retail stores. Accordingly, their increasing willingness to pay a premium will drive brand penetration in South East Asia (see Figure 25).

Healthcare products – a healthy future

The healthcare sector in South East Asia is expanding rapidly. The fast-growing middle class in the region is further boosting spending. South East Asia’s share of total healthcare spending in the Asia Pacific region is projected to grow in the years ahead.

A number of factors are affecting healthcare expenditure in South East Asia. As healthcare services become more accessible to the middle class, and those individuals become better informed about health-related topics, the consumption of healthcare products is predicted to increase. Rising personal health awareness is likely to drive demand for prescription drugs in place of cheaper local generics, OTCs, consumer health products and medical devices. A surge in life expectancy is also driving a demographic shift, with more elderly people in need of corresponding healthcare. Poor public medical infrastructures and services in rural areas also act as incentives for the middle class to solve their medical problems on their own.

For the reasons outlined above, substantial growth potentials await South East Asia’s healthcare industry. South East Asian middle class healthcare spending resulted in a CAGR of 9.1 % between 2000 and 2010, which is comparable to growth rates in China and India.

Consumer goods – consumption on the rise

Consumers will continue to spend the greater part of their income on food. Major changes in eating habits are anticipated. As the South East Asian middle classes become more educated and better informed about products and brands, they will be more willing to try out new food products. With rising income and purchasing power, they will also be more capable of investing extra money in higher quality foods.

As disposable income increases, the middle class will change its eating habits from a starch-based to a more protein-based diet. Food products containing dairy ingredients will become more popular and demand for high quality food products – from milk beverages, yogurt and ice cream to chocolates – will increase.
Desire for higher living standards drive growth in quantity and quality

<table>
<thead>
<tr>
<th>Consumption Category</th>
<th>Annual Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer appliances</td>
<td>11.6%</td>
</tr>
<tr>
<td>Luxury accessories</td>
<td>10.4%</td>
</tr>
<tr>
<td>Vitamins and dietary supplements</td>
<td>10.2%</td>
</tr>
<tr>
<td>Packaged food and soft drinks</td>
<td>9.0%</td>
</tr>
<tr>
<td>Clothing and footwear</td>
<td>7.1%</td>
</tr>
<tr>
<td>Household care</td>
<td>6.2%</td>
</tr>
<tr>
<td>Alcoholic drinks</td>
<td>6.0%</td>
</tr>
<tr>
<td>Housewares and home furnishings</td>
<td>4.9%</td>
</tr>
</tbody>
</table>

Impact on MES

*Consumer goods:* The role of MES providers in the consumer goods segment is predicted to become increasingly important in South East Asia. Not only is the amount of money spent on food likely to rise sharply, but there is also still plenty of scope for "educating" customers. Since many consumers are still very "brand naive", it is the ideal time to bind them to specific brands. MES providers should combine in-depth knowledge of local markets with strong marketing and sales resources. This will allow them to provide consumer goods producers with an efficient way of entering these fast-growing markets and securing a long-term position in consumers’ brand perception.

*Healthcare:* The growing market for healthcare products in South East Asia is an additional source of income that can help pharmaceutical companies compensate for rising corporate R&D spending. However, generally volatile demand is further intensified by the current development stage of the markets, which does not generate sufficient demand for non-blockbuster products. Consequently,
Increased wealth stimulates healthcare industry

![Healthcare spending per capita, annual growth (2000-2010)](image)

**Figure 26: Healthcare spending per capita, annual growth (2000-2010)**

*Sources: World Bank, Roland Berger Strategy Consultants analysis*

Increased wealth stimulates healthcare industry

Maintaining a permanent presence and an in-house sales organization is often inefficient. As a result, pharmaceutical companies prefer to operate through MES providers who possess local distribution networks and are able to deploy a specialized sales force.

MES providers leverage their scale and expertise to launch products as quickly as possible. By contrast, producers would first have to recruit the required resources – which could easily waste precious patent lifetime.

**Industrial segments (engineered products and specialty chemicals):** Improving national infrastructures (e.g. roads, schools, cities) and demand from consumer-driven industries result from the higher living standards the growing middle class aspires to. This directly leads to a strong call for engineered products (e.g. industrial machinery, new technologies) and specialty chemicals in emerging countries.

Most likely, local players may not be able to deliver the magnitude of goods, know-how and capacity needed to quickly meet large-scale project requirements over an extended time period. These are the attributes of experienced international MES providers. Hence, Western and large Asian companies seeking to penetrate specific Asian markets can seize the opportunity to gain a quick foothold in the region by engaging MES providers with the knowledge of local business networks and connections needed to close major deals.
### ARE YOU READY FOR MARKET EXPANSION SERVICES?

<table>
<thead>
<tr>
<th>Needs</th>
<th><strong>GO into new markets</strong></th>
<th><strong>GROW in existing markets</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategic direction</strong></td>
<td>Are you looking for a partnership with a provider that can support your global strategy?</td>
<td>Would you like to improve your performance in existing markets by partnering with a specialized provider?</td>
</tr>
<tr>
<td>Multinational company</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small/medium-sized company</td>
<td>Are you looking for strategic advice on how to access new regions for growth?</td>
<td>Are you looking for a strategic partner that can help drive your international activities rapidly to market?</td>
</tr>
<tr>
<td><strong>Local market knowledge</strong></td>
<td>Are you under pressure to capture significant market share in a new and unfamiliar market?</td>
<td>Do you think you are underperforming in a market due to a lack of local market knowledge?</td>
</tr>
<tr>
<td>Multinational company</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small/medium-sized company</td>
<td>Are you facing challenges entering a new market due to lack of local market knowledge?</td>
<td>Do you need additional market insights to enable further growth in a given market?</td>
</tr>
<tr>
<td><strong>Resources and capabilities</strong></td>
<td>Do you lack the resources and capabilities needed to be successful in a new market?</td>
<td>Are you considering outsourcing certain market activities to focus on your core competencies?</td>
</tr>
<tr>
<td>Multinational company</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small/medium-sized company</td>
<td>Would you like to be the first mover in a new market while keeping investments low?</td>
<td>Are you looking to free up resources in certain markets to refocus your priorities?</td>
</tr>
<tr>
<td><strong>Risk sharing</strong></td>
<td>Would you like to enter a new market while keeping the risks under control and reducing complexity?</td>
<td>Would you like to grow in a promising market and share the risks with a partner while reducing complexity?</td>
</tr>
<tr>
<td>Multinational company</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small/medium-sized company</td>
<td>Would you like to make a bold move into new markets with the risks being under control?</td>
<td>Do you see the need to make an important step forward in a market and share the risk with your partner?</td>
</tr>
<tr>
<td><strong>Platform and network</strong></td>
<td>Are you looking to enter a new market by tapping into a proven network and platform?</td>
<td>Are you looking for a strong local platform that can be easily integrated into your existing organization and systems?</td>
</tr>
<tr>
<td>Multinational company</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small/medium-sized company</td>
<td>Are you interested in entering a new market on a proven platform?</td>
<td>Are you looking to integrate your local operations into an established and efficient platform?</td>
</tr>
</tbody>
</table>
Market sizing and market breakdown
The market sizes have been derived from a detailed market model independently developed by Roland Berger Strategy Consultants. Total market sizes are based on industry-specific data (e.g. Euromonitor, Espicom Healthcare Intelligence, GIA, SRI) and publicly accessible reports from leading institutes (e.g. IMF, WHO, Worldbank, UnctadStat). Roland Berger Strategy Consultants established a detailed market model, first calculating the size of each total market, and then estimating the size of the market for expansion services in a multistage approach. The input for this step-by-step market breakdown was a combination of market data and expert opinions.

Market projections
The market projections have been derived from a detailed market model independently developed by Roland Berger Strategy Consultants. The market projections distinguish between market demand forecasts and forecasts on how the penetration rate for MES is expected to develop. All market projections are reported in current prices and based on fixed exchange rates. The projections (for the demand side) and historical data were derived from market databases published by the relevant research institutes.

Interviews
Roland Berger Strategy Consultants conducted more than 100 interviews with industry leaders, experts and academics. The interview participants were executives of (potential) clients (i.e. manufacturers) for MES providers, evenly spread across industries (consumer goods, specialty chemicals, pharmaceuticals/healthcare and engineered products), geographic regions and company size. The case studies are based on public company information.

Limitations
The market breakdown is the result of our analysis of quantitative and qualitative information consolidated from quantitative sources (market reports) and interviews with experts. Qualitative information is necessary for a realistic market breakdown. As a consequence, the methodology includes estimates that may result in best approximations. Actual market sizes may vary.

The market forecasts are projections into the future and can never fully take account of all eventualities. Despite these significant restrictions, Roland Berger Strategy Consultants are convinced that the analysis presents a true and fair picture of the markets in question.
DKSH is the leading market expansion services group with a focus on Asia. As the term “market expansion services” suggests, DKSH helps other companies and brands to grow their business in new or existing markets.

With 610 business locations in 35 countries – 590 of them in Asia – and 23,000 specialized staff, it is one of the top 20 Swiss companies ranked by sales and employees. In 2010, DKSH generated a transaction value of CHF 10 billion.

The company offers any combination of sourcing, marketing, sales, distribution and after-sales services. It provides business partners with expertise as well as on-the-ground logistics based on a comprehensive network of unique size and depth. Business activities are organized into four specialized business units that mirror DKSH fields of expertise: consumer goods, healthcare, performance materials and technology.

Although DKSH is a Swiss company with headquarters in Zurich, it is deeply rooted in communities all across Asia Pacific. This is because the company looks back on nearly 150 years of doing business in and with the region.

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marketexpansion@dksh.com
Roland Berger Strategy Consultants

Roland Berger Strategy Consultants, founded in Munich in 1967, is one of the world’s leading strategy consultancies. It is our European background that makes the difference. We have a deep understanding of diverse cultures and markets, and we combine European roots with American pragmatism and entrepreneurial spirit.

Professional excellence, partnership with our clients and responsible entrepreneurship – this is our formula for success in turning visions into reality. This is how we create real value for our clients.

We have 43 offices in 31 countries worldwide, and we are still growing. A local presence in all important markets is the key element of our culture. Our strategy consultancy is an independent partnership exclusively owned by about 200 Partners, who appoint the Executive Committee and Supervisory Board.

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