



Roland Berger
Strategy Consultants

ENHANCING OMNI-CHANNEL
GROWTH THROUGH DIGITAL
MARKET EXPANSION
DISCOVER HOW MARKET
EXPANSION SERVICES PROVIDERS
HELP CLIENTS REALIZE GROWTH
FROM DIGITIZATION

*Fourth Global Market Expansion Services Report
Executive Summary*

Digital trends and types of digital market players

Digital trends

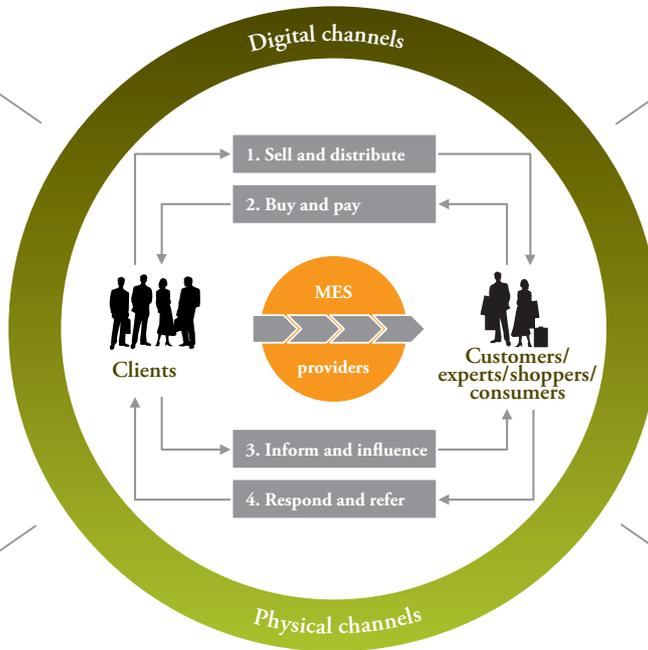
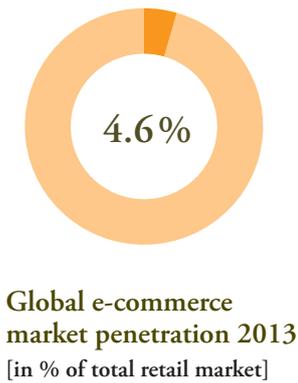
Mobile commerce

Smart infrastructure

Business intelligence

Types of digital market players

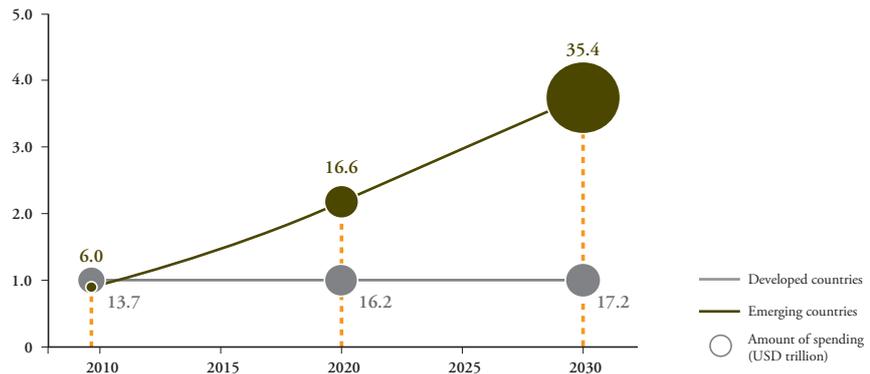
Top 3 reasons for partnering with MES providers for digital market expansion



MES market trends

- 1 Growing middle class
- 2 Strong inner-Asian trade
- 3 Trend towards outsourcing

People associated with the global middle class (billion people) and their total spending (USD trillion, calculated at fixed 2005 prices and exchange rates)



Market expansion services rise to the challenge

Digitization is the business megatrend of the century although global e-commerce still accounts for less than 5% of total sales. Traditional offline channels continue to be the dominant sales force, but companies recognize the need to adapt their strategies to capitalize on emerging challenges and opportunities as digitization comes of age. Moreover, three factors driving digitization are seen as having immediate impact on companies' transactions and interactions with customers and consumers: mobile commerce, smart infrastructures and business intelligence.

These three trends are already changing not only the way consumers make purchases, but also the ways in which companies inform customers and influence their buying decisions. While digitization is not a game-changer for the MES industry, social media, digital marketing and big data analysis strategies are reshaping the customer-producer relationship and enhancing the customer experience across existing and emerging new sales channels. As companies often lack the resources and capabilities to drive a digital expansion strategy themselves, they turn to partners who can deliver that expertise integrated with traditional market expansion services. The digitization trend therefore has risen rapidly to become a key driver of growth for market expansion services (MES) providers with a strong track record in supporting an omni-channel market approach. With their local presence, expertise and know-how they are able to offer their clients superior services along the entire value chain. Cross-regional MES providers are optimally positioned to drive both traditional and digital market expansion. Outsourcing of non-core activities to these specialized providers enables companies to concentrate on their core competencies, compete more efficiently and implement development strategies that support their goals for long-term growth.

Increasingly, pursuit of those goals involves expansion into emerging economies, where growing middle classes with higher disposable income and an appetite for high-quality foreign products are creating new market opportunities. Multinational corporations, see such opportunities as the new growth frontiers. But competing for business with these new consumers requires an understanding of local languages and cultural differences, knowledge of regulatory constraints and the ability to adapt products and services to local preferences. Leading MES providers deliver this knowledge from an insider's perspective that new entrants to the market could not realize on their own. Their marketing, sales, distribution, logistics and customer service and support capabilities include, among others, field marketing, key account management, sales, inventory management, and accounts receivable management. With a track record that encompasses the entire value chain and the ability to deliver seamlessly integrated and customized solutions, MES has become established as one of the outsourcing industry's most promising sectors as uncertainty continues to inject volatility into the global market overall.

MES – an industry poised for strong, sustained growth

The MES industry is projected to achieve an average annual growth rate of 7.4% up to 2018, when it is expected to reach an estimated total market size of USD 3.8 trillion. Growth is expected to continue in emerging markets whose growth prospects remain robust. These span countries located in Africa and the Middle East, Latin America and, most notably, Asia Pacific. No longer simply "the extended workbench of the West," the region achieved a market volume of USD 691 billion in 2013 and overtook Europe as the largest global MES market. Europe and North America followed with USD 649 billion and USD 529 billion, respectively.

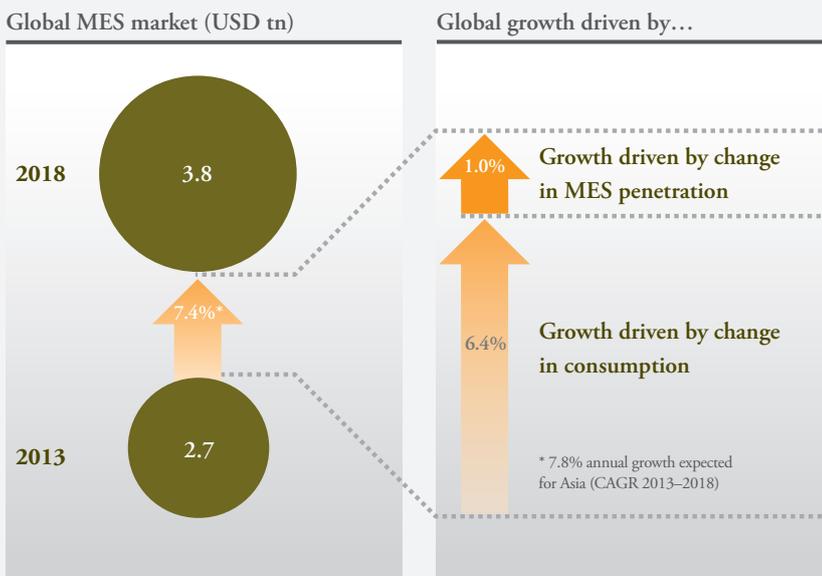
This trajectory is expected to continue: projections indicate that MES growth rates over the next five years will put further distance between the Asia Pacific region and Europe and North America. These impressive results reflect strong growth in inner-Asian trade and the growth of middle classes, as well as the trends towards outsourcing of non-core activities.

"Shifting budget into digital services is not about shifting everything online. Instead it is about merging the best of online and offline solutions."

Head of Marketing, South East Asian
cloth manufacturer

Digitization in emerging markets – a leapfrogging trend?

Global MES market growth



Global consumption market versus global MES market (CAGR 2013–2018)

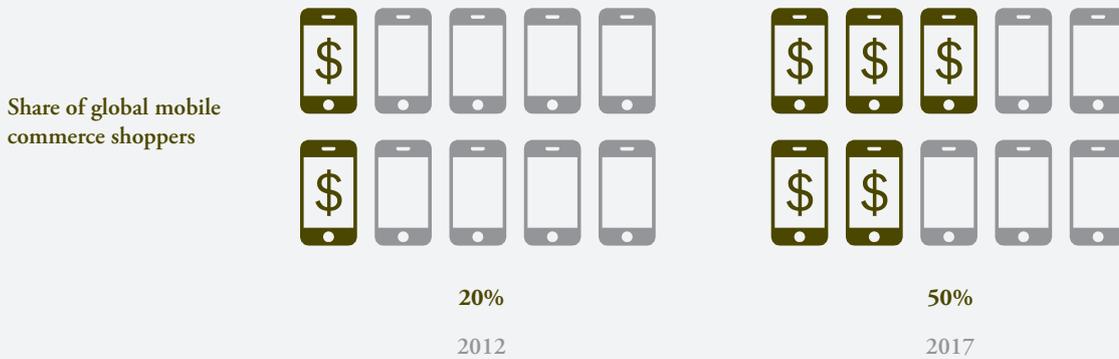
Sources: Euromonitor, Espicom Business Intelligence, Global Industry Analysts, SRI, UNCTADstat, Roland Berger Strategy Consultants analysis

The numbers behind this narrative demonstrate the scope of opportunity that is evolving: the OECD predicts that the size of the global middle classes will double to 4.9 billion people by 2030, thereby creating new demand valued at USD 56 trillion. Companies are eager to seize these market expansion opportunities, but at the same time, are cautious about the volatility and risks involved. Each of these factors is contributing to heightened demand for market expansion services in these regions and powering the continued growth of the MES industry.

The demographic shift to more urbanized and middle class populations is spurring access to the internet, smart phones, and technological advances. These changes are having an impact on the ways in which companies and customers interact. While adoption rates of digital business are still low in many emerging markets – especially in South East Asia, where non-digital interactions and transactions remain the predominant form – these regions clearly are moving toward increased digitization, and particularly toward mobile commerce.

- Mobile commerce:** To get a sense of how quickly the global market is moving toward mobile commerce, consider that at the end of 2013, 25% of the world's population owned smart phones – and according to projections by the independent technology research company Forrester Research, half of all smartphone users will also be mobile shoppers by 2017. As mobile commerce becomes more commonplace, it sets the stage for such ancillary developments as mobile marketing and mobile payment solutions. The speed at which this trend is unfolding – especially in emerging markets, where companies and consumers adapt directly to the latest technologies – creates an urgent need for companies to achieve the greatest benefits from this brand new sales channel. Many companies are not yet prepared to realize the full potential of mobile applications: market experts have found that the online sales environment is optimized for mobile devices at only one in four companies. In this regard, most companies' technological capacity is trailing behind consumer demand, and customers are losing patience with failures to synchronize online and offline sales channels. As the seamless customer shopping experience – omni-channel shopping – becomes the norm, companies that have failed to keep up with these developments are in danger of seeing a resulting drop in sales.
- Smart infrastructure:** Smart infrastructure technology uses automation, connectivity or information collection to improve the efficiency of business processes and decision making. Among the most popular examples is cloud computing, which both reduces IT infrastructure expenses and increases the means by which colleagues in geographically diverse and remote workstations can share information and collaborate on projects. Monetary transaction systems, another form of smart infrastructure, enable credit card payments through a combination of mobile devices and credit card readers. Emerging solutions in this area also seek to increase security or convenience in finalizing transactions. Here, again, the commercial possibilities extend beyond most companies' technological expertise. To keep up with these advances and maximize their contributions to profitability, companies

Mobile commerce is gaining ground



*Mobile retail buyers as a percentage of mobile internet users
Source: Forrester Research Mobile Commerce Forecasts, 2012–2017*

need to invest in technology and staff or seek outsourcing solutions from providers who can deliver customized expertise.

- Business intelligence:** We live in an era when digital technologies allow consumers to compare shops and check product reviews without entering a store or opening a print publication. These consumers have also grown accustomed to receiving customized marketing messages and even personalized discounts or other special offers. In this environment, companies are under increased pressure to understand customer preferences and behaviors so that they can tailor their advertising and marketing in ways that encourage a response. With that in mind, many companies have come to understand the need for customer data collection and analysis. Effective use of analytics software or predictive models can identify new areas of revenue generation or cost saving potential, but they often do so at the price of a huge investment of time and resources. Moreover, big data collection threatens to overwhelm companies with masses of information that is of limited utility. To overcome these problems and compete successfully for international customers' business, these companies have two options: invest in new technology and the professionals necessary to optimize its use, or outsource the entire process to third-party specialists in data collection and analysis of customer behaviors and needs.

"Data is becoming the new raw material in business."

Rollin Ford, Executive Vice President,
Walmart

Digitization – growth opportunities for MES

Boosted by these trends, digitization is building on the traditional business model. It is reshaping business transactions and the way companies interact with, inform, and influence their customers (and, in fact, all its stakeholders). It is not in itself a game-changer, but each new sales channel or payment solution that reaches maturity raises the bar on what constitutes a superior customer shopping experience.

In this manner, MES providers deliver an invaluable asset to clients and customers who understand digitization's profit potential but are not equipped to realize those benefits on their own. As they confront the digitization challenge – both opportunities and risks – many companies conclude that they lack the resources necessary to either invest in and build superior services, or to combine online and offline sales efficiently. They find themselves equally ill-equipped to develop and manage the omni-channel strategy required to deliver a modern customer experience. As they contemplate geographic expansion, these

"We have reached our limits with traditional exports. In order to maintain the growth momentum in our foreign markets we have to think about alternative approaches."

Head of International Sales, European luxury goods brand

shortcomings become worse by their lack of the in-depth knowledge of local preferences, customs and culture necessary to integrate digital strategy into plans for market entry or development.

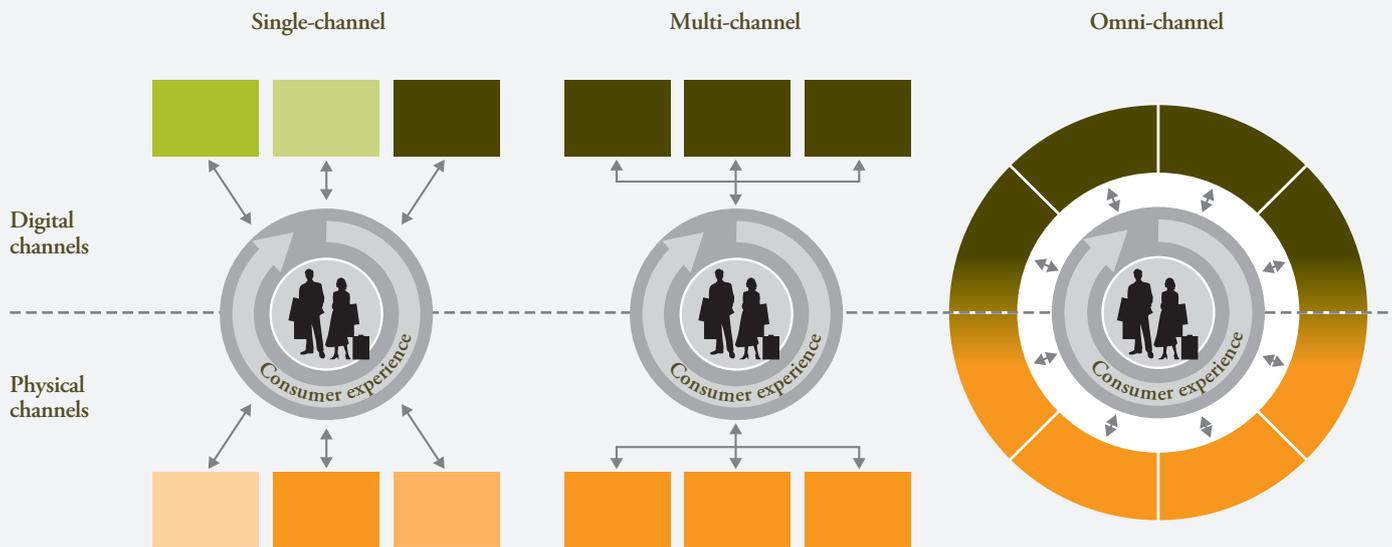
This is particularly critical in the Asia Pacific region. Euromonitor forecasts the spending level on online retailing at USD 500 billion – approximately 8% of the entire Asia Pacific retail market – by 2018. Another indicator of the size of the online retail opportunity in this region is the skyrocketing popularity of e-commerce in China, whose biggest online retailer announced sales of USD 5.75 billion on Single’s Day, i.e. two and a half times more than the volume of online sales completed on the equivalent USA event known as Cyber Monday.

MES – the preferred solution for access to emerging digital channels

Because MES providers operate along the value chain between clients and customers, they are uniquely positioned to fully exploit the potential of digitization on business transactions and interactions. Their integrated and customized approach further allows them to combine both perspectives and realize synergies and efficiencies at each step along the value chain. MES providers can deliver solutions to each component of the digitization challenge and support clients’ goals for an omni-channel strategy that promotes sustainable growth. Their solutions can accommodate the needs of companies that need to migrate from their existing legacy systems and those in emerging markets that have not made those legacy technology investments and can move immediately into the newest and most innovative digitization models. This is essential because in many emerging markets – and notably in Asia – societies are leapfrogging the legacy stage and accelerating the pace of mobile adoption.

Customization is critically important because companies are at different stages in their journeys toward digitization. They can be grouped into the following categories:

Omni-channel approach – a seamless integration of all channels along the consumer experience



Channel management approaches

- **Multi-digital natives:** These companies, which have global operations and an extensive market reach, began building up their foreign operations at the dawn of globalization and are present in all major international markets, either through expansion of their own strong brand or through acquisitions. They were early adopters of digitization, which has already played a key role in their growth. At this point, their focus is on improving customer interactions and optimizing the efficiency and effectiveness of their digital operations.
- **Local e-heroes:** Distinguished by a strong regional focus and an advanced approach to digitization, these companies prioritize reducing operating costs, increasing their efficiency in digitization and achieving lean operations, all in support of maintaining their strong market position. Their goal is not international growth, but rather increased regional market share. They have a high level of digital knowledge and are open to adapting to new, innovative technologies or services that can deliver enhanced efficiency. To that end, they seek partners with a record of success in delivering specialized services.
- **Global old schoolers:** Because these companies have experienced ongoing growth and profitability, they saw no need to pursue digitization as part of their strategy for continued international expansion. As a consequence, they lost sight of the opportunities that digitization created or facilitated. Now, with competition becoming more intense, they are developing an appreciation for the contributions that digitization can make to the strength of their sales and their customer relationships. In view of those goals, these companies are prepared to make reasonable investments in digitization so they can catch up with digitally advanced competitors.
- **Small-town laggards:** As they reach the limits of growth potential in their traditional home markets, these companies' appetites for growth and international aspirations drive them toward digitization as a means of increasing domestic market share or achieving efficient, reliable overseas expansion. As they have been cautious in the past with regard to digitization and are aware of the associated risks, they need to build up extensive know-how and require support from a capable partner.

Each category of company deals with digital trends differently; companies pursue strategies that align with their stage of digital readiness and their corporate objectives. Multi-digital natives and local e-heroes, for example, require sophisticated services and technology. Conversely, global old schoolers and small-town laggards need to take a more gradual approach to pursuing the new opportunities.

Above all, they need market expansion partners who can help them drive interaction with their customers and stakeholders through digital channels and improving the digital transaction process. Companies choose MES providers for their expertise in using data to implement digital marketing strategies, improve the customer's shopping experience and make products available through all possible channels. Integrated MES providers are best positioned to deliver customized solutions that support individual companies' performance benchmarks. They help to mitigate the risks associated with implementing a global expansion roadmap that encompasses traditional and digital strategies.

With a proven capacity for delivering solutions that bridge the gap between digitization awareness and readiness, MES providers stand ready to work with their clients to reach economies of scale and synchronize online and offline processes in a manner that promotes profitability and growth beyond the home market. For these reasons, 80% of companies in our survey responded that they would consider an MES provider to drive their digital market expansion strategy. They found MES providers to be attractive because they offered companies the opportunity to capitalize on their physical presence in local markets: sales, infrastructure, and capillary distribution network and fulfillment services, plus access to multiple sales channels.

MES providers are uniquely positioned to help companies create a holistic market expansion approach that positions them to build on existing strengths as they identify and pursue emerging opportunities. These competitive advantages position the market expansion services sector, in turn, for strong, sustainable growth.



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

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