



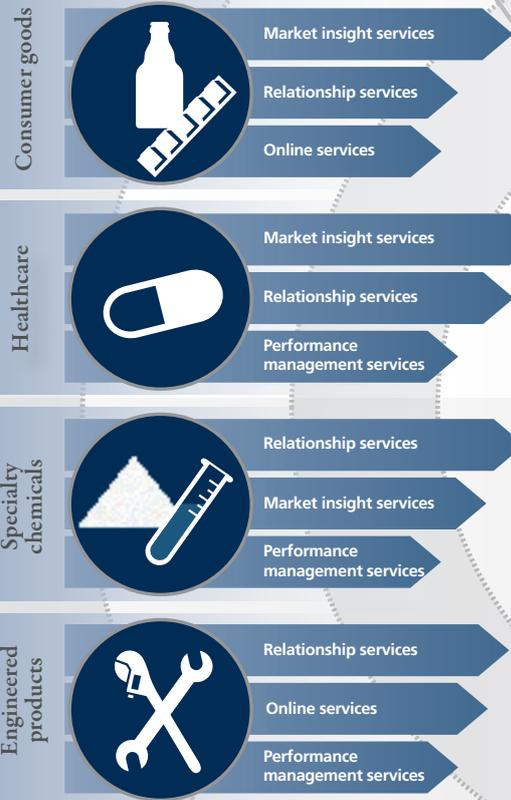
Roland Berger
Strategy Consultants

INNOVATION IS THE NEW
IMPERATIVE FOR GROWTH IN
MARKET EXPANSION SERVICES
DISCOVER HOW PARTNERING
HELPS UNLOCK VALUE FOR
CLIENTS, CUSTOMERS, AND
SERVICE PROVIDERS

*Second Global Market Expansion Services Report
Executive Summary*

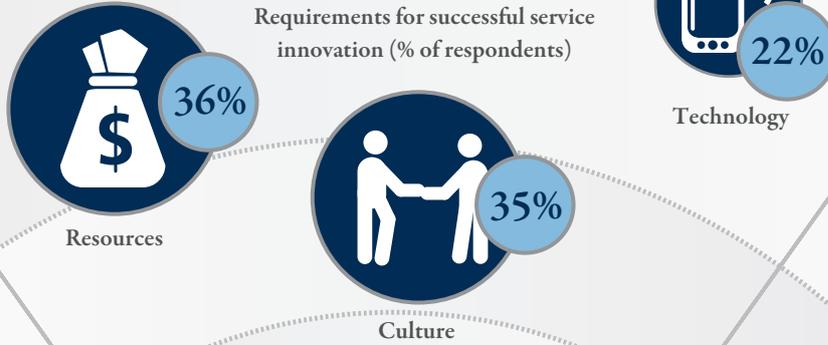
Exposure by industry

Demand levels for types of service innovation by industry (length of arrow)



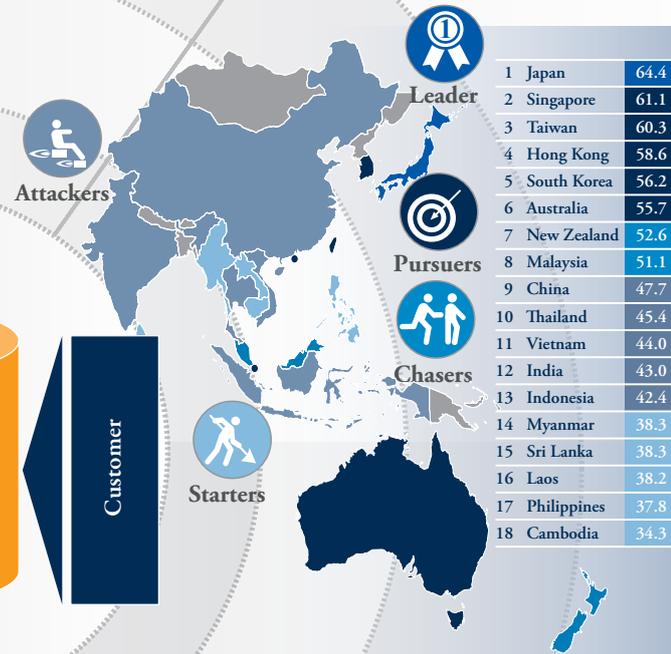
Platform

Requirements for successful service innovation (% of respondents)



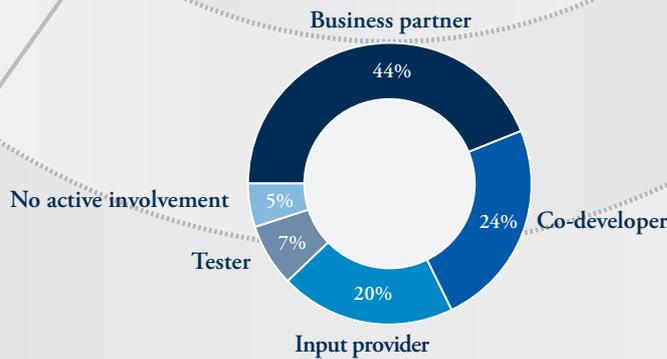
Exposure by geography

Service Development Index (SDI) 2012



Relationship

Preferred role of client and customer in the service innovation process (% of respondents)



Introduction

Once seen as a means of saving costs for back-end services, such as IT or call centers, a new category of outsourcing services has emerged as a result of globalization and high growth rates, particularly in emerging markets: these are market expansion services (MES) that support companies to grow in new and existing markets. As increasing numbers of companies seek such expansion potential, demand for MES has exploded. Today, this outsourcing sub-sector has become one of the most promising areas within the outsourcing industry. But, with increased potential comes increased demand, making innovation an imperative for MES providers. To succeed, they must not only improve their services offerings, but also apply the original thinking necessary to increase the type and level of sophistication of those new services. Innovation is key to elevating their services above the industry standard and creating a market advantage for themselves, their clients, and their customers.

Emerging markets and Asia in particular as the focus of MES growth

With global markets increasingly interconnected and curbed demand in Western markets, companies of all sizes are taking a second look at emerging markets. These are now seen not simply as extended workbenches, but rather as hotbeds of growth. As much of North American and European industry and commerce lingers in stagnation, many companies are looking toward emerging markets, and Asia in particular, to win new customers.

These growing markets, particularly those in Asia, are more dynamic than ever. Rising prosperity has given birth to an ever-expanding middle class with more money to spend on everything from high-quality consumer goods to luxury and healthcare products. Rapidly expanding domestic industries are emerging to cater to the needs of these fast growing middle classes. To do so, new production facilities have to be established in Asia, and those new facilities need state-of-the-art technologies, materials and ingredients, often from the West.

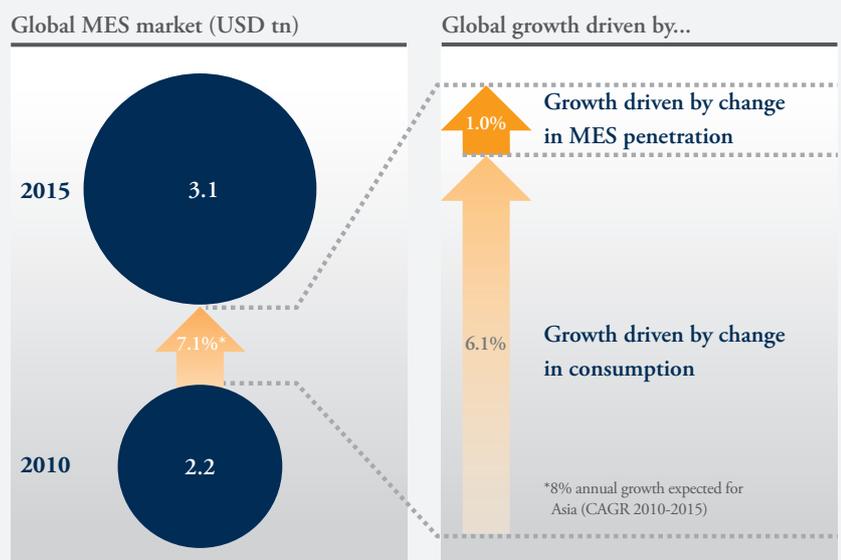
The resultant market dynamics are not only promoting trade with the West, but inner-Asian trade too is gaining sustainable impetus from the growing affluence of its middle classes. Moreover, Asian growth is being supported by economic integration plans and the easing of sanctions on Myanmar. For example, intra-regional trade is growing at an annual pace of 9.8% in South East Asia and 10.8% in Greater China (2006-2010).

And, topping Asia as a growth driver, MES providers are benefiting from the increasing shift in the focus of companies, large and small, on their core competencies. To optimize financial and human resources, many companies are focusing on core activities such as R&D, global marketing, and manufacturing, while outsourcing other elements of the value chain to specialized and trusted partners who can provide an integrated services offering along the value chain, e.g. research and analysis, marketing, sales, distribution, logistics, and customer after-sales support.

"A high degree of trust, openness and transparency is necessary for successful service innovation."

Professor of service innovation, University of Glasgow,
United Kingdom

MES to outperform global consumption



Global consumption market versus global MES market growth (CAGR 2010-2015)

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

"Asian countries don't look to go through the process of improving – they will try to jump right to that developed stage."

Channel Manager Asia Pacific, Asian specialty chemicals company

Demand for this caliber of services is projected to drive global growth in MES by 7.1% per year up to 2015. The global market is expected to grow by USD 3.1 trillion by 2015. MES providers hold the biggest share of the outsourcing industry in Asia's markets. However, because Western companies are often less familiar with the business terrain in Asia, growth will continue to be especially strong throughout that continent.

Service innovation is shaping the industry

Operating in a vibrant industry, MES providers regularly demonstrate the agility necessary to anticipate and stay ahead of continuous change and major shifts in trends. As manufacturers turn to them to outsource parts of their value chains, MES providers invariably need to stay ahead of their clients and customers when it comes to services. That ability makes true innovation in services more important than ever for providers who intend to rank among the top performers. "Service innovation is a means of differentiation," says the CFO of an engineered products company. "You have to achieve it to be successful in the MES industry." MES providers who get it right and offer true service innovation will be rewarded by long-term client relationships and growth. As the head of channel management in one consumer goods company puts it, "In terms of service offerings, innovation is expected [of the MES provider], as more than the standard has to be brought to the table in order to stay attractive."

Clients and customers want to see tangible value

What exactly do clients and customers seek in their MES partners? They want innovative services and solutions that are not just new, but customized to their needs. In the world of MES, there are no simple off-the-shelf answers. No two packages of services will be alike. Instead, solutions must be tailor-made and adapted to the needs of clients and customers, regional conditions, and the individual natures of the managers involved. In a survey of 350 decision makers, 48% pointed to the need for more customized services solutions.

MES providers cannot achieve this service innovation standard in a vacuum. They must understand their clients' and customers' businesses inside and out if their service offerings are to evolve in response to client needs. Equally essential is their ability to benchmark their services' success and provide clients and customers with direct evidence that the specific service innovation is boosting sales and increasing efficiency. Of those clients and customers surveyed, 37% said they expect to see greater market share from service innovations, and 31% wanted to see increased revenue. The sales and export manager at one consumer goods company says, "Every service added, innovative or not, needs to point toward increased revenue." Without benefits to the bottom line, businesses will not maintain a relationship with an MES provider.

In innovating, however, MES providers must not lose sight of their primary offerings. Clients and customers want those core services performed well above all else. This means MES providers must perfect traditional service offerings and integrate them into the solutions backbone. Only then can they begin to think about moving into service innovation. "Innovation is not of primary concern; rather, necessary improvements to the current [core] services offering need to be considered," says a managing director of a consumer goods company.

Benefiting from service innovation – knowledge is power

When companies outsource front-end services to MES providers, a frequent concern is that they lose touch with customers. With less direct contact, companies fear they have less perspective on how the market might change and what their customers want. As a result, many decision makers say that they are most willing to pay for service innovation in areas that bring them closer to their customers. They want MES providers to be able to share the data they gain from handling customer-focused tasks, relay that information back to them and translate market insight into strategic advice.

Managers are looking for insight services such as market data and intelligence, market entry studies, and brand analyses to give them the information they need to make key decisions. Meanwhile, relationship management services, such as key account management or customer relationship management, allow clients to maintain a close bond with their customers and benefit from learning more about them. “The importance of business data and KPIs is repeatedly underestimated,” says the director of an engineered products company. “Business success is largely dependent on their visibility.” With these types of services, companies can improve their products and adjust their strategies to reflect customer and market needs.

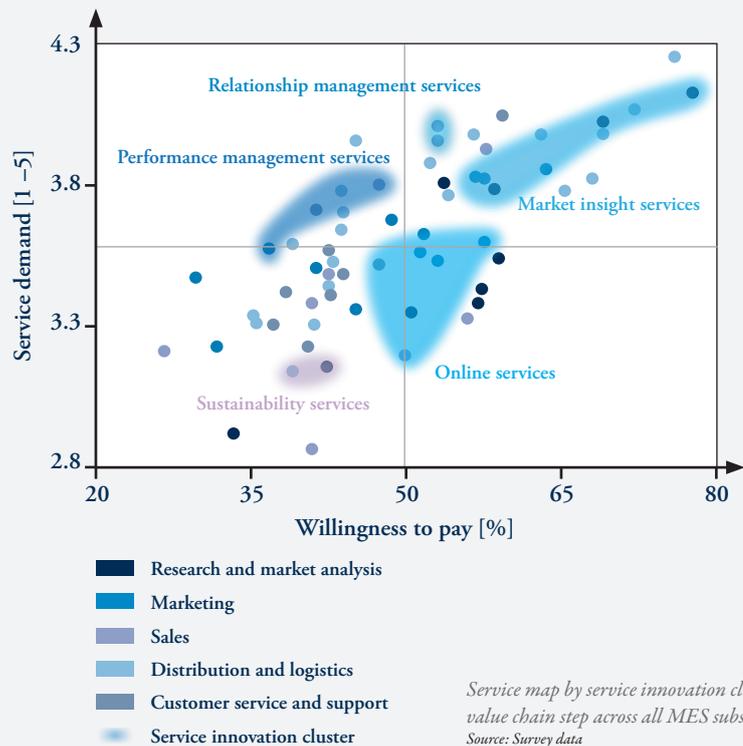
Industry and manager type matter – no one-size-fits-all approach

Requirements differ by industry, depending on each one’s needs. This underscores the importance of tailored solutions. Consumer goods companies, which dominate MES spending, captured 85% of the market in 2010. Because of their close proximity to end-consumers, their priority is any service that helps them understand and reach their buyers. Pharmaceutical and healthcare companies do not perceive online support as important, but they do want market insight and relationship management services to guide research and development efforts and manufacturing.

In the specialty chemicals industry, where MES companies account for 10% of all total spending, companies are more willing to pay for better innovation and certification services because they regularly operate under often strict regulatory guidelines. In the engineered products industry, made up of many small and medium-sized players, companies seek innovation in those services they cannot cover with internal resources, such as performance management and relationship management.

Demand for certain MES services not only differs by industry, but also by the type of manager and his or her strategic and operational insight. While managers overseeing business operations in entire regions or clusters of countries demand strategic services such as market insights or key account management, country specialists are usually more interested in customized services related to execution, including local distribution and customer support.

Market insight and relationship management services in high demand

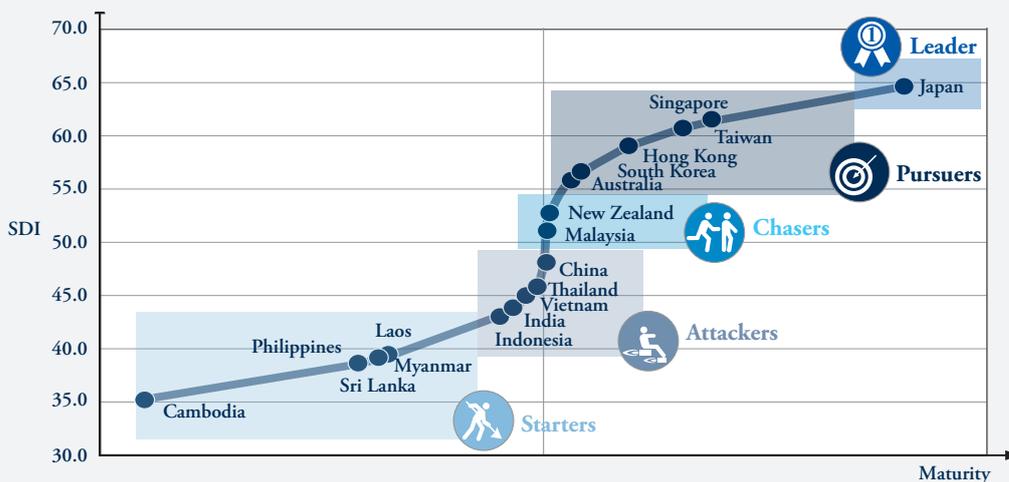


The race for service innovation in Asia Pacific

Among emerging markets, Asian countries hold the most promise for the MES industry, both in terms of growth and innovation potential. By 2015, Asia will become the biggest market for the MES industry, outstripping the now-dominant European and North American markets, with an average growth rate of 8% per annum. Furthermore, the variety of innovation levels across the continent provides ample opportunity for exchange of best innovation practices and mutual development.

Within the huge, diverse continent, five groups of countries are surfacing, with the most economically developed countries offering the most sophisticated service innovation levels.

The race toward service sophistication in Asia Pacific



Service Development Index (SDI) across Asia Pacific (conceptual illustration based on SDI)
Sources: World Economic Forum, survey data, Roland Berger Strategy Consultants analysis

With its long export history and highly service-oriented culture, Japan is the leader in the field. The island nation has become the second largest source of foreign direct investment in Asia, often moving production to lower cost markets like South East Asia. Rapidly-growing Singapore, Taiwan, Hong Kong, and South Korea are not far behind. Today, they are considered economies on par with Western countries. Australia, New Zealand, and Malaysia are next in line and catching up quickly.

China, Thailand, India, and Vietnam are today's economic powerhouses, but they continue to struggle with uneven development. Cities, for example, may have highly sophisticated offerings, while rural areas are still lagging. China is the uncontested regional superpower with

an increasing amount of financial resources to invest abroad. India, often seen as the call center capital, is making major gains that will soon put it on par with other Asian heavyweights. Finally, Sri Lanka, the Philippines, Cambodia, Myanmar, and Laos are just starting out on their journey of growth and should see an uptick in services sophistication as they develop.

The overall scenario, however, is changing by the minute. Based on their histories and particular economic development stories, many of the up-and-coming countries will soon match developed nations. As they do so, services providers must take care to customize their offerings to meet the specific needs of the regions or countries in which they operate. The opportunities and needs in rural areas are far different from those of urban centers, but they all hold great potential for service innovation among outsourcing companies.

Symbiotic partnerships ensure success

True service innovation is a partnership. The need for customized solutions translates into active client and customer input. Collaboration is the key to MES providers' development of the best solutions for their clients and customers. The most successful MES providers' track records are distinguished by the ability to maintain a client and customer focus so strong that they recognize emerging needs before the clients and customers themselves anticipate them.

Clients and customers clearly expect to be involved. Few would simply hand over such important tasks to an outsourcing provider with no further participation. In a survey of decision makers, 95% of MES clients and customers said that they would like to be somehow involved in the service innovation process. Many clients and customers expect not to be involved at the margins, but to be integrated into the process, with 51% of clients and customers saying that they expect to be actively involved in the services development process.

"My partner [MES provider] has to understand me and my needs as a producer within my industry, my segment, my niche; because only then is there an added value for me and my business," says the director of a business facilitation agency.

The general manager for the South East Asia region of a pharmaceuticals and healthcare company adds, "MES providers need to have an entrepreneurial culture, identify with the client brand, and see opportunities as if it were their own business."

That sort of close collaboration creates a symbiotic relationship between the client and the MES provider. Together, the partners can create true service innovations by working in concert toward the same positive end result.

Platform, exposure and relationship – the formula for success

What is needed to make service innovation a success in the MES industry? A survey of more than 350 decision makers, and interviews with leading industry experts and executives, reveals that successful service innovation in MES boils down to three components:

- Build a robust platform for service innovation – exploiting their full local knowledge, providing integrated services offerings, leveraging a high-performance IT backbone, and investing in services research and development
- Employ the scale of exposure to service innovation in different industries and regions that allows them to rapidly leverage services
- Implement the resources and the commitment to build lasting relationships and engage in intense long-term dialog that is critical to the delivery of successful service innovations – innovations that add lasting value for customers, clients, and themselves

As the MES industry migrates toward a company model that offer more integrated services, regional and international cross-industry MES providers will be best positioned to take advantage of these trends. They benefit from regional market coverage, in-depth market knowledge, an IT backbone, funds to invest in R&D services, and the ability to leverage exposure and relationships across industries and geographies. As the business unit head of one specialty chemicals company observed, "To bundle within and outside of regions is very important to us – we try to work with our MES partner across country borders. This is of advantage for both sides, in terms of trust, resources, and efficiency."



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

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