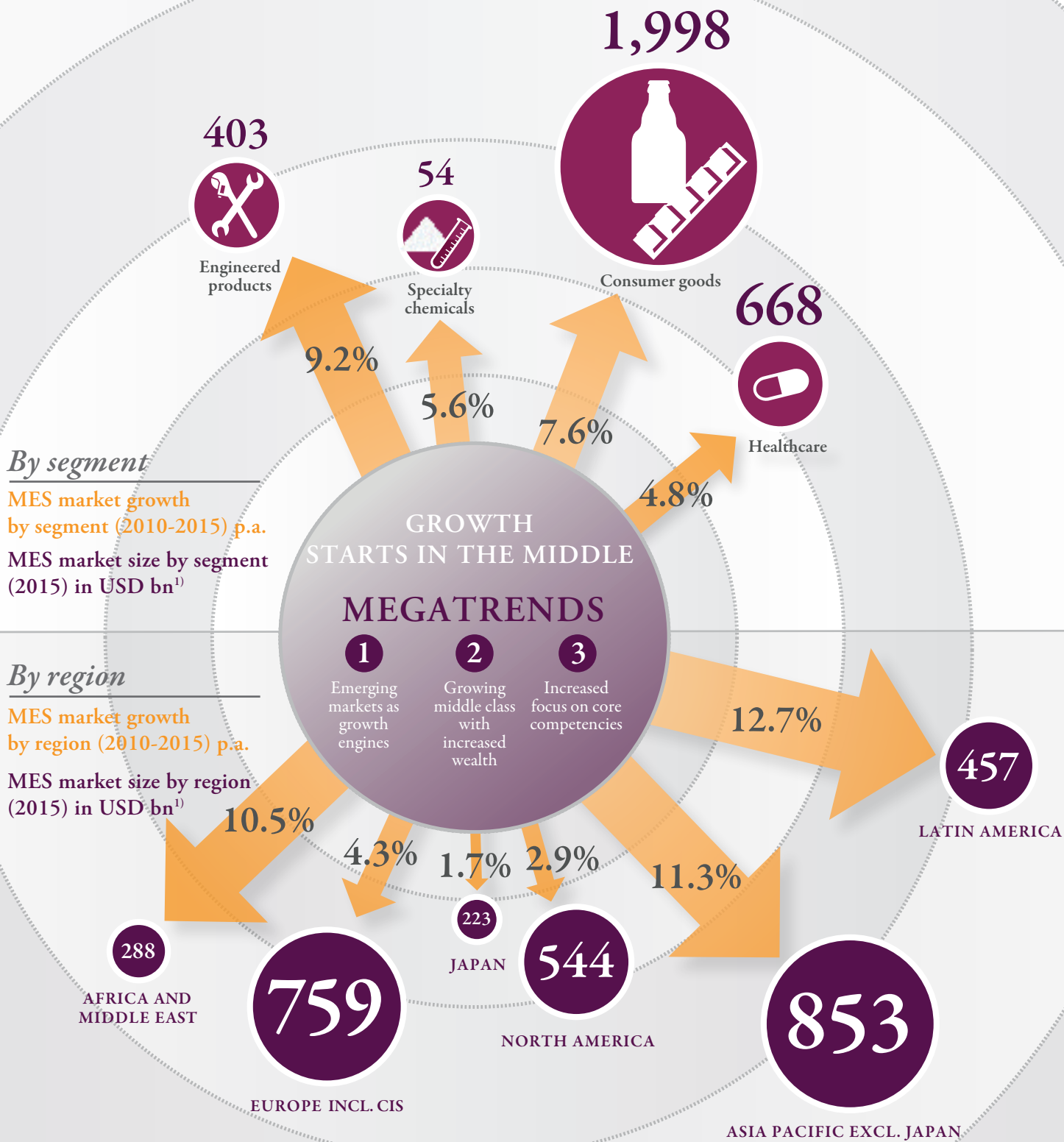




Roland Berger
Strategy Consultants

MARKET EXPANSION
SERVICES ENABLE
COMPANIES TO GROW AND
ENTER INTO THE WORLD'S
MOST PROMISING REGIONS
DISCOVER HOW TO BOOST
SALES WHILE REDUCING
COSTS AND COMPLEXITY

*First Global Market Expansion Services Report
Executive Summary*



1) 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.

Introduction

Each week new economic and corporate data appear to confirm an inescapable truth: Companies in the West are having to work harder to grow, increase revenues and cut costs as the global economy struggles to recover.

In Europe and the US, where consumer spending growth is fragile, companies are increasingly seeking to enhance effectiveness and improve the bottom line by outsourcing activities not within their core competencies.

Meanwhile halfway across the globe, in Asia, a different story is unfolding as new consumer groups and opportunities are emerging.

The trend is particularly strong in South East Asia, one of the fastest growing regions. In countries such as Thailand, Malaysia or Vietnam, the middle class is expanding so rapidly that Asia Pacific's share of global consumption is expected to almost double within the next decade. By 2020, the region is projected to account for more than 40% of world consumption – more than that of Europe and the US combined. In fact, Asia Pacific has already overtaken North America in terms of inter-regional trade and has evolved into an industrial production powerhouse. In addition, Asia's importance as a sales and sourcing market is continuously growing.

That companies must adapt to this eastward shift while maintaining their edge in more established markets is indisputable. But how to achieve this balancing act is far less clear. Even those companies that have already begun to move eastward are struggling to make the most of their foray into these often large new territories made up of diverse countries and cultures.

Chief executives cite similar hurdles: Opaque regulatory and legal systems, cultural differences, difficulty accessing local customers and lack of market knowledge. Such challenges affect companies regardless of size or industry.

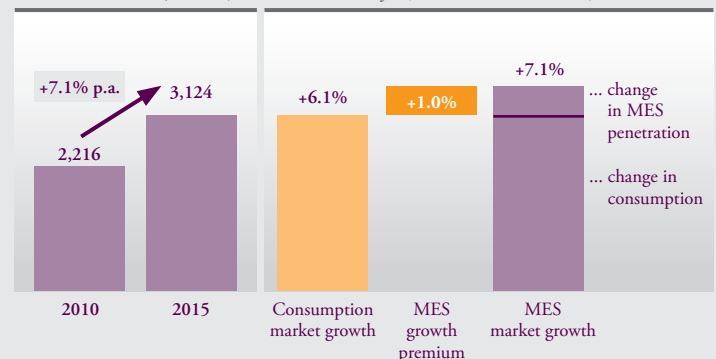
To overcome these impediments, more and more companies are turning to market expansion services (MES) providers. Whereas traditional outsourcing almost exclusively focuses on cost cutting, MES providers also help their clients boost revenues. Manufacturers of consumer goods, pharmaceuticals, specialty chemicals or technical equipment, in particular, have found MES helpful in tapping into new markets and expanding within existing ones, all the while reducing the frequently inflated cost of doing business in unfamiliar places.

Providers of market expansion services help their partners and manufacturers to grow in existing markets and enter new ones by creating access to customers, setting up marketing, sales and distribution structures and hence, exploiting their full business potentials.

MES – an industry with growth premium

Global MES market (USD bn)

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



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

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

Market expansion services – what are they?

Market expansion services providers offer a holistic, integrated and customized package of services that helps companies break into new markets, while improving their penetration and performance in existing ones.

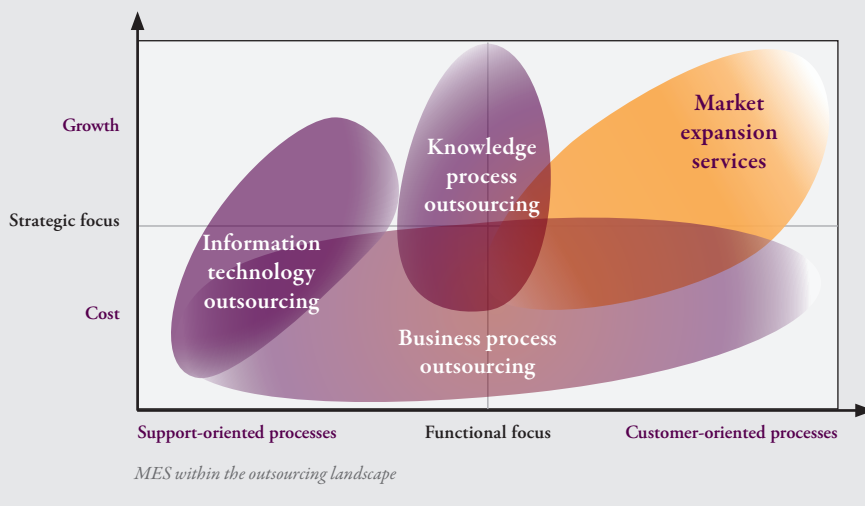
Thus, MES provide value propositions far outstripping those of traditional outsourcing partners. They occupy the premium position in the outsourcing landscape by reducing costs and improving revenues at the same time.

Expanding companies might use MES providers to help them deal with the peculiarities of local regulatory and legal systems, to tackle cultural differences, to access local customers and to improve their knowledge of new markets rife with fierce competition, particularly in high-barrier-to-entry markets like Asia.

Companies often do not have the internal skills or resources to manage all these challenges. Market expansion services providers can organize and run a company's entire value chain, providing integrated front-end processes in marketing and sales, logistics and distribution, as well as customer service and support.

With such broad and in-depth expertise available, even big multinational companies often turn to MES providers to improve the efficiencies of their networks and to reduce the risk inherent in going it alone in challenging markets.

Taking the outsourcing industry to a new dimension



Global trends – underpinning the need for market expansion services

As the middle class grows, particularly in emerging nations, so does its purchasing power and its voracity to consume luxury goods, Western products and healthcare. Indirectly, this new wealth pushes spending in industrial products, such as specialty chemicals and engineered products, including those needed to build infrastructures and develop local industries.

Today, exports from developed countries to less developed countries in South America, Africa, and Asia are growing at annual rates between 6 and 11%.

In terms of intra-regional commerce, Asia has overtaken the US to become the world's second largest trade area.

These trends have opened up new opportunities that many companies are trying to capture.

Chief executives now ask themselves: "Why are we not selling to the less developed regions of the world that have been so far primarily used to provide inexpensive labor for production?"

Even so, companies can hardly ignore the rest of the world in the process. Indeed, for the past five years, global trade has grown at 4.8% per year and Europe remains the world's largest trade area.

Meanwhile, even as they seek to grow at home and abroad, company executives are well aware of the intensifying need to rationalize and keep costs in check. Many have done this by outsourcing even larger elements of their business than before.

The inability of traditional outsourcing to keep pace with such far-reaching global change has created the need for support at a more sophisticated, broader and deeper level. It is called: Market Expansion Services.

Who needs market expansion services and why?

Multinationals

Multinationals are well positioned to enter new markets and to exploit existing ones. They have international reach, in-house expertise and resources, and often a robust enough balance sheet to withstand substantial risk. Much of what MES offers today would traditionally have been categorized as part of a multinational's core competence.

Nevertheless, even multinationals are turning to MES to take advantage of their superior local networks and knowledge, exploiting them to break down the barriers of entry into new markets or grow more effectively in existing ones.

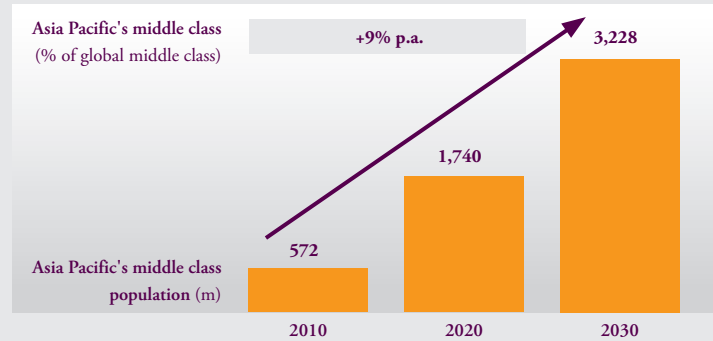
For many companies, using an MES provider's distribution, sales and marketing networks is cheaper, quicker and more effective than building their own. Often, larger players look to MES to provide broad channel coverage in individual countries, rather than across regions.

Forging such partnerships with an MES provider does not mean losing touch with the company's own customers. New information technology enables multinationals – and other companies – to control their outsourced value chains in real time and garner key insights into their customer activities. For the MES provider, it is therefore critical to be able to offer its clients a scalable IT platform.

Small and medium-sized enterprises

Small and medium-sized enterprises (SMEs) often have the same reasons as multinationals for turning to MES. But for many SMEs, the support of an MES is even more vital. For a smaller company, new markets can be all but unattainable because of lack of market knowledge, experience and resources. Therefore, small and medium-sized companies usually need MES providers with broad coverage of all relevant countries within a region. MES reduce risk and overhead costs, thereby allowing SMEs to tap into keen potential customers who would otherwise be out of their reach.

Exponential growth over two decades



Size of Asia Pacific's middle class including India (2010-2030)

Sources: OECD, Roland Berger Strategy Consultants analysis

"We design fantastic watches. Yet we don't have the expertise to sell them in our most important growth market without the leverage we get from a market expansion services provider and its network."

CEO, medium-sized Swiss luxury watchmaker

Healthcare and consumer goods companies

Despite the seeming ubiquity of global brands from Coca-Cola to Pampers, the consumer goods market remains highly fragmented and locally driven. Thus it presents great challenges for companies attempting to access eager new customers in fast-growing, but widespread markets. From marketing to after-sales, MES help consumer goods companies overcome these challenges and harness the opportunities created by Asia's growing middle class and its increased appetite for luxury goods and Western products.

In fact, together with healthcare, consumer goods accounted for almost 85% of the global MES market in 2010 according to Roland Berger analysis.

Lindt & Sprüngli

The origins of this Swiss chocolate maker date back to the chocolate factories of Rudolf Sprüngli in Zurich and Rodolphe Lindt in Berne, both established in the 19th century (Sprüngli 1845, Lindt 1879). For over half a century, DKSH has been the company's partner in Hong Kong and China, playing a major part in fostering Lindt & Sprüngli's position as the premium brand of Swiss chocolate. Today, Lindt is the market leader in the dark chocolate segment and the number two for gift items in this area. Through qualified advice at its points of sale, consumer surveys, and marketing activities, DKSH has succeeded in helping Lindt & Sprüngli enlarge its market for chocolate in Hong Kong and expand into mainland China. Since then, Lindt has experienced substantial growth, particularly in major cities such as Beijing and Shanghai, serving customers at more than 1500 points-of-sale.

In the same analysis, the penetration of MES in healthcare is found to be particularly high, with almost half the healthcare industry (44%) relying on MES, especially for sales, distribution and logistics. This high penetration rate is mainly because these areas lie outside the core competencies of the healthcare companies, and bundling sales and distribution allows them to leverage economies of scale in the industry's highly fragmented market.

Moreover, partnering with an MES provider allows pharmaceutical companies to launch new medicines more quickly, enabling them to benefit longer from the precious patent lifetime.

North America and Europe remain by far the largest expansion services markets for healthcare products, though emerging regions, with their burgeoning middle class, are experiencing faster growth and higher penetration rates.

Engineered products and specialty chemicals companies

As competition eats away their margins, manufacturers are turning to the regional expertise of MES to reverse the trend. To sell engineered products, companies must understand the local market and be able to gain access to a customer's top management level, where purchasing decisions on such valuable items are generally made. Meanwhile, the increasingly important after-sales sector lends itself particularly well to collaboration between MES providers and engineering firms.

Engineered products and specialty chemicals represent about 15% of the global MES market according to Roland Berger analysis. For engineered products, emerging markets account for two thirds of the expansion services market.

Specialty chemicals, which have an MES penetration rate of about 10%, are often sold in low volumes and at high prices according to the same analysis. Such companies rely on MES providers for their capillary networks and for specialized services, such as testing, formulation, product innovation and applications support.

The future of market expansion services

The global MES market generated sales of USD 2.2 trillion in 2010 according to Roland Berger estimates. Sales are expected to hit USD 3.1 trillion in 2015, outstripping total consumption. Indeed, in the coming years market expansion services are expected to grow one percentage point faster than the overall consumption market.

Both established and emerging markets are important to MES providers. However, in 2015, Asia Pacific is predicted to overtake Europe as the biggest market for MES according to Roland Berger analysis. The pendulum is swinging away from Europe, the US and Japan and towards the world's more dynamic economies. Emerging regions show the highest historical growth figures, the highest penetration rates, as well as the rosier forecasts for MES across most industries. This is especially true in Asia where companies are looking to source, manufacture and sell increasing volumes of goods.

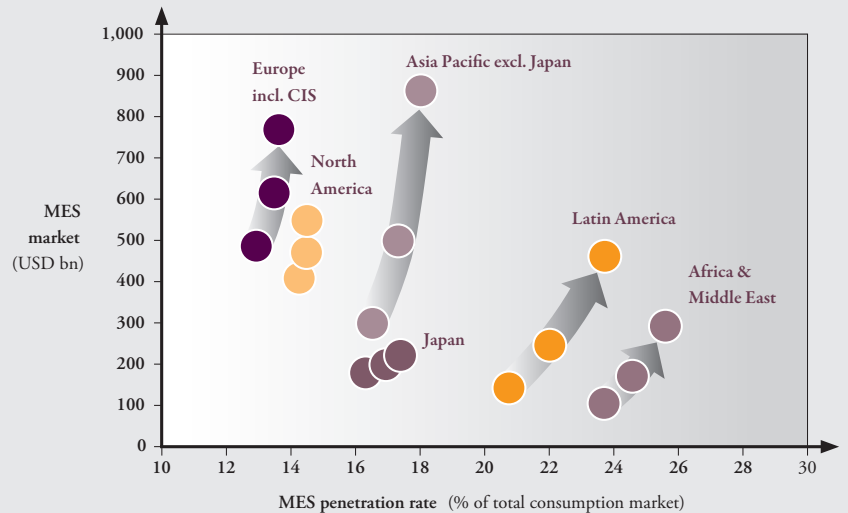
The investment goods segments are projected to outgrow the consumer segments in the next five years, as emerging nations seek to grow their industrial base and exploit the gains of their improved technical prowess. In addition, emerging markets are investing heavily in infrastructure, such as roads, energy and water supplies, and schools. This creates the need for new technological and chemical components, many of which will be supplied by companies from outside the country as local industries struggle to keep pace, and are often not able to provide the required equipment and materials at all.

Thus the major trends of globalization and the eastward swing is good news for existing global and regional cross-industry MES players, particularly as the barriers to entry for newcomers into the MES market are high. Only MES providers with a certain scope and size are able to provide the platform needed to serve clients who are increasingly asking for much more. Their new demands include that MES provide regional and not only local solutions, that they deliver value-added, rather than merely standardized services, and that those services be integrated.

As MES providers attempt to satisfy their clients' increasing needs, existing players are expected to grow in depth and breadth organically and through mergers and acquisitions.

Much has been said about how globalization and its shifting trade patterns are shaping the market expansion services industry. But the inverse is also true. By allowing companies to successfully expand in markets old and new, MES service providers are accelerating the world's shifting trade flows and improving the wealth of companies, consumers and the countries with which they interact.

Asia Pacific expected to overtake Europe



Global MES penetration rate and growth of global MES by region (2005-2015)

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



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

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