A new era of diversity in the route-to-market in Asia

Sixth Global Market Expansion Services Report
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Welcome

Are you seeking new or expanded pathways to Asian consumers and clients? This fast-paced and high-growth region offers a multitude of exciting opportunities to expand business. But it can also be quite foreboding for companies, both from the West and East, to understand the interplay of established and emerging route-to-market challenges and opportunities across Asian markets.

Although evident to varying degrees in each industry and across each nation of Asia, the routes-to-market are becoming more diverse, more complex and more competitive. A critical factor in any Asia business strategy is to identify the most efficient route, or routes, to a defined market. This is no easy task in a vast and diversified region that is overlaid with multiple currencies, political and legal systems, population bases, ethnicities and religions, plus highly polarized levels of wealth and poverty.

In addition, the application of advanced technologies means the physical boundaries to business are being overcome. This is creating new counterpoints for companies to reallocate resources, drive innovation and improve service delivery, both in national and cross-border markets.

This sixth edition of the Market Expansion Services Report, uses in-depth local knowledge of the Asian region to provide businesses with insightful considerations and some hands-on advice on choosing the best channels to get products into the hands of Asian consumers:

• **Guide to Asia’s new economic landscape.** What are the influencing factors behind Asia’s increasingly competitive market reality? This looks at topics such as infrastructure development, what the future Asian consumer will want and intra-regional investment

• **Route-to-market challenges in Asia.** What factors do you need to take into account when defining and navigating your route-to-market? This looks at themes like digitization, disruptive technologies, non-traditional competitors and shifting demographic factors

• **Industry case studies.** This looks at the unique and overlapping route-to-market issues that companies and brands must factor into their business models in four industries: consumer goods, healthcare, specialty chemicals and technology

To keep up with doing business in Asia, you need to stay up-to-date with the operational elements along the value chain which have the potential to reshape production cycles, forms of demand and operating models – and, ultimately, redirect the routes-to-market. Are you ready to implement an omni-channel strategy in Asian markets? Use our checklist and find out!

**Dr. Joerg Wolle**  
President & CEO  
DKSH
1. Asia’s changing economic landscape

The lure of Asia. Doing business in Asia has never been more accessible, or more burdened with expectation. Less than two decades after the Asian financial crisis, most Asian economies are continuing to expand – albeit at moderated rates than in previous years – offering access to new customers, consumers and clients.

Diverse markets. For companies accustomed to sluggish, or even static, growth elsewhere in the world, the allure of Asia is strong. But as growth in Asian markets attracts more economic activity, the pathways to success are not necessarily paved with gold. Asia is extremely diverse, and its market structures, political and legal systems, populations and resource bases are hugely differentiated. Labor, land and raw material costs, too, are rising, as are consumer retail prices.

Increasingly complex and competitive markets. Defining a route-to-market strategy – whether for a single Asian nation, expansion into a second or third territory, or a larger network criss-crossing the continent – is complicated by myriad economic, social, political and technology-driven factors. But the overriding constant of the new economic landscape is that Asian markets are increasingly complex and competitive.

Growing middle class. Although economic performance varies across the region, policy makers in most Asian countries have identified the expansion of domestic demand as a central pillar of future growth. Relatively low interest rates are designed to spur investment in infrastructure, services and consumption – and create new access points to dynamic, fast-changing markets. This is encouraging more firms to enter and expand in sectors that provide access to Asia’s growing urban middle class – and their proven spending power.

Rising intra-Asian trade. Uniquely localized features of demand and supply are evident across most business sectors within Asian nations, however, while cross-border e-commerce is expanding at variable rates. The high-octane growth
Increasingly, Asian firms are entering complementary markets to reach new customer bases, often through a merger, acquisition or joint venture. For example, Korea's Hyundai and Hotel Shilla have created a duty-free shopping joint venture, ChemChina is acquiring Swiss agribusiness Syngenta and Japan Post purchased Australian logistics company Toll Holdings.

Currency fluctuations. Businesses in Asian markets must also factor currency fluctuations into their route-to-market planning. Unlike trading in the European Union or the United States, where single currencies prevail, Asian trading involves an assortment of currencies, whose values are experiencing volatility in the aftermath of recent devaluations of the Chinese yuan and the robust performance of the Japanese Yen.

Trend towards outsourcing. Small- and medium-sized firms, however, rarely have either the financial or the human resources needed to establish a presence in testing markets, or transfer a successful model from one country into another. At the same time, multinationals are focusing on their core competencies, such as product development, manufacturing and marketing – and often require an outsourcing partner to handle key tasks, such as sales, warehousing, blanket and capillary distribution, and cash collection.

Rise of Asian players. As the product options and access points for customers proliferate across business sectors, a new challenge is the emergence of ambitious Asian firms. Boasting strong resources and proven scale at home, they want to replicate this success elsewhere in the region, and worldwide. Increasingly, Asian firms are entering complementary markets to reach new customer bases, often through a merger, acquisition or joint venture. For example, Korea's Hyundai and Hotel Shilla have created a duty-free shopping joint venture, ChemChina is acquiring Swiss agribusiness Syngenta and Japan Post purchased Australian logistics company Toll Holdings.

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What challenges does a route-to-market strategy need to master in…

<table>
<thead>
<tr>
<th>…Malaysia</th>
<th>…Myanmar</th>
<th>…Vietnam</th>
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<tbody>
<tr>
<td>Population of around 30 million</td>
<td>Large geographic area that is twice the size of Vietnam</td>
<td>Large geographic area, with a population of around 92 million and strong economic growth</td>
</tr>
<tr>
<td>Changing channel landscape with the rise of modern trade and e-commerce</td>
<td>Population of 53 million people with a growing middle class</td>
<td>Complex and ever-changing regulatory environment</td>
</tr>
<tr>
<td>High costs of doing business and serving customers</td>
<td>An abundance of counterfeit products</td>
<td>As infrastructure is still developing, supply chain costs are relatively high</td>
</tr>
<tr>
<td>Geographically complex, with highly differentiated markets and infrastructural development in Peninsular Malaysia and East Malaysia</td>
<td>Complicated channel-to-market</td>
<td>Unique trade channel characteristics with small drop size per outlet in traditional trade</td>
</tr>
<tr>
<td>Strict halal certifications for pre-packed products</td>
<td>Extremely fragmented point-of-sale network</td>
<td>Centrally planned economy struggling to balance protecting local social obligations while opening up to global trade</td>
</tr>
<tr>
<td>A slowdown in consumer spending following the implementation of GST, plus sluggish income growth</td>
<td>Cash-dominated trading environment</td>
<td>A highly cash-dependent trading environment</td>
</tr>
<tr>
<td>Government regulations can be cumbersome with strict rules regarding certain sectors</td>
<td></td>
<td></td>
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<tr>
<td>Challenge to attract highly skilled workers</td>
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“In-depth local knowledge and insight is indispensable. Partnering with a Market Expansion Services provider can open critical pathways through the trading complexities and bring businesses closer to their customers. In addition, value-added market data and reporting contextualizes the similarities and differences that separate and stitch together Asian markets from Hong Kong to Hanoi, Jakarta to Seoul, and Tokyo to Yangon.”

Dr. Joerg Wolle, President & CEO of DKSH
Foreign direct investment is proving a catalyst for expansion in Asian markets. New financing sources and incubation hubs are designed to drive innovation and meet diversifying customer demand, particularly in South East Asia, which is attracting strong private and state investment from Asia’s pillar economies of China, India, Japan and Korea.

Intra-regional investment is bringing new ideas to new marketplaces, encouraging local entrepreneurs and innovators, forging new partnerships, and creating new service models and supply chains. Private sector investments in healthcare are designed to support governmental policies that broaden public access to medical treatments, particularly in emerging markets. These funding flows are often facilitated by favorable fiscal policies and incentives offered by governments to construct new pathways to future growth and prosperity.

This transnational funding is not just acquiring new companies and technologies, and tapping expanding customer bases. It is also being channelled into infrastructure projects, ranging from airports to ports to highways and railways, that provide enhanced transportation corridors to domestic and cross-border markets.

Beyond Asia, increased capital flows from east-west and west-east are making the planet more financially interconnected than ever. Chinese banks, for example, are opening new branches worldwide as the government seeks a more global role for the yuan to support the expansion plans of Chinese businesses. South East Asian’s strongest banks are also securing visible positions in major cities across the Association of Southeast Asian Nations (ASEAN) region.

The impact of intra-regional investment
Asia’s great infrastructure build-out

Across Asia, vast and varied infrastructure needs are being addressed. Large-scale public spending in transport and cargo capacities is raising the volume of economic activity, improving competitiveness and enticing new investors across the region. The private sector is being courted to participate in infrastructure upgrade projects, as city and regional governments confront fiscal restrictions and budgetary pressures.

A pan-regional funding platform is also in place. Promulgated by China in 2013, the Asian Infrastructure Investment Bank (AIIB) is based in Beijing. Its operational structure was ratified by 57 member countries in 2015 to focus on the development of energy and power, transport and telecommunications, rural infrastructure and agriculture, water supply and sanitation, environmental protection, urban development and logistics across Asia.

Alongside the physical infrastructure projects, a similarly expansive program of smart infrastructure development is underway to create more powerful and integrated communications platforms.

Smart infrastructures comprise any technology that makes business processes more agile and effective through collecting, analyzing and segmenting big data. They improve the speed, security and efficiency of doing business by adding knowledge-driven immediacy to decision-making and reducing the time to market.
Asia's infrastructure build out
Seamlessly connecting companies, customers and consumers across Asia's landlocked and island territories:

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Description</th>
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| ![Plane](image) | • New airports under-construction in Yangon and Beijing  
• Planned “air cargo, logistics, aerospace and aviation services hub” in Kuala Lumpur  
• Terminal expansions in Singapore, Indonesia, Japan and across India and China |
| ![Ship](image) | • Enhanced port facilities being developed in Sri Lanka and Indonesia  
• High-speed rail networks in Korea, Japan, China and Taiwan are set to be rolled out across Asia – including the proposed Singapore-Kuala Lumpur, Jakarta-Bandung and Bangkok-Chiang Mai projects |
| ![Road](image) | • Vast prospective highways will connect transcontinental Asia  
• India plans to build a 1,400 km-long pan-South East Asian highway to boost trade with Myanmar and Thailand  
• A second phase would connect India by road with Bangladesh, Laos, Cambodia and Vietnam |
| ![Ship](image) | • China’s One Belt, One Road combines two new trade corridors, an overland Silk Road and a Maritime Silk Route, connecting it with Central Asia, South East Asia, the Middle East, Africa and Europe  
• Objective is to generate an extra USD 2.5 trillion in annual trade with the nations along the proposed routes in the next ten years |
“Using smart infrastructures correctly can give companies a clear competitive advantage through higher efficiencies and superior standards of service – by letting them reduce inventories and operate just-in-time strategies, for example, but also by ensuring that the right products are available via the right channels at the right time (thanks to data-based automated replenishment and production planning).”

Digitization and the Market Expansion Services Industry: Driving Omni-Channel Growth, DKSH's Fourth Global Market Expansion Services Report

Understanding the future Asian consumer
The primary attraction of expanding in Asian markets is the region’s ongoing economic growth, which continues to outpace the developed world, and the concurrent rise in consumer spending power. This offers brands the potential of fostering new customer bases and new revenue streams.

Diverse population compositions mean targeting consumers requires accurate, up-to-date market intelligence. This data can be analyzed to predict how changing societal structures may impact the demand and supply of different products and services in future.

**Societal structures will impact future products and services**

![Chart showing population demographics of Hong Kong and Indonesia](chart.png)
Growing numbers of urban consumers

Urban consumers are integral, either directly or indirectly, to the aspirations of most companies investing in Asia. Mass urbanization is a gamechanger for businesses, governments and policy makers because the expansion of urban conurbations is redefining social mobility, supply chains, workforce structures, energy and resource allocation, housing supply and consumption patterns.

The enlargement of Asia’s megacities (defined as a city with a population of ten million or more) will create new opportunities and challenges on the route-to-market. Greater concentrations of online-savvy urban consumers will demonstrate higher expectations regarding service delivery, speed and quality, creating new pressures for supply chains. At the same time, private sector innovations will become more closely aligned with urban planning to solve new challenges for citizens at work and at home.

Tapping into rural areas

While Asia’s urban centers drive dynamic new patterns of demand, companies seeking to expand their reach across geographies are reaching out to previously
untapped rural areas. The broader availability of internet access is empowering rural consumers to purchase products online, bringing them increasingly into the route-to-market equation.

Accenture noted in its Asia Consumer Product Trends: Implications for Retailers and Manufacturers that consumer product companies across Asia should tailor their investments based on “gaining a better alignment between product development and marketing to tailor channel strategies by segment and identify innovative distribution to reach both rural and urban consumers.”

“In 2015-2020, the Southeast Asian urban population is expected to grow by 2.2% annually, similarly to both China and India. An additional eight million people per year will be making the rural to urban migration across Southeast Asia, and this will raise the urbanization rate for the region above 50%.”

The Fourth Industrial Revolution: The impact on Real Estate in Southeast Asia, JLL (2016)
Asian megacities by numbers

Despite its lower average rate of urbanization, Asia was home to 53% of the world’s urban population in 2014. Indonesia’s urbanization rate is the fastest in the world, with cities expanding by 4.1% per year.

By 2025, about 68% of the population will live in cities.

The world will count 41 megacities. Tokyo (37 million) will remain the world’s largest city, followed by

Delhi (27.5 million). China will add 1 megacity by 2030.

4 of India’s cities with 6-10 million inhabitants, Ahmedabad, Surat, Indore and Vapi, are expected to become megacities.

Digitization and the challenges of channel complexity
As Asia’s economic, infrastructural and demographic structures shift and realign, companies are seeking to optimize their routes of access to customers in a very focused way. Utilizing digital channels in addition to modern and traditional trade channels as part of a balanced omni-channel strategy requires a new level of flexibility across the entire value chain – particularly as trading conditions in Asian markets are fluid and fast-moving.

Digitization forms a new business frontier, with geographical barriers to trade in Asia being leapfrogged by technology. The rapid growth of both domestic and cross-border e-commerce, and particularly smartphone-focused mobile commerce (m-commerce) has created real-time access to previously inaccessible markets across Asia. It has also catalyzed entire new business models and value chains, and added speed and dynamism to both B2B and B2C procurement processes. As a result, individual entrepreneurs and tech start-ups as well as regional and multinational firms can utilize a multiplicity of channels to interact with existing, newly acquired and prospective customers and clients at any time of the day or night.

But the catalytic impact of digitization also brings unique challenges. Cutting through the cluttered desert of data engages the region’s brightest analytical and marketing minds, while cross-border trading and trading in untapped areas within the same country can create unexpected logistical, distribution and after-sales service challenges.

As a result, the quest to seamlessly manage digital and traditional channels is becoming more complex and more resource-intensive, and choosing a specialist Market Expansion Services partner to help deliver real competitive advantage is a critical business decision.

Digitization is restructuring the relationship between companies and their customers – with enhanced data capture and management capabilities providing new insights into fluctuating market trends:

- Channel fragmentation has shifted the balance of power away from producers towards customers, who leverage the power of digital to demand enhanced service provisions from companies and brands. This dynamic complexity offers unique opportunities for intermediators, such as Market Expansion Services providers, to provide expert management across both the overlapping and distinctive market channels.
- Understanding what motivates customers – and, equally, what turns them off – is central to an omni-channel strategy.
- Digital innovation may be driving route-to-market change, but at the heart to the matter is human decision-making. Capturing and optimizing customer data to frame business decisions adds value because delivering outstanding experiences is founded on behavioral insight.

“Digitization depends on implementing systems that capture, transmit, and process information […] Almost every kind of service-related information can be digitized, which means that existing services can be transformed and new services and new business models can be created.”

Changing the Game in Industrial Goods through Digital Services, The Boston Consulting Group (2016)
### Which is the best digital route to your customer?

As traditional and modern trade channels converge, digitization is sometimes regarded as a solution to almost every business issue. If only it were that simple. The digital sphere is hallmarked by fragmentation. Even within online commerce, several contiguous elements exist that companies must consider as part of their omni-channel strategy:

<table>
<thead>
<tr>
<th>Channel Type</th>
<th>Description</th>
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<tbody>
<tr>
<td>M-commerce</td>
<td>Interface, product listings, check-out card, and payment processing, incorporating global credit card systems, Paypal and Asian cashless payments, such as AliPay, SamsungPay and ChinaUnionPay</td>
</tr>
<tr>
<td>Social media</td>
<td>Competitive brands utilize a mix of channels, including Twitter, Facebook, Instagram, Google+, Facebook, Line, WeChat and Weibo</td>
</tr>
<tr>
<td>Company website</td>
<td>Plus unique URLs for key brands in a portfolio</td>
</tr>
<tr>
<td>Marketplace channels</td>
<td>Many brands and retailers use aggregated online platforms for selling and distributing their products</td>
</tr>
<tr>
<td>Email</td>
<td>Despite a growing preference for instant messaging, email remains a reliable channel of communication and information sharing</td>
</tr>
<tr>
<td>Price comparison/product rating websites</td>
<td>These are widely used for research purposes by B2B, B2C and C2C customers</td>
</tr>
<tr>
<td>Video marketing channels</td>
<td>Such as YouTube, Snapchat, Facebook Live, Periscope, Meerkat, Bigo and WeChat</td>
</tr>
<tr>
<td>Search engine optimization (SEO)</td>
<td>A crucial process for creating collective online visibility and searchability for all a company’s digital assets</td>
</tr>
</tbody>
</table>
Shop everywhere in Asia
Mobility is a new watchword in Asia’s consumer sector. A multiplicity of buying channels means consumers are now shopping online from home, in stores across their town or city and, increasingly, while on vacation. As a result, retail markets are dynamic, multi-layered and fragmented.

In general, Asian consumers are fast adopters of new technology, covetous of new brands and products, and confident in using multiple purchasing channels. Younger consumers, especially, are socially and geographically mobile, aspirational and value conscious. They understand dynamic pricing and limited-time discounting, and assertively seek the best deal – both inside a store and when buying online.

What do Asian consumers demand from brands?
While contrasting customer behaviors are evident throughout Asia, certain identifiable trends are discernible – and brands are increasingly incorporating these demand-driven factors into their route-to-market strategies:
• Seamless online-to-offline experiences
• Personalized discounts and promotions
• Engaging competitions with high-value prizes
• QR codes (especially in China, Japan, Korea)
• Inspiring social media contents and imagery telling intuitive brand stories that mobile users feel are relevant to their own lives.
• Fast, responsive after-sales service
• In-store and third-party collection points for online purchases
• Inventive collaborations and partnerships with complementary brands
• Tangible rewards for brand loyalty
• Limited edition and special edition product lines – and online access to purchasing these items
• Bespoke marketing – developers are working on applications that respond to website clicks to create individualized promotions, making one-to-one marketing a reality
**Smartphone shopping**

Smartphone ubiquity has revolutionised the way Asia’s new consumer class accesses – both in urban and, increasingly, in rural markets – understands and processes marketing messages. Poorly-targeted information is instantly filtered, and mobile users are highly security conscious about their personal data. The power of social media and shared peer experiences, viewpoints and reviews should not be underestimated.

**Dynamic nature of consumption in Asia: the consumer tourist**

Brand loyalty remains low, however, and buying behaviors are stimulated by: new trends in urban lifestyles, a desire for convenience and the expansion of intra-regional tourism.

Asia’s expansive new army of consumer tourists enjoys access to vast arrays of products via the multitude of duty-free malls and discount outlet centers being established explicitly for them in prominent locations ranging from Tokyo to Siem Reap and Seoul to Bali. Shopping tourism is one of Asia’s strongest growth sectors – and is taking duty-free purchasing from airports and city centers to the beach, mountaintops and major tourism sites.

Consumer tourism is being integrated into destination master planning across the region, and is expected to grow at a high-octane pace in the coming years. In response, duty-free retailers are creating a new surfeit of choice for shoppers that is raising expectations about product quality and service – and is also challenging the way brands and retailers manage inventories and supply chains.

**Traveling for treatment**

Another fast-growing sector is medical (or health) tourism, as newly affluent citizens, both young and old, utilize their vacation time to undergo advanced yet affordable medical procedures, cosmetic or wellness treatments overseas. Countries with a flourishing private medical sector, such as Singapore, Thailand, Malaysia and South Korea, are increasingly promoting their services. Malaysia’s Kuala Lumpur International Airport has its own medical travel information center, and the Singapore Tourism Board promotes the nation as “Asia’s leading destination for advanced medical care.” The coordinated channeling of resources and governmental support into this expanding sector is providing new opportunities for healthcare investors and medical device companies.

**Reaching the shoppers**

Brand marketers across Asia are embracing this new age with an improvised toolkit of techniques to engage customers who are prodigious users of mobile technologies. Innovative, digitally delivered engagement tactics range from populist competitions, limited edition discounts and pop-up offers to product placements strategically embedded into online games and movies and TV shows that are frequently streamed online.

Advertisers are crafting narrative-driven brand stories – that appeal to selfie-loving “Generation Me” consumers – created specifically for smartphone delivery. Forward-thinking brands are also signing up high-profile social influencers, bloggers and celebrities that “live stream” parts of their daily lives via social media and KOLs (key opinion leaders) to demonstrate their understanding of aspirational, in-the-minute consumer preferences.
“Whatever the mobile or social media purchase usages, whether it is using a mobile phone to check product reviews or prices, or accessing coupons, or making purchases outright, it’s likely that consumers in Southeast Asia are doing it more frequently than just about anywhere else in the world.”

They say they want a revolution: Total Retail 2016, PWC (2016)
2. Route-to-market challenges in Asia

Identifying the key challenges. A critical element of any business strategy is to identify the optimum combination of traditional and digital channels to reach customers, clients and consumers across a chosen market:

- Geographical dispersion and total market size. Asia's commercial landscapes vary significantly, so understanding where your current and potential customers are located, and how to reach them, is crucial. For example, Thailand has many modern malls and hypermarkets, yet a large part of sales are derived from around 300,000 traditional stores. The invoice value per store, however, is small, so aiming to cover all those stores may not be profitable without a diversified product portfolio.
- Diverse regulatory frameworks. Diverse regulatory environments can provide unique challenges especially for companies operating in the healthcare or performance materials sectors, as the registration procedures for pharmaceutical products and ingredients vary in different markets, while the import or manufacture of certain products may be prohibited altogether.
- Hybrid distribution environments. In several Asian markets, distribution networks have developed based on local market characteristics, geographies and infrastructural limitations. In some cases, active and passive wholesalers, distributors and sub-distributors may all be operating in the same market, which can reduce transparency and obstruct the desired distribution coverage.
- Customer purchasing preferences. Getting your product to customers is vital and in-depth knowledge of markets is crucial. For example, when sourcing ingredients for cosmetics and food products, Japanese companies look for ads from suppliers in printed industry magazines, Chinese purchasers use WeChat and Baidu, while European and US markets rather use product databases and online search engines.
Omni-channel challenges. Implementing a seamless omni-channel strategy is no easy task in a vast, diversified region like Asia that is overlaid with multiple currencies, political and legal systems, population bases, ethnicities and religions, plus polarised levels of wealth and poverty.

Rapid and differentiated demand. A central factor of Asia’s 21st-century economic reality is the pace and scale of change in both consumer and business markets. The growth of Asia’s middle class is creating demand for differentiated products and customized services, while business customers are newly empowered by a multiplication of interactive touch points.

B2C and B2B. At the same time, geography is a declining obstacle. B2C businesses are scaling up their urban, suburban and rural sales point strategies to confront the challenges of mass urbanization, while B2B sales are becoming more modular and complex with more touch points combined with elevated expectations from better informed customers.

Close to customers. Asian markets demand that competitive players are agile and fast to react to market conditions. Companies must seamlessly navigate the proliferation of channels for connecting, engaging and selling to clients, customers and end-users. This means being on the spot in local markets, close to customers so that you can anticipate and prepare for changes and new developments.

Focus on core competencies. A focus on core competencies and awareness of the value of customer relationships improves market coverage. It also helps build resilience to risk. For example, in a worst-case scenario, strong customer engagement and channel management capabilities can soften the backlash if a product recall – a not infrequent occurrence in Asian markets – needs to be undertaken.

Consumer and healthcare markets. In Asian consumer and healthcare markets, increased discretionary spending is being spurred by several concurrent factors, including mass urbanization, wage inflation, greater product choices, modernization of shopping outlets and the expansion of online purchasing channels. These developments require brand holders to place a greater emphasis on data analytics to ensure they are capturing value, and reaching and satisfying their target customers.

Industrial and technological markets. In industrial and technological sectors, the competition for business contracts, sales
“Even if companies know change is coming, it is very hard to recognize exactly when to shift business models. And surviving the transition is no easy feat. Switching from old to new often requires not only building new capabilities to support the journey but also cannibalizing familiar models with new, untested ones.”


and tenders is intensifying. Digitization provides new channels for marketing, selling and servicing complex machinery. At the same time, heightened competition and cost pressures are exacerbated by the emergence of ambitious non-traditional players and “disruptive” technologies.

Manufacturers add value. Manufacturers, who used to have little direct contact with customers, are responding to new demand patterns by producing custom modifications and bespoke enhancements to improve product quality and durability. Packaged after-sales services, technical support and customer training increase customer value. Real-time analytics, technical data and customer usage statistics are combined to inform customer-centric service strategies for highly complex products in competitive marketplaces.

Adding value through innovation. Investing resources into research and development can bring products to markets where they don’t currently exist. In the performance materials sector, the reengineering of products provides a competitive edge for selling raw materials. Innovation also enables adjustments in marketing for a product in a given country. For example, different promotional approaches may be used for a skin cream, which in Japan is marketed as a skin-whitening cream but in Europe is marketed as sun-spot coverer.

New business models. Across Asia, service-focused companies are nurturing a culture of innovation and foresight. Omni-channel business models encourage different divisions within a company to collaborate and map the purchasing journey for each client through the sales funnel – while a longer term view of each market creates closer relationships with customers that enable it to be more nimble as trading conditions change.
View from the business: how we define a route-to-market strategy
At DKSH, defining a new route-to-market strategy for a client working in, for example, the consumer goods industry is all about coverage and distribution goals. Once the market is clearly defined – so consumer type and distribution format – we then set the right go to market (GTM) model to achieve it. This is normally a combination of direct distribution (modern trade, national key accounts, etc.) and indirect distribution (via wholesalers, sub-distributors, etc.). The goal is to achieve the distribution objectives with the right cost and profitability mix for our client.

View from the business: route-to-market in Malaysia’s consumer goods industry
Malaysia is a geographically vast market, but the east and west are very different areas. As such, they need differentiated route-to-market approaches:
• East Malaysia represents 20% of the population but 60% of the total land area in Malaysia; it is therefore best covered by wholesalers. They will serve the market better and have more market pressure on customers. To ensure that you keep control of the numbers, however, you need the right IT tools for transparency in their business implementation
• West Malaysia has four main areas to cover, and three of these are economically developed. This is different from other markets where you often get one city that is much more developed than the rest of the country. In these areas, there is a combination of international accounts (Tesco, 7-11, etc.), local national chains and independent retailers. It’s an ecosystem that requires proper management to avoid channel conflict

The power of data analytics
In Asia’s fiercely competitive markets, benchmarked proprietary data is an invaluable currency. Addressing real-time needs in real-time, data management systems are being used to drive service delivery improvements, and enhance the overall quality of the purchasing and after-sales experience.

In a 2016 report entitled Manufacturing our Future: Cases on the Future of Manufacturing, the World Economic Forum, notes “advanced data analytics allow for applying mathematical tools and statistics to business data. The objective is to identify patterns and relationships. […] Big data enables the processing and making of predictive analytics with datasets previously considered as too large and complex.”

Examples include:
- Shared and optimized data tools and analytic capabilities enable firms to analyze and understand the variegated buying behaviors of their clients and create proactive sales and marketing initiatives that engage and interact with (rather than sell to) key customers
- On a more granular level, sophisticated back-end reporting, accurate product and stock management data, contextualized customer and market information enable sales, marketing, and service teams to efficiently respond to a broad range of customer queries
- Encouraging traditionally territorial divisions like IT, marketing, operations, and sales to share digitized market intelligence and analytic techniques and solutions informs the market strategy and increases knowledge and awareness between brands and customers
- In some instances, brands are interrogating e-commerce sales data to create virtual purchasing maps, with the most concentrated “heat map” locations considered as viable options for third-party collection points or even pop-up retail stores

Developing market intelligence capabilities can be costly and inefficient for small- and medium-sized companies. Instead, they can leverage the data collation, analysis, and management expertise of Market Expansion Services (MES) providers. By utilizing established networks and an on-the-ground knowledge of shifting consumer, business, and legal trends, MES providers are uniquely positioned to deliver meaningful insights and conclusions that create competitive advantage and eliminate risk.

MES providers can also process comprehensive data sets to determine the right channel strategies that meet the needs of customers and clients in each Asian market – and support cost-effective business expansion as part of an integrated omni-channel strategy.

“Sellers who are ready to meet customers at different points on their journeys will exploit digital tools more fully, allocate sales and marketing resources more successfully, and stimulate collaboration between these two functions, thereby helping to win over reluctant buyers.”

The growth of mobile purchasing (m-commerce)

Less than ten years ago, in 2007, the Apple iPhone was launched, forever transforming communications – and the digital route-to-market – by placing the power of a multi-functional computer in people’s hands. In the subsequent decade, smartphone manufacturing has become a highly competitive sector, with ever-more advanced adaptations of Apple’s smart innovation – mostly using the Google Android platform – being produced and supplied by leading Asia-based players, such as Samsung, Huawei, Oppo, Xiaomi and Lenovo.

Today, users of all ages are dependent on smartphones. Combined with the expansion of wireless internet access, the smartphone enables businesses, consumers and families and friends to establish new formats for human contact – at any time, and any place.

One of the outcomes of ubiquitous smartphone usage in Asia is the growth of m-commerce. Online marketplaces quickly recognized that the smartphone is the preferred mechanism for connecting to the internet, and reconfigured their sales interfaces to the small screen.

The service sector quickly followed: taxi bookings, restaurant orders and retail payments are captured via hand-held devices, and growing demand is being facilitated for consumer healthcare products, herbal and nutritional supplements. Seamless 3G and 4G mobile networks mean that traveling within or across borders is no longer an impediment to enjoying uninterrupted connectivity – reducing the geographical complexities in the process of researching and sourcing new manufacturing products, textiles, components and materials.

Smartphones influence consumer thinking 24/7

Users are used to comparing prices, scanning QR code promotions, accessing digital coupons and reading product reviews. Smartphones are also changing the way brand messaging is presented. In Asian cities, consumers breeze down high streets, through subway stations and airports with eyes clamped to their smartphone screen – while ignoring the ad billboards that once ensured a captive audience.
Consequently, public advertising in Asian cities has moved onto outsized HD video screens in areas where viewers do not use their phones, such as beside highways and on skyscraper facades, and – of course – onto smartphones themselves. In Malaysia, brands such as Panasonic are using the exteriors of airplanes as a differentiated platform to attract consumer attention.

**Smart technology enhances customer services**

Networked portable devices can utilize smart infrastructures, cloud computing and critical customer and product data to enhance customer service. Smartphone apps for field sales representatives deliver real-time access to a customer’s procurement and service history, enabling them to instantly create a tailored promotion on-the-spot. Sales and marketing teams also use real-time transaction data to provide a competitive edge in sales negotiations and tender bids. Customers can also access tools that enable them to remotely check their own profile and credit limit, view the latest supplier prices and promotions and place orders directly with their fingertips.

A new patient-centric approach to healthcare in Asian markets is combining advanced diagnostic procedures, qualitative and quantitative research, data gathering and analytics to provide tailored and personalized treatment programs. A more structured understanding of patient information and intelligence enables real-time management of the pricing, demand and supply of healthcare services, and innovations in new medicines and treatments.

The range of data contained within the app enables particular markets or customer segments to be easily identified. Comprehensive, structured data combined with the application of smart technology enables account managers to benefit from time-sensitive insights about customer behaviors, client requirements and competitor activities just by touching their small screen.
Greater resilience in supply chains

Smart tools for smart data

Hand-held smart tools providing instant access to integrated product, customer, competitor, market and purchase/sell history data can deliver competitive advantage throughout the route-to-market, including:

- Branding and communications (both external and internal)
- Key account management
- Strategy and research
- Sales
- Field marketing
- Customer service
- Research and development
- Accounts
- Logistics
- IT solutions
- Warehouse and inventory management
As business demands multiply across Asia, data-enabled smart logistics, warehousing and distribution improve the ease of ordering and stock management. Supply chains become more automated and efficient, improving warehouse utilization and product availability. As a result, B2C and B2B customers located across Asian geographies enjoy the fast fulfillment speeds they have come to expect.

In alignment with other route-to-market processes, digitization has revolutionized warehousing, logistics and distribution largely because voluminous data can be captured across the supply chain, rigorously scrutinized and easily disseminated to improve overall efficiency.

Flexible and resilient supply chains are the backbone of today’s consumer economy in Asia. Alibaba founder Jack Ma said at the 2016 Global Smart Logistics Summit that logistical advances, not e-commerce, had been “China’s real great miracle of the last decade.” His point being that although e-commerce has grown exponentially, earning billions of dollars in profits for Alibaba and other Chinese companies, it would not have been possible without the accompanying transformation of smart logistics capabilities across China.

He added that the future of logistics requires “more emphasis on the power of technology and data, the power of integration, and the power of sharing.”

“The future of e-commerce logistics in Asian markets will be dominated by two words: ‘optimization’ and ‘integration,’ with digital technologies driving innovation across the entire value chain.”

Dr. Wolfgang Baier, CEO of Luxasia, 2015 DKSH Future of Market Expansion Services: connecting Asia and the world report.
Mind the regulations

Asia’s economic growth in recent years has been accompanied by a series of disincentives to trade that can cause lost business opportunities. These include “parallel importing,” whereby genuine products are purchased from alternative sources and sold at deeply discounted prices. This practice is rampant in many Asian markets and affects several industries.

Despite high-profile crackdowns in China and parts of South East Asia, notably Indonesia, Malaysia and Thailand, counterfeiting, copycat branding and intellectual property infringements are rife. Counterfeiting is particularly virulent, and affects consumer, healthcare, nutritional and pharmaceutical products sold in street markets, in stores and via online marketplaces. Brands are therefore having to work hard to build trust.

“We have seen that the founding of the ASEAN Economic Community (AEC) at the end of 2015 is already making some improvements to the harmonization of norms and standards in South East Asia. Regulations can often be a major hurdle when doing business in Asia, with each country having different import procedures and regulations on, for example, ingredients in a given cosmetics or food product,” explained Martina Ludescher, Head Corporate Development at DKSH.

“Even though it is going to be a long, slow path, we have seen that tariffs on many products have already been removed, and over the next ten year period, we are expecting to see a gradual reduction of the non-trade barriers to this major market of around 633 million people.”
Navigating Asia’s diverse legal and regulatory environments

Asia is a vast network of marketplaces, and differentiated legal and regulatory environments impact the importation of goods, both through traditional and online channels.

- Foreign companies must use a local importer to ship goods into Myanmar.
- China implemented new rules regarding products purchased via cross-border e-commerce sites. Previously treated as personal postal articles, retail items purchased online from an overseas source with a value of RMB 2000 or more are now taxed as imported.
- Sales of goods to Malaysian government entities must be tendered through approved Malay/Chinese-owned companies.
- Some customers in Asian markets may have a preferred supplier list through which most items must be procured.

The dynamics of disruption
Redefining the supply and demand equation
The ceaseless drive to create new technologies that improve human living and deliver solutions to previously overlooked customer needs is disrupting the commercial status quo like never before. Indeed disruptive inventions, and the business models they inspire, may be “the new normal.”

Disruptive technologies create a dynamic impact because they redefine the demand and supply equation – with the customer placed at the center. Entire new industries are evolving within existing ones, and positioning for the future means preemptively building new capabilities, reinventing successful business models and reallocating resources to optimize new opportunities.

The next disruptors
While high-profile global disruptors range from Airbnb to Tesla and low-cost airlines like Ryanair, WestJet and AirAsia to Bitcoin, tech-entrepreneurs are devising new applications in every sector from retailing to robotics and nanotechnology to materials science that will impact almost every route-to-market, both within Asian nations and across borders.

Technology is empowering disruptive change. On-demand ride-hailing apps like Uber are revolutionizing urban transport. In Asia, fast-growing rivals include Grab in South East Asia, which has announced an app-based partnership with Lyft in the US and a new GrabHitch car-pooling service for commuters in Singapore and Kuala Lumpur, and China’s Didi Chuxing, which counts Apple as an investor and plans to merge with Uber in China. An alternative take on ride-hailing is thriving in Jakarta, where Go-Jek – which recently raised USD 550 million in a funding round – specializes in passenger trips by motorbike through the city’s notorious traffic bottlenecks. In Singapore, the world’s self-driving taxis were launched on a pilot basis in August 2016.

In future, Blockchain technologies offer the possibility of secure, optimized biometric passport and cashless payment systems for everything from diamond trading to mineral procurement. Artificial intelligence (AI), 3D printing advanced robotics and drone delivery innovations may transform warehousing, logistics and distribution. Quantum computing and the Internet of Things could radically alter the ways in which technology, human beings and businesses interact – and the daily lifestyles that we lead.

Some sectors, such as energy, travel and banking have already been so heavily disrupted by technological innovations that today’s successful business models are barely recognisable from a decade ago. Once lauded innovations, such as digital cameras, dial-up internet and fixed-line telephones, evoke a distant era, while online streaming and plug-in network applications are usurping satellite-delivered television, movies and media.

3D Printing
3D printing uses a computer-aided digital model to create manufactured items, replacement parts and marketing samples. Because items are created “on demand,” 3D printing reduces cost and time in the production cycle and removes the need to hold large inventory stocks.

It is widely expected that buildings and human organs could soon be 3D printed, and a panel at the 2016 World Economic Forum Meeting of the New Champions in Tianjin, China, even discussed the possibility of 3D printed drugs being “manufactured” and consumed by patients at home.

“3D printing is changing trade and production flows. It also changes who participates in trade and production. It changes the production process by removing the need for intermediary goods beyond the ‘ink’ and by allowing manufacturing to be spread out and move closer to consumers.”

Trade Regulation in a 3D Printed World, Kommerskollegium, Swedish National Board of Trade, 2016
“Already artificial intelligence is all around us, from self-driving cars and drones to virtual assistants and software that translate or invest. Impressive progress has been made in AI in recent years, driven by exponential increases in computing power and by the availability of vast amounts of data, from software used to discover new drugs to algorithms used to predict our cultural interests,”

Dr. Wolfgang Baier, CEO of Luxasia, 2015 DKSH Future of Market Expansion Services: connecting Asia and the world report.
Disruptive factors in the retail cycle

Asia’s retail sector is undergoing vigorous change, as brands seek to refine the integration of online and offline channels, while product portfolios and customer choice are expanding. Overlaying this forceful process are new disruptive factors, such as megasale events, duty-free sales and intelligent malls.

- **Megasales.** Online megasale events like Singles Day in China are influencing consumers to focus their online purchasing on unique sales promotions. Singles Day was created by Alibaba on November 11 (11/11) 2009 to promote e-commerce, and has proved a huge success. In 2015, Singles’ Day generated RMB 91.2 billion in sales, a 60 percent increase on 2014.

- **Sales around public holidays.** Across Asia, online marketplaces and brands that sell direct to consumers are also creating special shopping discounts and flash sale promotions based around significant public holidays, such as Chinese New Year and Hari Raya/Eid ul Fitr in South East Asia.

- **Duty-free sales.** Duty-free shopping malls are springing up across the region, from Seoul to Sanya, Tokyo to Shanghai, Bali to Siem Reap. Designed to appeal to Asian travelers keen to shop while on vacation, the malls sell capacious volumes of tax-exempt branded luxury goods, clothing, cosmetics and skin care products, jewelry, eyewear and personal accessories.

- **Intelligent malls.** To induce shoppers to spend more in bricks-and-mortar stores, intelligent malls are being developed. By combining location-based communication services, sensors and shopping data analytics, smart malls can create both personalized and mass digital messaging that guides shoppers toward specific brands and promotions.
**Contactless payment**

Consumer payments in some Asian markets, notably China, Hong Kong, Japan, Korea and Taiwan are evermore cashless, contactless and voiceless. The “digital wallet” trend is gaining traction in South East Asia, but – for now, at least – at a noticeably slower pace as cash-on-delivery remains a popular method for settling online purchases.

Driven by cross-border e-commerce, contactless payment solutions enable both consumers and companies to procure products, business components and services using their own self-service technologies, such as smartphones. This is removing the need for human interaction in the sales process, with any additional communication usually managed through specially created “chat” channels built into the online sales platforms, or via messaging apps. Success in the e-commerce domain is encouraging payment services providers to roll out contactless payment options for bricks-and-mortar stores, healthcare centers, duty-free outlets, hotels, airlines and educational institutions throughout Asia, and create similar time-saving transactional services for entrepreneurs and SMEs.

Four made-in-Asia cashless payment systems are increasing their regional and global presence:

- **Alipay.** Launched by China’s Alibaba in 2004, AliPay counts around 450 million Chinese users who purchase goods and services online, and – increasingly – offline. AliPay has partnered with German payment processing company, Wirecard, and in July 2016, Munich Airport became the first airport in Europe to roll out the Alipay system at 70 retail stores.

- **WeChat Pay.** Launched by Chinese tech giant Tencent as part of its diversified WeChat digital ecosystem, this online payment mechanism is increasingly popular in China, and as WeChat users increase regionally and globally, is predicted to gain greater international penetration.

- **Samsung Pay.** Introduced in South Korea in 2015, Samsung Pay is a mobile wallet that allows users to pay with their Samsung smartphones. The system processed more than USD 1 billion in transactions in its first year. It has been rolled out in the US, Spain, Singapore and Australia, with expansions planned in Brazil, Canada and the UK in 2016.

- **China UnionPay.** Pioneering bankcard payments for Chinese consumers, UnionPay has been adopted worldwide by airports, brand stores, retail centres and ATM providers. It is accepted in all FamilyMart, Lawson and 7-Eleven stores in Japan, and Watsons in South Korea. In July 2016, UnionPay announced its newest footprint: education. More than 2000 educational institutions in the US, Canada, Australia, UK, New Zealand and Singapore will accept UnionPay cards for tuition payment.
Planning ahead for social disruptions

In addition to the proliferation of disruptive innovations, shifting social trends must be considered when planning a route-to-market strategy in Asia.

Population change is of particular interest, because national populations are growing and declining at variable rates, which will alter the demand patterns in consumer, healthcare and business markets in future.

Other social dynamics are also emerging. Improved access to Asian markets is increasing the level of cross-border investment, while vastly improved social mobility, and the opportunity to live, travel and work in neighboring countries will likely result in higher rates of intermarriage and children with dual-nationalities who will grow up bilingual or multilingual, travel frequently and purchase goods in both of their “native” countries.

- China, Hong Kong, Japan, Singapore, South Korea, Taiwan and Thailand have aging societies with significant implications for the labor force, social infrastructure and taxation revenues, the provision of healthcare and the funding of pensions.
- In East Asia, the elderly population will grow by about 22 percent every five years between 2015 and 2034 according to The World Bank. By 2060, one in five of the world’s oldest countries will be in East Asia, compared with just one in 25 in 2010.
- Complicating the aging scenario is that some nations, such as Thailand, are aging at a much lower income level, which emphasizes the importance of policy reforms in critical areas, such as pensions, healthcare and later-life care provision.
- Conversely, in India, Indonesia, Malaysia, Myanmar, the Philippines and Vietnam, aging is less of an issue, and governments and businesses will need to focus on the provision of goods, public services and employment for younger demographics. By the year 2045, for example, the Philippine population is projected to increase to 142 million.
The business power of social

Businesses of all sizes and across all sectors in Asia recognize that social media plays an influential role in the procurement journey, particularly – but not exclusively – for younger demographics. Today, as enhanced functionality is provided by social media platforms, the business power of social is reaching around new corners to improve the speed and efficiency of client communications, customer relationship management and after-sales service.

Beginning life as social messaging apps in Asia, WeChat and Line have diversified their digital ecosystems with an integrated suite of content, interactive marketing, customer relationship management and service performance tools.

WeChat
- Founded by Tencent in China in 2011, WeChat claims 700 million active users.
- 70% of WeChat users spend more than RMB 100 per month on WeChat, and 61% open WeChat 10+ times per day.
- WeChat features 560,000 official company accounts.
- 200,000 businesses accept WeChat offline payment in store.

- 64.1% of company accounts use WeChat to distribute marketing campaigns, and 18.2% as an e-commerce platform. 45.8% of company account holders use it for client interactions, and 12.4% as an after-sales service mechanism.

(Source: Tencent Pinguin Research, WeChat Impact Report 2016)
Line

- Founded in 2011 in Japan, as a subsidiary of a South Korean firm, Line claims 218 million active users, including a growing clientele in India.
- Line’s IPO in July 2016 raised USD 1.26 billion, the biggest tech listing of the year.
- Line’s digital ecosystem enables users to stream music and media, play games, book services such as taxis, and create and share marketing and advertising messages.
- In addition to participants, Line users include developers, brand owners, content providers, advertisers and payment service providers.

(Source: Line)
3. Industry case studies

Consumer goods: shifting retail trends and micro-retailers

An overarching demand for convenience is redefining Asia’s retail landscape, both in urban and rural locations.

The penchant for time-saving shopping across Asia is being driven by mass urbanization, rising discretionary spending, changes in lifestyle and work patterns and the growth of suburban living and commuting. Previously overlooked rural consumers, too, are being embraced into the route-to-market strategies of brands seeking greater penetration across Asian markets.

Retail format change is becoming entrenched – from the surging growth of online shopping, particularly in North East Asia, to the growth of third-party self-collection venues for receiving and returning products purchased online. Another discernible trend is the consolidation of convenience store outlets in city centers, suburban and, increasingly, rural areas.

Serving urban, suburban and rural markets

Urbanization across Asia is creating more middle class consumers whose needs are changing, with a shift towards convenient retail formats that enable fast decisions to be made in-store, or via online touch points. At the same time, rural populations are becoming more brand and product-aware due to the broadening of internet access.

Retail businesses in Asia should find cost-effective ways to serve the needs of urban, suburban and rural consumers by combining digitized and micro-retail channels.

Micro-retailers – often known as High Frequency Stores (HFS) – are notable for their convenient location for shoppers. This type of retail outlet is proving highly durable, because its product range is closely aligned with local community needs. Micro-retailers find it difficult to adjust to an omni-channel strategy, however, as their
operating model is based on conventional offline sales.

“Despite this challenge, brand owners need to win over micro-retailers by integrating them into brand executions and communication networks to strengthen brand perceptions,” says Tosapon Agadmeck, Assistant General Manager – Regional Traditional Trade Channel at DKSH Thailand. “Especially for new brands, micro-retailer networks in non-urban areas can be used as a ‘guerrilla marketing’ channel to test brand concepts and grow awareness before launching in competitive urban areas.”

Across Asia, independent micro-retailers are being recognized for their untapped potential:

- In Thailand, convenience chain 7-Eleven is working with local mom-and-pop stores to integrate them into its branded store network under franchise agreements
- Brand owners are assisting independent drugstores in Hong Kong to offer the AliPay cashless payment system to shoppers. In addition to enhancing payment options, this enables invaluable purchasing data to be collected
- In Myanmar’s cash-only trading environment, an e-commerce network has been launched which allows Myanmar’s citizens to buy online and pay offline. Mom-and-pop stores across the country can join the network through a mobile app

- Tiny outlets like warungs in Indonesia, which are popular with less wealthy rural consumers, are coveted by leading convenience retail chains, such as Indomart and Alfamart, which are seeking to diversify their store networks. Some companies are working to equip warungs with the capability to sell their products online. This can be considered as a route-to-market refinement, as it can enhance information gathering and data analysis of consumer behaviors beyond the urban environment
- In The Philippines, banks are partnering with small sari-sari stores to offer services such as micro-financing that help them develop their business
### Three key route-to-market challenges for consumer brands

There are three common challenges along the route to the consumer in Asia, although these vary by market in terms of their current and potential level of impact.

**Online retailing.** In 2016, global B2C e-commerce sales totalled USD 1 trillion, and it is estimated that around 40 percent of those sales took place in Asia Pacific. Calibrating offline and online channels is critical for a route-to-market strategy, especially in China, Hong Kong, Taiwan, Korea, and Japan where the speed of online purchasing growth is high. In China, e-commerce is predicted to account for 24 percent of all consumer transactions by 2020, according to The Boston Consulting Group.

**Fragmented landscape.** Traditional trade stores are fragmenting in both format and location adding new layers of complexity to the route-to-market, especially in large geographical markets, such as China, Indonesia, Thailand, Vietnam and Indonesia. As retail landscapes diversify well beyond urban centers, real-time customer data is a critical enabler to prioritize sales resources and maximize sales force efficiency.

**Strong competition.** Modern retail chains benefit from scale and supply chain efficiencies, but direct competition for customers is intensifying. For example, Tesco and Big C go head-to-head in Thailand, PARKnSHOP and Wellcome in Hong Kong, Tesco and Aeon in Malaysia, and DFI and NTUC Fair Price in Singapore. The route-to-market must focus on joint value creation between supplier and customers in key areas, such as in-store execution, consumer marketing and supply chain operations. For modern chains, a nationwide route-to-market strategy enhances competitiveness in South East Asia, whereas a more regionalized focus is crucial in China and Japan.

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### The quest for agility

The key concept for micro-retailing growth is agility. To successfully implement an omni-channel strategy, micro-retailers are seeking support from MES providers to expand their operational capabilities – because as Asian retail markets continue to fragment, micro-retailers must adapt to shifting consumer trends and the complexities of online and offline transactional channels.
Healthcare: the regional impact of cross-border trade

Achieving growth in Asia’s competitive healthcare sector means successfully navigating local and intra-regional routes-to-market.

Despite the recent economic slowdown, shifting demographic factors, including a rising middle class – the Association of South East Asian Nations (ASEAN), for example, will count 125 million households in the consuming class by 2025, up from 67 million in 2015 – and higher spending on personal health and well-being, are encouraging pharmaceutical, over-the-counter, consumer health and medical device companies to invest in emerging Asian markets.

Differentiated regulatory environments provide a challenge, however. For example, the ten ASEAN countries retain their own regulatory systems, with varied requirements and registration procedures. The ASEAN Economic Community offers the potential for a harmonized approach, but this will take time to achieve.

In China, where consumer healthcare products have been subjected to less regulatory scrutiny in order to stimulate cross-border e-commerce expansion, the China Food and Drug Administration (CFDA) is now introducing more stringent import compliance obligations, and new approval procedures for pharmaceutical manufacturing plants.

Overlaying the regional challenges, healthcare companies of all sizes are contending with new commercial realities:

- **Multinational companies** are merging to consolidate assets, such as GSK/Novartis, Bayer/Merck and Sanofi/Boehringer Ingelheim. These deals must deliver efficiency savings, and they are also leading to consolidation in key brands.

- **Smaller and medium-sized enterprises** are looking for more coordinated brand-building models – as the pure export model is no longer driving growth.
Consequently, a drive towards efficient expansion is discernible. “Healthcare companies are fighting to achieve small fragments of percentage growth in fiercely competitive and fragmented markets, and the route-to-market decision-making process across Asia is being anchored by new strategic efficiencies,” says Luke Horton, Regional Business Development Director – Consumer Health/OTC at DKSH.

**The key challenges of online commerce in healthcare**

Cross-border trading has created a dynamic sales channel for health, vitamin and nutritional products in China, and entire new business models have evolved. Herbal products suppliers in the United States and infant nutrition companies in Australia are now selling prodigious volumes of products online and shipping them directly to consumers in China.

Online sales volumes are currently lower in South East Asia than in China, but a more aggressive model of cross-border e-commerce is gaining momentum, particularly as Chinese companies invest in the sector. In 2016, Alibaba purchased a controlling stake in online retailer Lazada, which sells health and beauty and baby products in South East Asia, and plans to launch its AliPay cashless payment system in Indonesia.

Digital retailing adds an extra layer of complexity to pricing strategies. Asian customers frequently research products and prices online, so differentiated pricing between channels risks cannibalizing sales. Premium products are also vulnerable to “parallel importing,” whereby wholesalers buy discount consignments and sell the products online at prices lower than the brand-holder.
Asia’s new reality in consumer healthcare

Competition. A proliferation of products notable in Asian markets – with increasing competition from home-grown brands, and ambitious Asian companies expanding across the region. The current high visibility and popularity of Korean skin care products throughout Asia highlights how new demand trends can regionalize in a relatively short period of time.

Consumers. High expectations are evident. Consumers across Asia are increasingly discerning and demonstrate a strong appreciation of health and wellness issues. They demand quality and value for money, since healthcare purchases are viewed as a personal investment in themselves. In addition to being accustomed to consuming products purchased via cross-border platforms, customers want to be engaged and inspired via digital channels.

Channel complexity. In addition to mastering digital retailing, traditional channels – such as chain pharmacies, personal care stores, hospitals and clinics – vary in size and scale. Understanding which channel combination drives most sales is crucial. For example, a clear gel that reduces scar visibility derives 94 percent of sales from pharmacies in Singapore, but 39 percent through supermarkets, department stores and wholesalers in Thailand, and 27 percent through wholesalers alone in Cambodia.

Chain vs. independent. The retail pharmacy channel presents its own challenges. The majority of product sales in mature markets like Taiwan and Singapore are through four or five large pharmacy chains, whereas Vietnam counts 22,000 licensed pharmacies.

The price pressures of “grey trading” also occur within Asian markets – with discounted sales between two normally unrelated channels, such as between clinics and retail pharmacies. In addition to price vulnerabilities, unofficial trading reduces a brand-holder’s ability to control product quality, consumer trust and, ultimately, brand equity.

A forensic approach to consumer healthcare

Healthcare market complexity in Asia offers opportunities as well as challenges, particularly as the barriers to trade are reducing. By partnering with an MES provider to take advantage of deep market knowledge and customized solutions, companies can optimize lower initial fixed costs to experiment with phased brand and product launches that tap clearly defined gaps in a market, or submarket. This approach provides scope for balancing a forensic analysis of market trends with offline and online consumer engagement techniques to test new price points and redefine the optimum sales funnel for each new product.
Performance materials: the evolving role of intermediaries

With the increased importance of direct route-to-market channels, what critical value can intermediaries add in an industry that is moving towards channel consolidation?

Competition in the performance materials industry in Asia has long been fragmented, with several small, local players battling for market share with leading international producers. Overlaying the intensified competition for customers in key growth markets, industry consolidation is ongoing.

The regulatory environment is a critical route-to-market challenge for performance materials companies in Asia. A beguiling number of regulatory systems and certification schemes exist, and local directives continue to evolve. As a non-negotiable rule, brand-holders and licensed distributors must constantly monitor the appropriate regulations in each market to ensure their products comply at all times.

Full compliance can be time-consuming and costly to manage, but it minimizes disruption to the supply chain – or at least allows firms to be fully prepared for an emergency scenario should it arise. Non-compliance can incur heavy financial and legal penalties, and significant damage to a company’s reputation, which can be difficult to recover in highly competitive markets.

An additional challenge is digitization. Companies are now able to sell directly to end-users through automated sourcing platforms and online marketplaces. They can also interact and share product information in real-time via digital applications.

“Digital channels currently account for a small proportion of performance materials transactions, largely because of the need to devise and create solutions that add value to users,” says Thomas Sul, Co-Head of Business Unit Performance Materials at DKSH. “However, the sales channel is shifting, as digital becomes a greater influence for product research and comparisons and price analysis. Digital transactions are expected in future to be part of a more integrated sales, marketing and service delivery process.”

Adding value for highly specialized products
The role of the intermediary remains pivotal for performance materials companies operating in the specialty chemicals, food and beverage, pharmaceutical and personal care industries. Companies are producing,
Critical route-to-market differentiators for performance materials manufacturers

**Innovation.** Performance materials encompass highly specialized materials and high-tech chemicals that are integral elements for sophisticated end-products. Being able to enhance a product by delivering trouble-shooting services, performance testing, technical training, evaluation support and benchmarking services, and access to high-performance equipment is more valued than ever by customers.

**Market intelligence.** Access to real-time updates on market volumes, sales data and insights on products and projects are not just advantageous – they are a vital. Optimized market intelligence can be used to generate, develop and customize products, find new ingredients and applications, provide hands-on training and run acceptance tests to reduce the time-to-market.

**Logistical efficiency.** Speed of delivery is a critical asset, both within national markets and for cross-border fulfilment. An integrated logistics service requires more than just-in-time delivery. Customized repackaging, including quality assurance, safety and compliance with industry regulations, are key factors.
Technology producers are being challenged to utilize digital innovations to enhance products and boost the market competitiveness of their clients.

The technology industry has always been driven by innovation and scientific investigation. As soon as a complex new piece of machinery is launched, a next generation upgrade and a competitor version are nearing their own unveiling. Nowhere is this more pertinent than Asia, where technical advancement is underpinned by a ceaseless drive for product customizations and services that improve the reliability and lifecycle of highly specified machinery.

The strongest demand for new industrial technology is in China, the manufacturing center of the world, where advanced automation and robotics are an integral part of productive life. Several factors have influenced China’s quest for greater efficiencies, including robust domestic demand, rapidly rising labor costs and intensifying regional competition. Against this backdrop, producers are upgrading manufacturing technologies and engineering capabilities and adopting leaner processes to minimize the time to market, while reducing excess capacity. Companies are also reassessing space requirements as land and property costs rise.

A more fragmented picture exists in South East Asia. The Association of South East Asian Nations (ASEAN) countries are at different stages of the digital journey in production processes. Increased investment in the region by aggressively expanding North East Asian companies to tap cheaper labor and supply chain costs is impacting the manufacturing map. Meanwhile, governments recognize that developing a robust machine tools sector can be a powerful conduit for economic growth.

**Integrating new digital innovations**

“Forward-thinking companies are incorporating automated solutions and software-driven interfaces into manufacturing processes, particularly in markets where predicted rises in domestic demand encourage output expansion,” says Hanno Elbraechter, Head Business Unit Technology at DKSH.
Reducing energy consumption is a high-profile aspect of manufacturing technology adoption, especially in China where the government is pushing businesses to comply with its drive to reduce pollution and improve air quality. Energy costs, too, are rising in several Asian markets as government subsidies are reduced, or removed altogether.

Food safety has emerged in recent years as a major issue for customers, policy makers and the media, particularly in China where a series of food scandals damaged consumer trust. In this context, greater automation and customized service management tools form part of the drive for greater product quality control.

Competitive disruption is also a factor. 3D printing currently accounts for a small part of the technology sector market, but it is creating new challenges. Prices for 3D printers are dropping, and new printing applications are being constantly developed. What may be a niche application today may tomorrow become a cost-effective opportunity to “print” machine tool parts on demand. Another fundamental challenge looming on the horizon is the electric car – which will transform vehicle manufacturing technologies, inputs and processes, and render redundant several traditional elements of the supply chain.

Using technology to create competitive advantage
For companies operating in Asia’s dynamic technology sphere, competitive advantage on the route-to-market is highly defined, and mastering both online and offline channels is crucial. New models for innovation, resource allocation and cost-efficiency are being tested, while R&D investments are driving greater transparency, measurability, visibility and consistency. By partnering with a total solutions provider and system integrator, technology manufacturers can successfully meet the challenges from their clients to provide support for increased throughput, improved yield and reduced cost of ownership to enhance their own market competitiveness.
What benefits does digital optimization provide to technology companies?

**Knowledge.** Digitization has opened new doors of perception. Clients and end-users are able to instantly research products, companies and brand information online. Comparing different products goes even further, with product configuration and technical performance easily available — and requests for extra technical information seamlessly serviced day or night. Anticipating and meeting user needs is central to developing knowledge-based customer relationships.

**Visibility.** For an informed online user, a welter of information should be accessible within a few clicks, provided technology companies have adopted a progressive digital strategy. Search engine optimization (SEO) is a critical, but often overlooked, aspect of a customer-centric strategy. Integrating all of a business’ digital assets and ensuring they are visible on search engines helps to stay “top of mind” for existing customers, and become more easily accessible to new clients.

**Service excellence.** State-of-the-art customer relationship management (CRM) platforms and service management tools combine extensive industry and product knowledge with structured sales and service capabilities. These systems enable technology producers to integrate CRM with in-house information, and provide customers with constant mobile access to up-to-date, precise performance and service data. Developing a core competency in service excellence informs long-term client relationships and enables clients to adapt to changing market requirements.

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4. Checklist: Are you ready for Asia’s new route-to-market challenges?

- Have you identified your route-to-market strategy for entering or expanding into a new Asian market, or sub-market?
- What are the three key determining factors behind the decision to expand your business in Asia?
- Is your strategy tailored to each complex and diverse Asian market, while recognizing the increased interconnection, both physically and digitally, between markets?
- Have you researched the current/emerging competition for your products and services in your target Asian market(s)?
- Being close to customers can deliver real competitive advantage – are you incorporating this into your route-to-market strategy in each Asian market?
- What are the three key immediate challenges you envisage for entering/expanding in new Asian markets, and what are the three critical challenges you foresee in the medium-term?
- Do you have the capacity to simultaneously capture, analyze and understand local market trends, regulatory developments and end-user needs?
- Are you addressing your customers’ traditional trade and digitized requirements across the route-to-market?
- How is your route-to-market strategy in Asia being disrupted by new technologies, innovations and non-traditional competitors?
- Are you optimizing and integrating supply chain processes to improve market penetration in Asian markets?
- Are you asking hard, direct questions of your divisional directors to discern the future needs of your customers in Asian markets – in two, five, ten years?
- Has your business established a strategic partnership enabling you to focus on core competencies and enhance service delivery to your customers at each stage along the purchasing journey?
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