

FRONTIER MARKETS IN SOUTHEAST ASIA:

by Stefano Sorrentino, Adriano Giaquinta and Emily Wu

IS THE OPPORTUNITY FOR
RETAIL & CONSUMER **MNCs**
NOW?

**Frontier Markets in
Southeast Asia:
is the opportunity for
Retail & Consumer MNCs
now?**

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Driven by fast-growing economies, strong demographics and improving business climate, Vietnam, Laos, Myanmar and Cambodia will be the next growth engine for Multi-National Corporations (MNCs) in the Retail & Consumer industry.

EXECUTIVE SUMMARY

(1) Source: Economist Intelligence Unit, Re-drawing the ASEAN Map, 2014.

Driven by fast-growing economies, strong demographics and improving business climate, Vietnam, Laos, Myanmar and Cambodia will be the next growth engine for Multi-National Corporations (MNCs) in the Retail & Consumer industry.

These Frontier Markets, as we call them, may not seem like promising terrain to set up business operations due to a lack of reliable market information, highly fragmented retail structure, shortage of local talent, and political interference.

However, the opportunity for Retail & Consumer companies looking for geographical expansion in Southeast Asia is now, before the competition among MNCs intensifies. In fact, over one third of international firms do not have sales operations in either Myanmar, Cambodia or Laos¹, where the market demand is met by local players.

In our view, there are four key success factors that every Retail & Consumer company should consider to gain a competitive edge in these markets. First, build a thorough understanding of the country, through the assessment of primary data. Second, leverage the existing retail and distribution networks to reach remote areas, through partnership with local entities. Third, encourage know-how transfer from expatriates to local staff, combining on-the-ground coaching with overseas training. Last, engage locally-connected figures early in the due diligence process to foresee political and regulatory changes.

INTRODUCTION: SOUTHEAST ASIA, A TWO-SPEED GROWTH REGION

(2) Source: World Bank,
Value Partners analysis.

The Association of Southeast Asian Nations (ASEAN) brings together all the SEA economies with the aim of boosting trade and economic development among its ten members, as well as facilitating intergovernmental cooperation and political integration. The combined population of ASEAN countries is over 600 million and its GDP amounts to approximately US\$ 2.5 trillion², placing it right after the US, the EU, China and Japan on the global scale of economic powers. However, ASEAN is far from being a monolithic bloc, and the strong economic and social differences among its member states are to be found in their recent past.

In Singapore, Malaysia, Indonesia and the Philippines, during the post-colonial era, economic power was assumed by local or immigrant tycoons whose tight relationship with the political elites gave rise to a capitalist society, though sometimes distorted by government concessions and illiberal economic policies. After the 1997 Asian financial crisis, the economic and political climate was restored along the lines of a more balanced redistribution of wealth and higher inclusion in the economic boom of the lower layers of the population.

On the other hand, in Indochina, the time of the Second World War was characterised by the diffusion of communist movements, which culminated in the Vietnam war and the Khmer Rouge regime in Cambodia. Subsequently, Cambodia, Laos and Vietnam have remained somewhat predominantly socialist economies, whereby economic power has mostly remained in the hands of politicians and the private enterprise has been strongly discouraged, until very recently.

Thailand and Myanmar (Burma) followed a different path, but the two countries share over half a century of dominant role of their military in the economic and social development, much heavier in the case of Myanmar, as Thailand has been much more open to international flows of capital and people.

For these reasons, nowadays the ASEAN bloc is developing at two different speeds. On one side, the Emerging Markets such as Thailand, Malaysia, Indonesia and the Philippines; on the other, the Frontier Markets – Myanmar, Cambodia, Laos and Vietnam – which feature a lower degree of economic development but at the same time a faster growth path which is nevertheless taking place in a more complex social and political environment.

THE ATTRACTIVE FACTORS

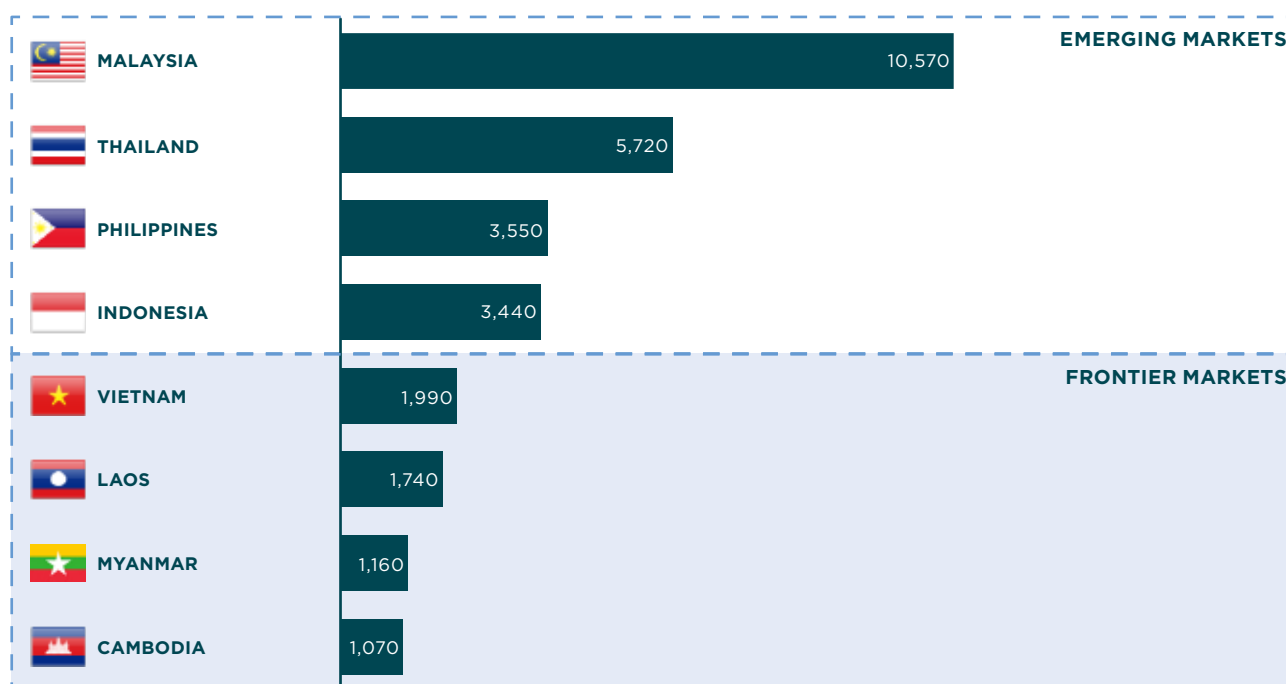
With GDP growth rates forecast to be the highest in SEA, strong demographics and a favourable business environment, today the Frontier Markets present lucrative investment opportunities for medium-to-large sized international players in the Retail & Consumer industry.

A Frontier Market in our definition is a low-income, moderate-risk country whose GNI per capita is below USD 2,000 ([Exhibit 1](#)).

In SEA, the geographical scope of this study, Vietnam, Laos, Myanmar and Cambodia fall under this definition, as opposed to Malaysia, Thailand, Philippines and Indonesia (SEA Emerging Markets), whose economies have already been through a booming stage and are now growing at a relatively slower rate, facing the risk of eventually becoming stranded in the middle-income trap, whereby rising wages, low productivity and limited innovation will bring about a contraction in FDIs, hence a further slowdown in economic growth.

EXHIBIT 1

GNI per capita, Atlas method (US\$) 2015



Source: World Bank, Value Partners analysis.

EXHIBIT 2
Real GDP CAGR 2015-2020

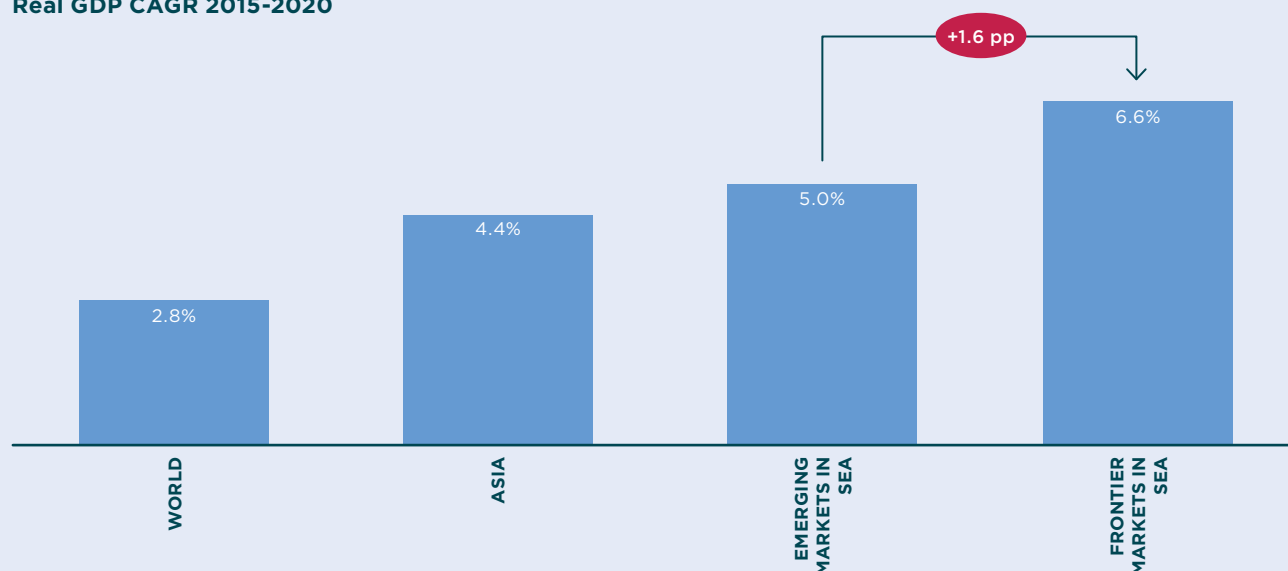


EXHIBIT 3
Population by age group



Note: due to data unavailability, in Exhibit 2, Asia excludes North Korea, Syria, Iran, Taiwan; worldwide excludes North Korea, Syria, Iran, Taiwan, Eritrea, Cuba, Venezuela, San Marino, Puerto Rico, Papua New Guinea, Andorra, Mauritania, Libya, Holy See, State of Palestine. In Exhibit 3, developed markets include US, UK, Japan and South Korea; frontier markets include Vietnam, Laos, Myanmar and Cambodia.
Source: World Bank, IMF, Value Partners analysis.

- (3) Source: World Bank, IMF, Value Partners analysis. Due to data unavailability, Asia excludes North Korea, Syria, Iran, Taiwan; Worldwide excludes North Korea, Syria, Iran, Taiwan, Eritrea, Cuba, Venezuela, San Marino, Puerto Rico, Papua New Guinea, Andorra, Mauritania, Libya, Holy See, State of Palestine.
- (4) Source: World Bank, Value Partners analysis.
- (5) Source: Nielsen, ASEAN 2015 - Seeing Around the Corner in a New Asian Landscape, 2014 (note: middle class disposable income defined in 2005 purchasing power parity).
- (6) Source: Nielsen, Southeast Asia's Emerging Markets End 2016 with Most Positive Consumer Sentiments, 2017.
- (7) Source: Quartz on AIA data.
- (8) Source: Quartz, Southeast Asia's Middle Class is Diverse, Confident, and Growing Richer by the Day, 2016.
- (9) Source: World Bank, Value Partners analysis.
- (10) Source: Economist Intelligence Unit, Re-drawing the ASEAN Map, 2014.
- (11) Source: World Bank.
- (12) Source: Economist Intelligence Unit, Re-drawing the ASEAN Map, 2014.
- (13) Source: CNBC on Euromonitor data, Made in China isn't So Cheap Anymore, and That Could Spell Headache for Beijing, 2017.

Fast-growing economy: Within the Frontier Markets in SEA, GDP is expected to grow at an average of 6.6% per annum during the current half decade, versus 5.0% in neighbouring Emerging Markets, 4.4% in the overall Asia region and 2.8% worldwide ([Exhibit 2](#))³. Despite being driven by many factors, the growth will likely translate into higher disposable income per capita.

Young population: Population in Frontier Markets is relatively younger than developed countries: 43.5% of the total population is below 25 years old in Vietnam, Laos, Myanmar and Cambodia combined, versus 29.6% of well developed countries such as US, UK, Japan and South Korea ([Exhibit 3](#))⁴. The young populations will boost domestic demand for personal consumption as youngsters, mostly digital natives and more exposed to global entertainment, fashion and lifestyle trends, are more willing to try new products than older generations.

Growing middle class: As a result of the above, the middle class in Frontier Markets is continually increasing. Defined as people with a disposable income between US\$ 16 and US\$ 100 a day, the middle-class population in SEA is expected to reach 400 mn by 2020 (vs. 190 mn in 2012), accounting for 55% of the total population (vs. 28%)⁵. Higher income entails higher spending on non-subsistence goods such as branded apparel, electronic goods, entertainment, etc.

33% of Vietnamese consumers, for example, are willing to spend their spare cash on new clothes and 30% on technology products⁶. Moreover, higher income goes with migration to urban areas (among the ASEAN middle-class segment, 1 out of 3 people would buy a house in a modern city if given the financial support⁷).

Such a trend in urbanization is driving rapid investments in modern retail outlets. In Vietnam, for instance, 300 new supermarkets and 1,500 convenience stores are being opened between 2016 and 2018⁸.

Low competition: When compared to Emerging Markets, Frontier Markets show a lower penetration rate of MNCs, mainly due to their still relatively smaller economies (the average GDP of Frontier Markets in SEA is US\$ 72 bn, versus US\$ 461 bn of its Emerging regional peers⁹). Indeed, over one third of the international firms surveyed by the Economist¹⁰ do not sell yet in either Myanmar, Cambodia or Laos ([Exhibit 4 next page](#)), where the market demand is met by local players, in spite of their sometimes rudimentary business models.

So far, only Vietnam has been relatively successful in luring FDIs (net inflows of US\$ 11.8 bn in 2015, vs. 1.1 in Laos, 1.7 in Cambodia and 4.1 in Myanmar)¹¹, resulting in 86% of international companies doing business in the country, most of which operate their own sales team on the ground¹². The reasons behind the recent success of Vietnam range from a large and growing consumer market to the recent trend followed by MNCs of relocating manufacturing facilities away from China, where wages spiked 64% in 2016 vs. 2011¹³.

Although appealing in size, Emerging Markets show much higher penetration rates of MNCs, hence higher barriers for new entrants and tougher competition for existing players. In Malaysia, for instance, 96% of international companies have set up sales operations in the past, either through their own sales team or in partnership with local distributors¹⁴.

(14) Source: Economist Intelligence Unit, Re-drawing the ASEAN Map, 2014.

Improving political environment and business climate: Although Frontier Markets may not seem like safe shores to set up business operations (risk outlook in SEA is still moderate-to-high due to political instability, corruption, currency volatility, etc.), improvements in the overall macro-economic environment are being seen.

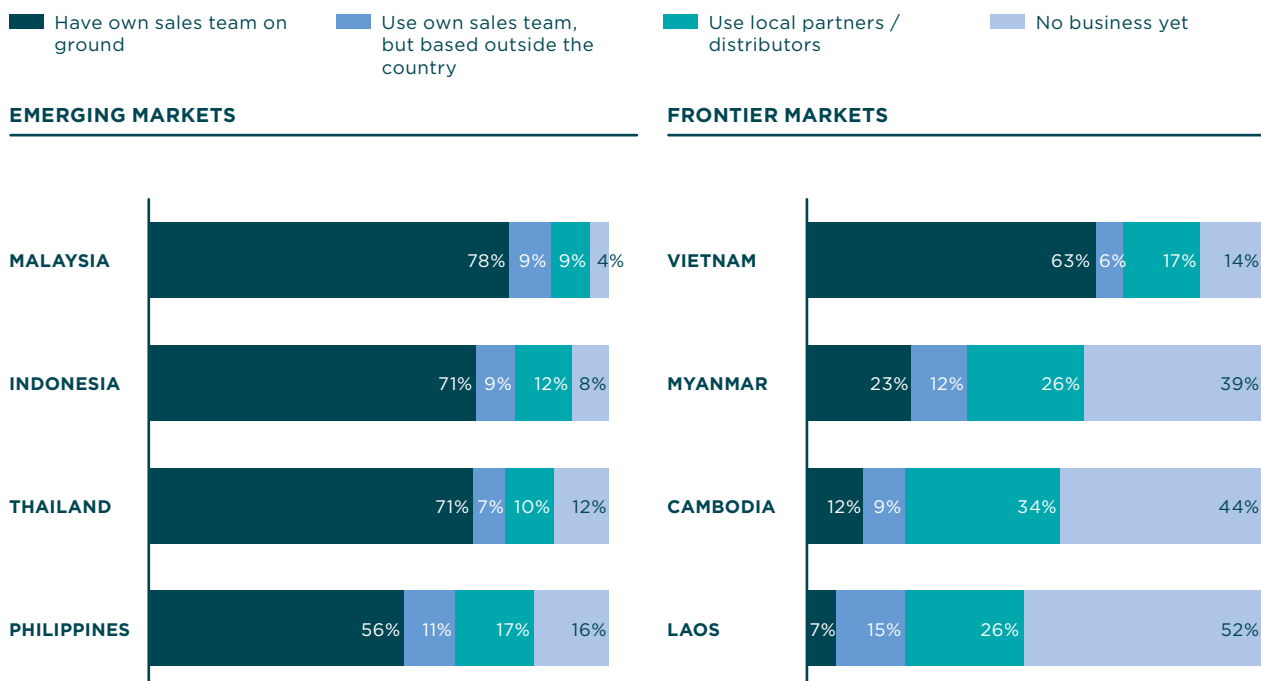
In November 2015, Aung San Sun Kyi won Myanmar's landmark elections, ending half a century of military regime and taking the first steps toward a more liberal economy and open society, resulting in the lifting of US economic sanctions, which prompted FDIs from American companies.

Similarly, thanks to its economic reforms, Vietnam has transformed economically and socially in the last decade, attracting foreign investments from all over the world; today, the government is fighting corruption through several institutional reforms, in view of supporting the next economic transition.

Likewise, to stimulate foreign investments, Cambodia has developed liberal trade and investment policies such as enabling wholly foreign ownership of enterprises, duty-free import of capital goods and no restrictions on capital repatriation.

EXHIBIT 4

Percentage of international firms by sales operations in Frontier vs Emerging Markets



Source: Economist Intelligence Unit, Re-drawing the ASEAN Map, 2014.

THE CHALLENGES

As the saying goes, not all that glitters is gold. Though appealing, Frontier Markets still bring serious challenges for MNCs looking for geographical expansion.

Lack of market knowledge

Consumer insights: In Frontier Markets, MNCs struggle to build solid market knowledge due to a lack of resources and tools: local research agencies are typically rare and overpriced, and secondary information is not detailed enough to support business planning. As inaccurate consumer insights lead industry players to make wrong business decisions, MNCs might miss out the opportunity to tap into such markets.

Retail universe: It is common in Frontier Markets to see existing players in the Retail & Consumer industry developing market strategies based on 3-to-5-year-old retail information (e.g. retailer type, product range, sales volume, etc.). A lack of updated knowledge of the retail universe leads companies to design inefficient distribution structures, resulting in poor retail coverage, ineffective visual merchandising and suboptimal selection of locations for promotional activities. This often means that companies end up diluting resources on less productive outlets, undermining the return on their investments.

Competitive intelligence: Competitive intelligence is key to engaging wholesalers, retailers and consumers with attractive programs (e.g. payment terms, discount policies, promotions, etc.) as well as recruiting and retaining local talent by offering attractive compensation packages. Lack of visibility on competition makes companies react passively to market moves and lose potential advantages, instead of acting timely through for example the launch of new products, execution of marketing campaigns, introduction of performance-based incentives, etc.

Today, local players in Frontier Markets seem to have a competitive advantage in this regard due to their intimate knowledge of the market conditions and their deep relationship networks with relevant stakeholders, whereas MNCs still linger at a very early stage.

Though appealing, Frontier Markets bring serious challenges for MNCs looking for geographical expansion, due to a lack of market knowledge, highly fragmented retail structure, talent shortage, political interference and uncertain regulation.

Highly fragmented retail structure

(15) Source: Kantar Worldpanel, FMCG Monitor – An Integrated Update of Vietnam FMCG Market (2016 Overview), 2017.

(16) Source: Value Partners.

(17) Source: World Bank.

The retail universe in Frontier Markets is made up mostly of independent traditional stores (street vendors, market stalls, etc.), the majority of which are family owned. For example, in urban Vietnam, street shops account for more than 60% of fast moving consumer goods' sales value, while modern stores such as hypermarkets, supermarkets, minimarkets and convenience stores account for 16% combined (2% in rural areas)¹⁵ (Exhibit 5).

Similarly, modern stores in Cambodia account for less than 1% of the overall retail universe, half of which consists of micro outlets with rather limited stock (daily, in some cases) due to financial constraints¹⁶.

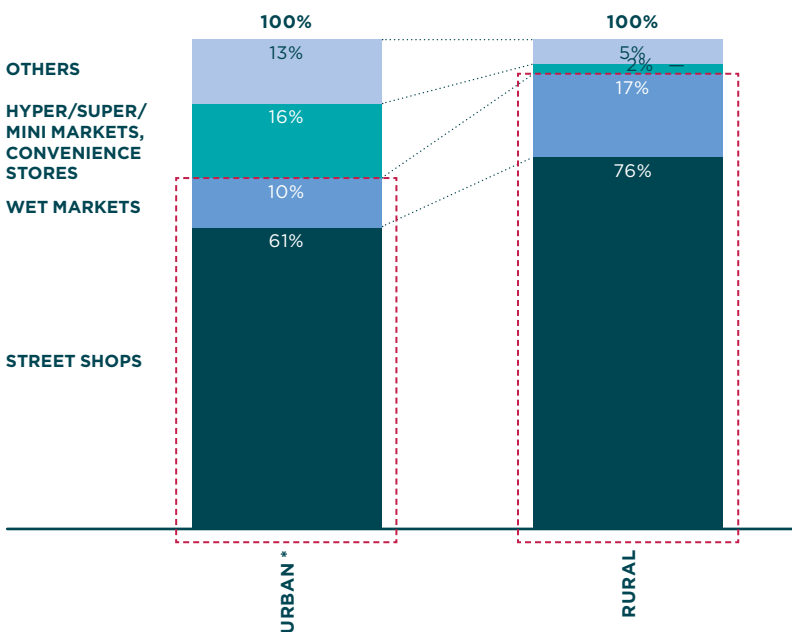
Such a fragmented structure has led to the current multi-tier distribution networks, whereby multinationals supply most of their goods directly or through local distributors to the few large cities, leaving many sub-urban and rural areas underserved, if served at all.

Without direct distribution in remote areas, medium-sized stores purchase from wholesalers / large retailers located in main cities, to sell onwards to either consumers or smaller (micro) retailers.

In this regard, the case of Laos is emblematic. The country has a territory of 231 thousand km² and a population of only 7 million¹⁷ (giving it one of the lowest population densities in the world). Direct distribution of consumer goods is mainly limited to the Vientiane capital province as reaching the rest of the country is not economical, at least for now, due to infrastructural barriers. With up to 5 layers in the distribution channel, Retail & Consumer MNCs in Frontier Markets are likely to lose control on margin distribution across the value chain, execution of promotional activities and product communication to end customers.

EXHIBIT 5
Vietnam FMCG, value share by channel

 Traditional channel



Note: * Urban: Ho Chi Minh, Hanoi, Da Nang, Can Tho.

Source: Kantar Worldpanel, FMCG Monitor – An Integrated Update of Vietnam FMCG Market (2016 Overview), 2017, Value Partners analysis.

(18) Source: Forbes, How the Vespa Became Vietnamese, 2011.

(19) Source: Economist, Agreeing to Agree, 2016.

Talent shortage

Many MNCs in Frontier Markets fail to achieve their KPIs (i.e. market share, revenues, margins, etc.) due to execution issues. Though solid in their market strategies, foreign companies struggle, in many cases, in the get-things-done phase.

Typically, MNCs relocate expatriates in their mid-career to oversee operations as country managers, operation managers, heads of sales & marketing, etc., especially in the set-up stage. However, be it from language barriers or cultural differences, expats often find it hard to accomplish their missions. Not only does relocation from other countries cause a culture clash within the organisation, but it also comes at a significant cost, as it usually includes generous housing allowances, international school fees, travel expenses, etc.

On the other hand, local talent meeting the standards of multinationals appears to be rare, and as costly. In Vietnam, where several international companies have already established their operations, the cost of retaining local talent is sometimes higher than the full cost of relocating an expat from overseas¹⁸, as companies have started to realise the additional value of local executives.

Political interference and uncertain regulation

Politically engineered market distortions have stopped multinational companies from doing business in Frontier Markets for many years. In fact, as of today, Laos' political system may be the world's most closed after North Korea¹⁹, Myanmar has just started its market liberalisation process and Cambodia is still perceived as highly corrupt even by its own population, resulting in very low trust in public institutions.

Closed social and political environments have contributed to major interferences in the economy, although distortions have often been limited to capex-heavy sectors such as natural resources and infrastructure. Furthermore, uncertainties in regulatory frameworks such as unexpected changes on import / export quotas, import duties and production restrictions might dissuade from investing in Frontier Markets due to the increased risk surrounding ROI target achievement.

THE FOUR FACTORS BEHIND A SUCCESSFUL PRESENCE IN FRONTIER MARKETS

As some MNCs are realising, many risk factors affecting the business environment in Frontier Markets turn out to be opportunities to build a competitive advantage. In our view, there are four key success factors that every company should consider to achieve a competitive edge.

Build your own understanding of the market

Gaining a thorough understanding of the market size by player / segment, consumer spending capacity / preferences, etc., is crucial when entering every market, but even more so when it comes to Frontier Markets, where industry coverage is limited and, likely, outdated. Here, customized consumer surveys are proven to be the most reliable source of market information, when properly designed. The design, though, is to be followed by a testing phase where input and feedback from a sample of consumers are analysed to fine tune the questionnaire. By doing so, MNCs increase the likelihood of extracting value from the survey results, i.e. turning raw data into actionable information, in line with the assessment's objectives, be it the dollar value of the market segments or the profitability by customer type.

Surveys are best executed in the local language by players with a deep knowledge of the country. However, the analysis of raw data is proven to be more effective when conducted internally or by a third party such as a consulting firm with experience in data analytics, rather than by the research company itself, whose expertise is often limited to the data gathering process. This will ultimately result in attributing more business sense to the dataset, by translating the findings into actionable recommendations to the top management. Sometimes, the decision-making process might require MNCs to take further steps to assess the evolution of the business environment.

For example, it took Coca Cola three years of market assessment before making a US\$ 200 mn investment decision in Myanmar due to the complexities of the country, including illicit trade, regulatory evolution, human and workplace rights, etc. ([Case study 1](#)).

CASE STUDY 1

COCA-COLA IN MYANMAR ²⁰

After economic sanctions were eased, in 2012 Coca-Cola re-entered Myanmar, becoming one of the first US companies to be awarded an investment permit under the country's new foreign investment law. It took the company over 3 years of market assessment to make a final decision on the \$200 million investment plan in Myanmar. All the efforts have paid off as Coca-Cola has reached a leading position today with more than 50% market share in the carbonated drink segment.

Back in 2009, in anticipation of market liberalisation, Coca-Cola launched an initial market due diligence aimed at assessing the beverage market size and key players. In early 2012, Coca-Cola established a Project Group for an in-depth country assessment in Myanmar, including commercial landscape, regulatory and business environment, human and workplace rights and environmental issues. The company also engaged external partners to navigate through the complexities of the country. In June 2013, for the first time in more than 60 years, Coca Cola was bottled in Myanmar in 425 ml bottles, iconic glass contour and aluminium cans.

During its official absence, illicitly traded Coca-Cola was available in hotels and high-end restaurants at a price as high as US\$ 2 per can, making it only affordable for tourists and the few wealthy locals. Coca-Cola was therefore perceived as a premium product by the majority of the population. In addition, the company worried that consumers would drink its products at room temperature, and miss out on its best taste. Such a concern was backed by the fact that only a small fraction of the population in Myanmar has stable access to electricity and well-functioning refrigerators.

Leveraging its understanding of the market conditions, Coca-Cola took different approaches in product packaging and promotion to address the company's concerns. It printed the price on the can, i.e. 300 Kyat (around US\$ 0.3), to ensure that this was well communicated to consumers and to prevent retailers from making extra profit. In addition, Coca-Cola printed simple drinking instructions on the cans to make sure consumers enjoy the product at its best condition. The company also gave out free samples of iced products at national events such as Buddhist festivals to boost product and brand awareness.

(20) Source: Coca-Cola's website, Responsible Investment in Myanmar, 2013; npr.org, How to Sell Coke to People Who Have Never Had a Sip, 2013; Forbes, Myanmar's Gradual Embrace of the Coke Trade, 2014.

(21) Source: Value Partners.

(22) Source: Value Partners.

(23) Source: ECA International, The Decline of the Traditional Expat?, 2016.

Leverage existing distribution infrastructure

Although building a direct channel might sound reasonable in order to increase the entry strategy effectiveness into a new market, be it through flagship stores in the apparel and consumer electronics segments or direct sales and distribution to retail outlets in the consumer goods industry, many MNCs are more successful when leveraging indirect channels too. As e-commerce accounts for less than 1% of retail sales in Frontier Markets with no expectation of leapfrogging in the next 5 years²¹, physical sales and distribution remain of the essence.

Therefore, MNC executives must optimise the mix between direct and indirect physical channels. In Frontier Markets, where the retail structure is very fragmented, direct channels are proven to be effective in main cities only, where the middle class is growing faster than in the rural and semi-rural areas. Benefits of direct channels range from higher visibility downstream in the value chain (e.g. consumer price setting, consumer-engagement activities, etc.) to tighter control on the face-to-face customer experience.

Conversely, mainly due to primitive infrastructure, remote areas are better served through intermediaries with nationwide coverage. Hence, the need to partner with one or more distributors to leverage their existing networks.

Take Japan Tobacco International (JTI) as a case in point in the FMCG industry (Case study 2). The partnership with a local distribution house in Phnom Penh, to enter the Cambodia market is behind the success of JTI in the country, now undisputed leader in the premium segment, whose contribution to the overall industry accounts for 16% today (doubled versus 5 years ago)²².

Rethink the role of expats

When it comes to setting up new organisations in Frontier Markets, be it as a representative office or a fully operational subsidiary, many companies opt for relocating internal employees in their mid-career from other offices worldwide. While such practice entails many benefits (namely sharing best practices, leveraging proven experience in other markets, etc.), due to their cost and resource shortage, assignments abroad are becoming shorter and shorter (in 2017, only 45% of international assignments consisted of long-term programs, i.e. 3 years on average, vs. 63% in 2008²³), resulting in the risk of pursuing short-term objectives at the expense of the long-term strategy.

CASE STUDY 2

JAPAN TOBACCO INTERNATIONAL IN CAMBODIA ²⁴

Japan Tobacco International (JTI) represents an example of successful market penetration as a global tobacco company in Cambodia, thanks to the partnership with local distributors and the introduction of innovative products.

Like in the other Frontier Markets, the retail universe in Cambodia is very fragmented: traditional stores, street vendors and market stalls account for 99% of end-sales to consumers, and none of them are tobacco specialists. Unlike local and even international competitors, JTI does not manufacture in Cambodia and it covers the market through a local distributor which sells directly to primary retailers in more developed areas and to wholesalers in rural areas. To strengthen its relationships with key wholesalers, JTI provides discounts based on purchased volume and gadgets such as motorbikes, TV and other household products.

Moreover, JTI partners with high-traffic retail outlets such as bars and coffee shops to increase consumer engagement. Not only is JTI's success related to the partnership with local distributors, but it also comes from the introduction of innovative products (i.e. flavoured cigarettes) that created new demand from the existing customer segments, in a competitive environment where innovation never played a key role to gain market share. Products such as Mevius Option, with a filter switch to change to a menthol taste, met consumers' preferences ever since their introduction.

In less than 5 years, JTI managed to more than double its market share and achieve a dominant position in the premium-price segment.

(24) Source: Value Partners.

Typically, there are 3 stages in the relocation process, i.e. Set-up, Execution and Handover.

The first stage lasts for up to 3 months, during which the expatriate is briefed on the country (e.g. language, cultural aspects, work environment, etc.) and carries out both off-ground admin duties (e.g. visa, tax returns, etc.) and on-ground settling-in activities (e.g. renting a new house, relocating family members, building a social network, etc.). The second stage is when the relocated employee is up and running, fully in charge of the new assignment. The last phase involves managing the project handover, i.e. making local staff fully responsible for all the activities. In the long run, the success of the relocation depends on the ability to constantly transfer know-how from expats to local staff during the Execution stage and, ultimately, on the process of empowering the local staff to take over the operations management during the Handover stage.

MNCs are becoming more and more aware of the importance of on-the-ground coaching as well as overseas training of local staff, with the aim of smoothing the transition upon the departure of expatriate staff.

In this regard, Carlsberg is a proven example of successful training in Vietnam, where the local team was fully equipped with technical know-how within 3 years of the establishment of local operations ([Case study 3](#)).

Engage locally-connected figures

Before making the final decision on whether to enter any of the Frontier Markets, MNCs must also factor country risks into their business plans and develop mitigation strategies. In fact, early-stage lobbying (here in its broader meaning of both conducting a thorough due diligence of the local institutions and influencing people) has proven to be crucial in helping MNCs understand governmental processes in Frontier Markets (e.g. license-taking, tax return, government officials' authority, etc.) as well as anticipating the effects of political changes, such as regulatory requirements, fiscal policies, etc.

The case of Coca-Cola is again emblematic in this regard. The lesson learnt from Coca-Cola's approach of engaging external partners during its 3-years market due diligence in Myanmar is twofold: on the one hand, it shows how timing matters; on the other, it highlights the need for reliable insights on country-specific issues, through the engagement of locally-connected figures. It is also common to see companies dispatching their own employees on the ground for a short assignment (on average 6 months) to probe the economic, social and political situation.

CASE STUDY 3

CARLSBERG IN VIETNAM ²⁵

Like many companies, Carlsberg faced the challenge of talent management when, back in 1993, it first set up a joint venture in Vietnam, Southeast Asia Brewery (SEAB), with the local state-owned company Halimex.

Unlike many other joint ventures, management control of SEAB is shared among the two partners with top management changing every three years. Committed to the partnership, Carlsberg contributed capital, technology, machinery and staff training, while Halimex provided land, local knowledge, distribution networks and political ties.

SEAB understood that training was crucial for technical advancement and operational excellence. It provided its staff with both on-site and overseas training. Within three years of its establishment, most of the senior technical and managerial staff were sent on training course overseas. To ensure the best sales and marketing efforts, SEAB even extended technical training to the sales and marketing team to help them understand the drivers behind quality beer.

In virtue of substantial investments in training, SEAB has developed a strong local team equipped with technical know-how, understanding of local context as well as local connections. By 2002, only the Vice-General Director and the Marketing Manager were expatriates. SEAB's local brand Halida soon became one of the most popular beers on the market, making quality consistency its main selling point.

(25) Source: Department for International Development UK, Investment Strategies in Emerging Markets, 2004.

CONCLUSIONS

In summary, Frontier Markets in SEA present lucrative investment opportunities for medium-to-large sized MNCs in the Retail & Consumer industry. Although challenging due to the uncertainty surrounding the business environment, Frontier Markets will be the next growth engine for Retail & Consumer MNCs, provided timely investments in the region and the capability of turning the risk factors into opportunities to build competitive advantage.

In order to gain such advantage in developing industry sectors such as Clothing & Apparel, Electronics and Consumer Goods, MNCs must build their own understanding of the markets to make well-informed decisions, partner with local distributors to increase coverage, train and empower local staff to create strong organisations, and engage locally-connected figures to anticipate political and regulatory moves that might affect the business environment.

At Value Partners Management Consulting we provide hands-on support in market assessment, country risks due diligence, market-entry strategies and business plan development. The Retail & Consumer team at Value Partners has recently helped large MNCs navigate through the complexities of Vietnam, Cambodia, Laos and Myanmar.

Our value proposition combines strategy with management support and on-field, operational activities.

We have a proven track record in assisting many Retail & Consumer companies across the globe on initiatives dealing with growth, market-entry and business expansion.

Building a thorough understanding of the markets, partnering with local distributors, training and empowering local staff, and engaging locally-connected figures, are the key success factors to build a competitive advantage in Frontier Markets.

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ABOUT VALUE PARTNERS

Value Partners is a global management consulting firm that works with multinational companies and high-potential entrepreneurial businesses to identify and pursue value enhancement strategies across international expansion, innovation and operational optimization.

Founded in Milan in 1993, Value Partners has, over the years, grown to over 200 professional consultants from 23 countries.

It has offices in Milan, London, Istanbul, Dubai, São Paulo, Buenos Aires, Beijing, Shanghai, Hong Kong and Singapore.

Value Partners has built a portfolio of over 350 international clients – from the original 10 in 1993 – with a focus on high-growth markets, since over half of our revenues are generated outside Europe.

Value Partners combines methodological approaches, analytical frameworks and professional tools with a practical hands-on attitude and a wealth of industry knowledge within many sectors, such as Retail & Consumer, Telecommunications & Media, Financial Services, Energy & Utilities, Pharmaceuticals and Industrial Goods.

Value Partners has a proven track record in Frontier Markets in South-east Asia, where we have supported our clients in conducting country due diligence, business due diligence, market assessments, entry strategies, business plans and turnarounds.

For more information on the issues raised in this note please contact the authors.

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