WOODWARD CONSULTING PARTNERS

Despite their size and strength, multinational companies struggle to make money in Asian markets. The three common mistakes that multinational companies make in Asian markets are illustrated in the following examples.

1. OUTSOURCE STRATEGY TO A THIRD PARTY

A local distributor or agent is often assumed to be the obvious low cost, low risk mode of investment. However, these relationships often result in a complete outsourcing of strategy – the consequences of this are often costly and appear much later.

Hidden costs and risks

For example, an automotive aftermarket supplier with a long history in Asia maintained a network of distributor relationships throughout the region which had lasted for decades. Over time, the company realized that its growth had stagnated and that its market share was being devoured by lower priced Chinese and Korean competitors.

Outsourcing more than distribution

The company's distributors had been content to maintain a roster of customers while broadening their product range by signing onto relationships with manufacturers. The company realized that it had outsourced its entire strategic management role – development of strategy, tactical action plans, and implementation – to a third party. Profit margins, brand, and customer relationships were in the hands of distributors who had squandered the business.

Recapturing the business

> "Delegating too much power to a distributor puts core assets at risk."

The company gained control of the business by restructuring its distributor relationships. The reconstruction included building direct relationships with retailers and wholesalers through a certification program. This program allowed the company to manage margins throughout the supply chain, control the brand, and monitor customer relationships. Gaining control of strategy, tactics, and implementation allowed the company to face new competitors with the full force of its global organization.

2. ASSUME ALL CUSTOMERS VALUE SIMILAR THINGS

Customers in Asian markets often respond to different value propositions from customers in the US or Europe. Even within Asia, value propositions vary from country to country.

The whole solution

A healthcare products company was a world leader in technology which spanned a wide variety of products. With a broad product range and deep experience, the company was uniquely positioned to offer an integrated solution – a bundle of products and services that worked well together. This bundling strategy was exceptionally profitable in Europe and the US. The company was proud of its technological capability and aggressively promoted its integrated solutions.

Emerging competitors, evolving customers

For many years, the bundling strategy was highly successful in India. However, the company eventually discovered that local competitors had become surprisingly adept at producing low priced, highly localized versions of certain solution components. Customers began to pair these cheaper components with the company's own products to build customized solutions at a lower overall cost. Global management refused to believe that customers everywhere would not appreciate the value of an integrated solution. The company was too late in understanding the reality in India and lost substantial market share in a short period of time.

From competitors to partners

The company realized that it would continue losing customers rapidly if it persisted with a bundled solution. Forging strategic relationships with local competitors, the company broadened its product range to include local components. Innovative new solutions offered to all customers included the option to choose cheaper versions of certain components manufactured by local competitors.

Recognizing the unique customer requirements in India, the company strengthened customer relationships by leveraging the dynamic competitive landscape.

3. FAIL TO FIND THE REAL CUSTOMER

Customer segments often differ significantly in Asia – the result of unique characteristics of the industry value chain. It may be possible to discover entirely new customer segments by reevaluating your position in the value chain.

What's successful in the home market...

A construction products manufacturing company held a dominant market position in Europe and the US. Within these markets, the company traditionally sold through distributors to general construction contractors. While this model worked in other regions, it failed in Asia-Pacific. Despite significant investment, the company struggled to grow in several promising Asian markets.

A new view of the value chain

Reevaluating the broader industry value chain, the company discovered that potential customer segments in Asian markets differed widely from those in its original markets. The company found that the real decisions makers for purchasing tools resided, in most cases, not within general contractors, but within property developers.

The painful readjustment

Faced with a stagnating business built on the wrong sales channel, the company restructured itself around new customer segments. The entire sales and marketing effort in Asia was refocused on property developers. Through a fresh perspective on the industry value chain in its Asian markets, the company was able to craft a unified strategy targeting the right customer segments.

ABOUT WOODWARD CONSULTING PARTNERS

A dynamic management consulting firm based in Asia, Woodward Consulting Partners serves leading companies around the world in the areas of growth strategy focused on Asian markets. The examples above illustrate our experience in helping companies formulate effective strategies for Asian markets.