



Roland Berger
Strategy Consultants

DIGITIZATION AND THE MARKET EXPANSION SERVICES INDUSTRY: DRIVING OMNI-CHANNEL GROWTH

Fourth Global Market Expansion Services Report

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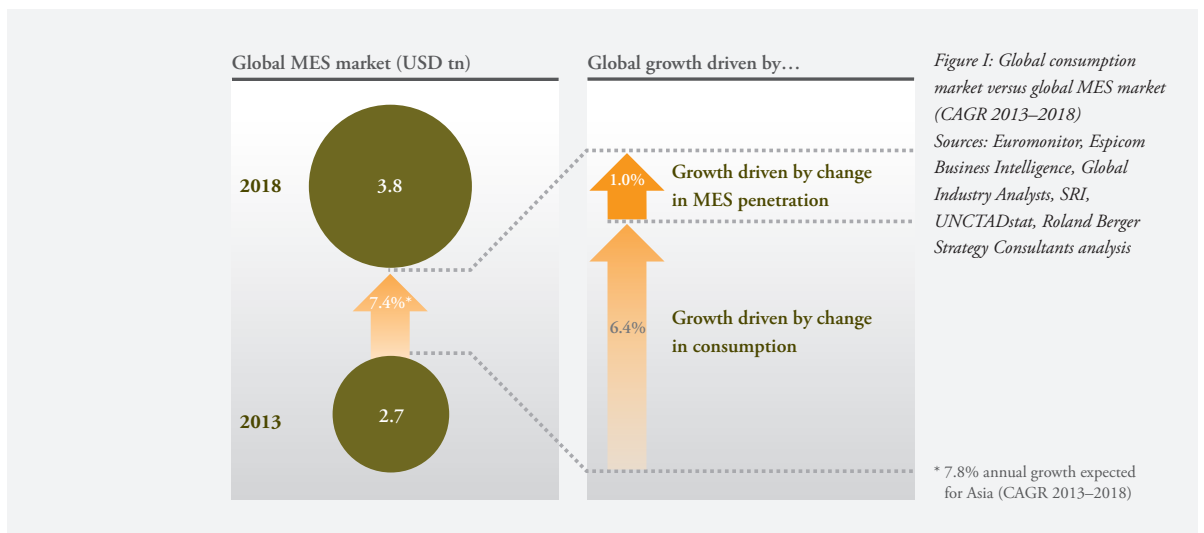
STUDY HIGHLIGHTS

Creating value in all channels

1

Continuous growth in the global market expansion services industry with Asia Pacific as the biggest market

The high growth dynamics for the global market for market expansion services have been confirmed with an annual growth rate of 7.4% through 2018. The MES market therefore remains one of the most promising sectors in the outsourcing industry. Ongoing growth of the middle classes, intra-regional trade in Asia, Africa and South America, as well as the increasing trend towards outsourcing, are fueling the demand for market expansion services.



2

Digitization is enhancing traditional business models but not changing the basic business logic

Digitization as a megatrend is impacting all areas of corporate business models. Companies are adapting their strategies and business models to cope with challenges and opportunities arising from the digital age. While growth in digital commerce has shown tremendous growth figures in recent years, global penetration is still below 5% of total sales.

3

Three trends are driving digitization

Three key trends are driving digitization and are likely to have an immediate effect. Mobile commerce, business intelligence and smart infrastructures are the key topics that have a significant short- to mid-term impact on companies and customers, and on ways of doing business.

4

Digitization is reshaping customer interaction and business transactions

Digitization is reshaping the ways in which customer interaction is handled and is opening new paths for marketing and customer influence. Social media strategies, digital marketing and big data analysis are tools for fostering customer-company relationships. With new technology, the sales process is being redesigned and new channels for sales are becoming available.

5

Clients and customers are at different stages in their digital journey

Clients and customers pursue different strategies reflecting their stage of digital readiness and objectives. International and digitally advanced players (multi-digital natives) sharply focus on improving their customer relationships, while local and digital beginners (small-town laggards) expect to boost growth through digitization. Local and advanced digital companies (local e-heroes) want to make existing digital operations more efficient, whereas international digital beginners (global old schoolers) are increasingly considering digitization as a means for improving both their sales and customer relationships in order to remain globally competitive.

6

As companies often lack the key resources and capabilities to drive a digital strategy through omni-channeling, they are turning to qualified partners

Companies pursuing a digital market expansion strategy are seeking partners that have experience and capabilities in providing superior services in digitization as well as market expansion. Partners with existing digital capabilities as well as local expertise and access to multiple sales channels and digital marketing opportunities are in demand.

7

MES providers succeed with comprehensive set of services

MES providers are the preferred choice for companies, as they are well positioned to provide their clients with the best mix of market expansion and digital transformation services. While digital specialists only serve specific steps of value creation, MES providers offer an integrated approach to supporting companies along the entire value chain.

8

MES providers are combining the best of the old and new world

Cross-regional MES providers are in an optimal position to drive omni-channel market expansion. Due to their local presence, expertise and know-how, they are able to offer their clients superior services along the entire value chain and combine both online and offline services for market expansion and market development.

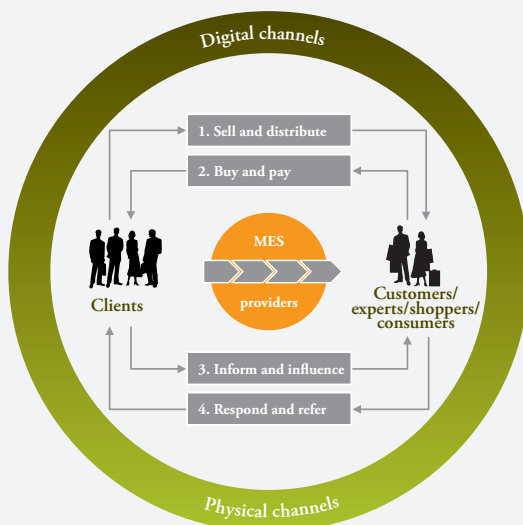


Figure II: Rating of competence along transaction and interaction processes

PREFACE

The market expansion services (MES) industry saw yet another year of promising growth, despite revised economic prospects and increased uncertainty in emerging markets. The sector remains one of the most prospering areas in the outsourcing industry, offering further growth opportunities for MES providers, their clients and customers. Demand from companies for market expansion services has increased steadily and is fueled by continuous overall economic growth in emerging markets.

This year's report provides an update on the development and growth expectations of global market expansion services and focuses specifically on digitization. Digitization is perceived as the major topic of the 21st century and offers increased opportunities for companies to enhance growth, improve efficiencies and develop their business operations in new and existing markets.

Since many companies lack the necessary resources and capabilities needed to drive a digital strategy, they are turning to experienced and qualified partners. To remain competitive, reduce complexity and improve cost efficiencies, partners who can offer an integrated approach while combining traditional and digital market expansion strategies are in high demand. Consequently, market expansion services providers are valuable partners in driving digitization and offering an omni-channel approach.

DKSH and Roland Berger Strategy Consultants have once again collaborated to produce the fourth edition of this report on current trends and developments in the market expansion services industry. Positive feedback from previous years has shown that these reports are acknowledged by the market as an industry standard.

This year's report reflects the leading research on digitization and includes the findings from over 380 survey responses and insights from industry experts and thought leaders. The results aim to help decision makers gain a better understanding of the impact of digitization on their business models, and of the digital readiness and mindset of different market participants. It also highlights how companies can work with market expansion services providers to leverage the potentials of digitization and drive digital transformation in overseas markets.

We hope you enjoy reading this study and are looking forward to receiving your suggestions, feedback and comments.



Dr. Joerg Wolle
President & CEO DKSH Holding Ltd.



Matthias Hanke
Managing Partner Roland Berger

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A. THE GLOBAL MARKET EXPANSION SERVICES INDUSTRY – AN INDUSTRY ON THE RISE

Market expansion services – outsourcing customer-oriented processes for growth

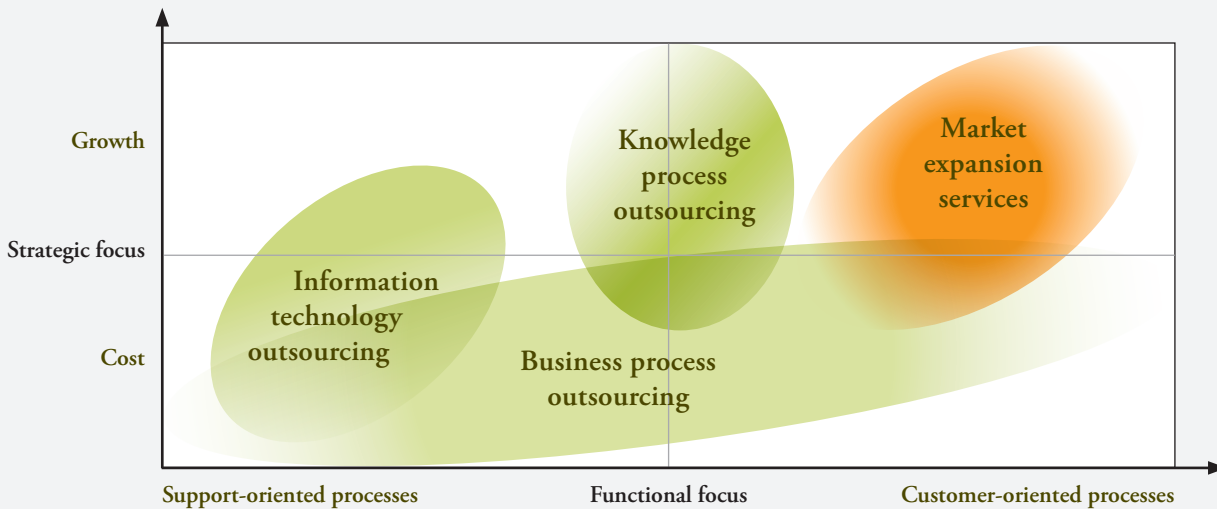


Figure 1: Market expansion services within the outsourcing landscape

Market expansion services – outsourcing on a new level

Focus on core competencies and growth opportunities

Companies across all industries and geographic regions are increasingly shifting their focus to their core competencies as global competition increases and pressure on earnings intensifies. In recent years, companies have realized that they can best serve their customers and make the best use of their talents by focusing on their core strengths and outsourcing all other processes. At the same time, turning to specialized service providers gives companies access to a broader pool of knowledge, experience and leading-edge technology.

To reduce their cost base and obtain access to resources not available on their home markets, companies have moved production abroad. Asia in particular has long been considered the "extended workbench of the West", with companies transferring production here to take advantage of lower labor costs. This perception has, however, changed over the past few years. Governments in emerging markets are now pushing to boost domestic

consumption and reduce the dependency of their economies on exports. The economic upturn witnessed in recent years has led to the gradual emergence of strong and affluent middle classes, increased levels of education and more disposable income. With Western economies recovering more slowly than expected from the recent recession, they have understandably shown increasing interest in emerging markets as prospering sales markets, too. Accordingly, Western and Asian companies alike today see Asia as an important sales market.

Selling products in emerging countries is anything but straightforward, however. Overcoming language barriers, navigating local regulations and legal restrictions, understanding regional and cultural differences, adapting products and services to local preferences and thereby gaining access to distribution channels and infrastructure are only a few of the many challenges new entrants face.

Both aspects – companies' desire to focus more strongly on their core competencies and the emergence of prospering but complex sales markets – have led to the rise of a new type of service industry. Market expansion services (MES) providers help companies to enter new

Integrated solutions along the entire value chain

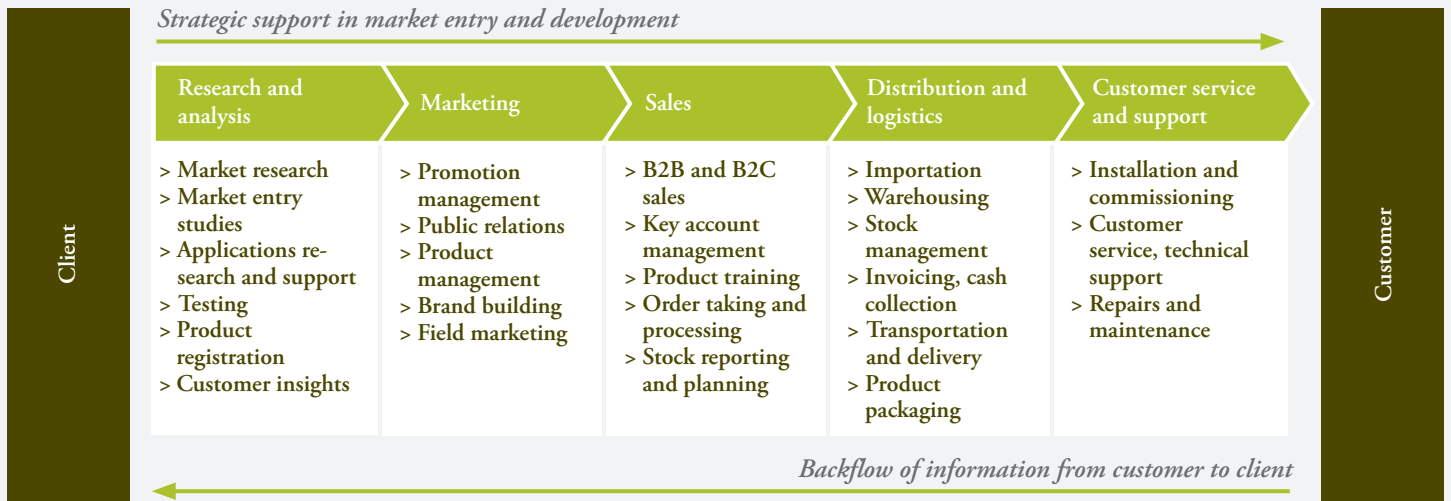


Figure 2: Market expansion services along the value chain

markets or develop existing ones more efficiently and effectively. They support companies at different links in the value chain, including marketing, sales and distribution as well as customer service and support. Combining local experience with a focus on customer-oriented processes, market expansion services providers are able to reduce complexity and costs for both their clients and their customers as these seek to grow their business.

Market expansion services differ fundamentally from traditional outsourcing activities. Traditional outsourcing generally occurs in three different forms: The outsourcing of specific business processes such as payroll accounting, recruiting and procurement is known as business process outsourcing (BPO). The outsourcing of IT-related processes, including the writing of source code, hardware maintenance and server operations, is referred to as information technology outsourcing (ITO). Knowledge-intensive activities such as research and development, patent management and clinical research trials are subsumed under the term knowledge process outsourcing (KPO).

By contrast, market expansion services providers place more strategic emphasis on activities that add value, focusing in particular on business growth and front-end processes such as marketing, field marketing, sales, customer services and support. As a result, companies are turning to market expansion services providers not only to reduce their cost base, but also to increase their market share, improve market coverage, deepen market penetration, lower fixed costs and reduce complexity.

Integrated service solutions

MES providers adopt an integrated service approach and offer a comprehensive set of services covering the entire value chain. They provide clients with solutions in areas such as field marketing, key account management, sales, inventory management, accounts receivable management and customer services. Since these services focus heavily on interaction with customers, they clearly need an in-depth knowledge of the local market, the skills to identify market opportunities and sufficient local resources to support sales and capillary distribution on the ground. Unlike single-service providers (such as sales agents and market research firms), MES providers offer their clients and customers end-to-end solutions

Service innovation – leading through innovation

In a competitive environment, it is increasingly important to offer clients exceptional services that extend beyond the standard portfolio. MES providers aiming to position themselves as leading market players must not only raise their basic service offerings to excellent levels, but also continuously improve their services to win over clients and customers with innovative solutions. Innovative services in line with what markets want and need are a key growth driver for the MES industry.

MES providers eager to tailor their service offerings to local needs must also be mindful of varying levels of sophistication in the services required by different countries. The Service Development Index highlights the differences between the individual countries in the Asia Pacific region and indicates the extent to which companies are ready for, or actively demanding, innovative services.

The Service Development Index

The Service Development Index (SDI) measures the level of service sophistication of an economy by combining generally established macroeconomic indicators and market experts' opinions.

This assessment of the level of service sophistication in different countries is based on the average score for four equally weighted key parameters – a survey of executives and market experts (1), the countries' innovation levels (2), their business sophistication (3), and their technological readiness (4) scores as measured by the World Economic Forum. Using this information, the Service Development Index identifies each country's overall level of service sophistication.

The resulting scores can be used to identify groups of countries that share similar levels of service

sophistication (see figure 3). While the SDI depicts only the state of the economies in focus at a certain point in time, it will, over time, allow the dynamics in their service development levels to be observed and analyzed.

This year's update to the index reveals various developments and insights:

- Singapore has defended its position in the "Leaders" group, having joined Japan there only a year ago
- South Korea has fallen back to the "Chasers" group and been overtaken by Australia, although its scores for the level of innovation and integration of technology are still among the highest
- Compared to last year's figures, Malaysia and Indonesia have advanced most in terms of their overall innovation level and readiness to adopt technology. Thanks to positive economic development in recent years and large sums of foreign direct investment, local companies are willing to take new technology on board in order to remain globally competitive.
- The countries in the "Starters" group have moved closer together. Although these countries have experienced significant economic growth over the past couple of years, they are still at a stage where they are seeking basic services and solutions.

These developments indicate that the Asia Pacific region remains as dynamic as ever, and that the readiness of countries to accept new services will continue to increase. Consequently, MES providers must continue to add innovative services to their portfolio while at the same time making due provision for different readiness levels and expectations in the countries they serve. In doing so, integrated, cross-border and industry MES providers can build on their local knowledge and expertise, as they are already accustomed to adapting existing services to the needs of specific industries and markets.

Service sophistication dynamics in Asia Pacific environment

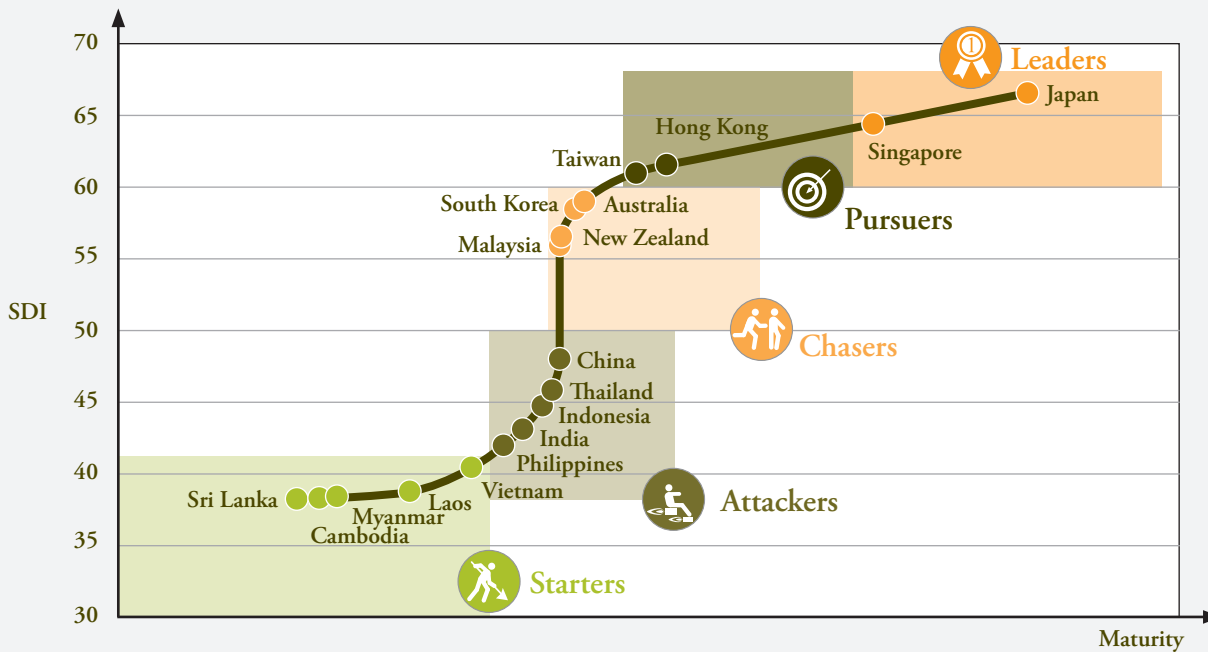


Figure 3: The 2014 Service Development Index (SDI) for the Asia Pacific region
Sources: World Economic Forum, survey data, Roland Berger Strategy Consultants analysis

that significantly reduce both complexity and the work involved in coordination.

The customized services offered by MES providers facilitate effective interaction between clients, customers and even end-consumers on home and foreign markets. MES providers' ability to provide support along the entire value chain also enables them to channel valuable feedback from markets and customers to manufacturers. They can deliver a seamless flow of information that bypasses the risks and complexities caused by different interfaces with different partners. In addition, MES providers enable efficient business transactions between clients and customers by leveraging their local infrastructure, market access and knowledge of local distribution channels to professionally position clients' product on the market and efficiently perform fulfillment services.

To offer state-of-the-art services, market expansion services providers must continuously adjust their service offerings in line with clients' and customer's rapidly changing market needs. This requires them not only to permanently improve their existing services, but also to anticipate future trends and proactively push new services onto the market.

Market expansion services – a multi-faceted growth driver

Differences in the dynamics of growth in the various industry sectors and geographic regions are more pronounced than in previous years. This is due to revised global economic growth rates and higher levels of uncertainty, particularly in emerging markets. Even so, overall long-term forecasts for the market expansion services industry remain promising.

Adding value to clients, customers and consumers

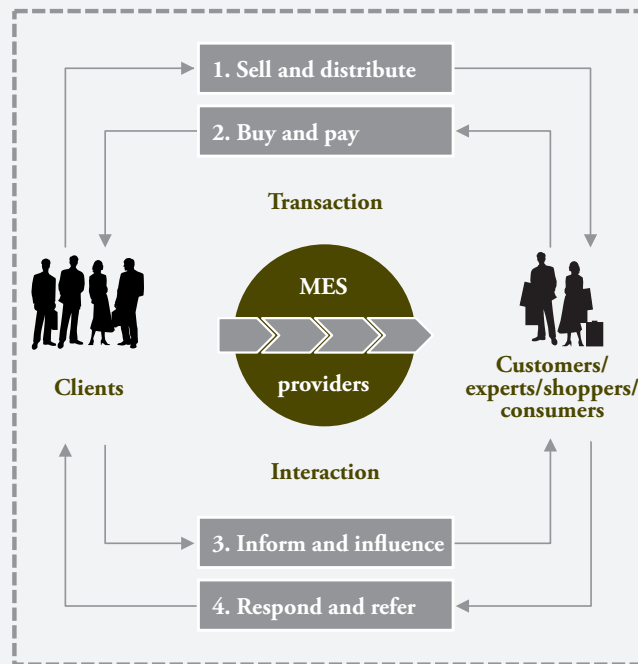


Figure 4: MES framework: interactions and transactions

Stabilizing consumer markets

Demand for market expansion services is strongest in industries that require local sales and marketing platforms and strong capillary distribution networks. Clients and customers in these industries require customized services along the value chain and therefore turn to MES providers. Demand is also influenced by the level of product complexity (in the case of long-term projects such as plant engineering, for example) and the need for technical expertise. As a general rule, the more standardized a product, the greater the demand for market expansion services. Given these considerations, demand for market expansion services can clearly differ substantially from industry to industry.

As in the preceding reports, the four selected industries – consumer goods, healthcare, engineered products and

specialty chemicals – therefore once again form the focus of this report's analysis. Underscoring its importance to the MES industry, the consumer goods sector again made up the largest share of the global MES market, accounting for a total MES market value of USD 1,664 billion in 2013. This sector is followed by healthcare, with a transaction volume of USD 629 billion, engineered products, at USD 337 billion, and the specialty chemicals industry, with a total MES volume of USD 51 billion in 2013.

Consumer goods

In the consumer goods sector, the MES penetration rate differs significantly between developed and emerging regions, standing at around 13% in Europe and North America, while exceeding 20% in Latin America and the Asia Pacific region.

Consumer markets out in front

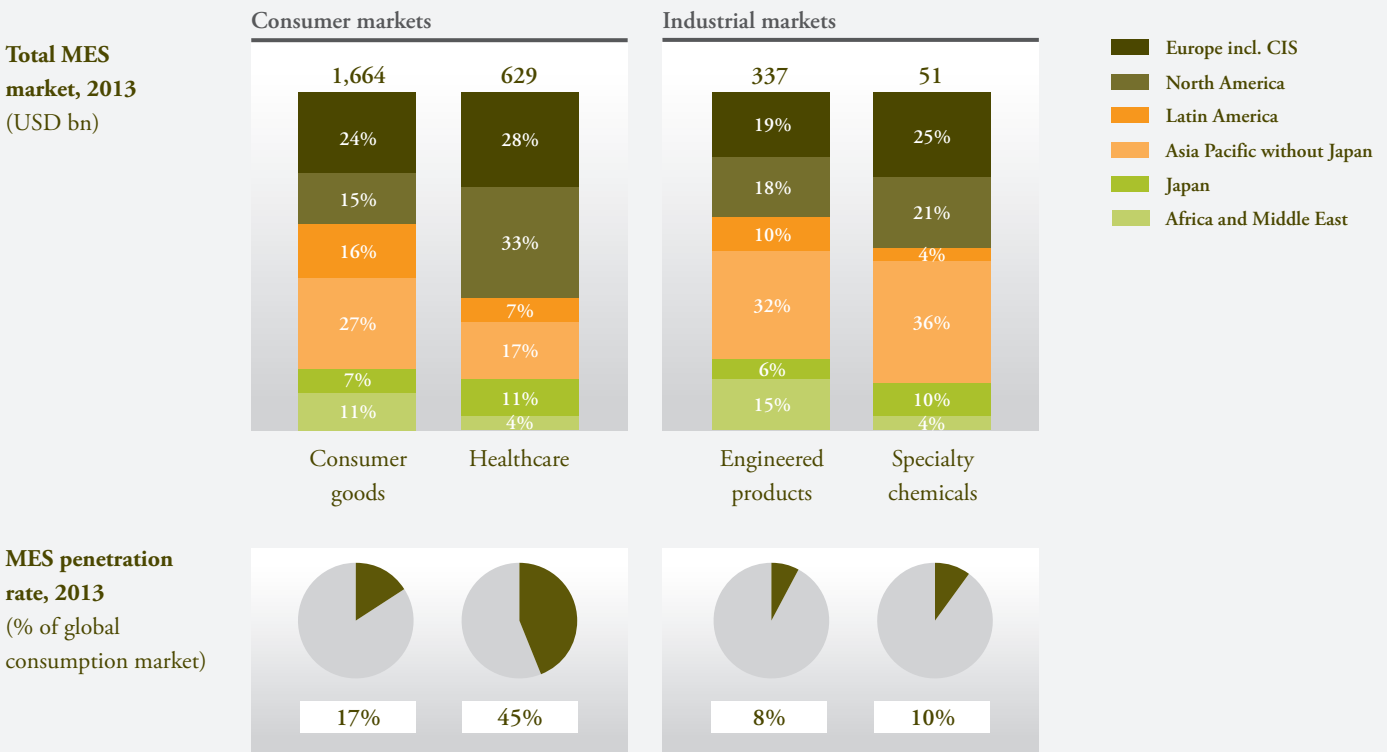


Figure 5: Global market expansion services market and penetration rates by industry
 Sources: Euromonitor, Espicom Business Intelligence, Global Industry Analysts, SRI, UNCTADstat, Roland Berger Strategy Consultants analysis

Stronger demand for market expansion services in emerging regions is to a large extent due to the coexistence of modern and traditional retail channels. Companies must effectively and efficiently combine modern and traditional delivery in their "go-to-market" approaches while also coping with the complexities of underdeveloped logistics infrastructures and cultural differences. To successfully enter or develop emerging markets, companies are increasingly asking market expansion services providers to enhance their approach by supplying customized solutions, integrity of the value chain, access to a local capillary distribution network, accounts receivables management, specialized marketing services and carefully tailored support at the point of sale (POS).

The outlook for market expansion services in the consumer goods segment remains highly positive over

the next five years, with a growth rate of 8.1% expected. The overall sector has so far proven relatively immune to revised economic growth prospects, as drivers such as growing middle classes and a higher level of disposable income in emerging markets are still fueling overall consumption.

Healthcare

The healthcare sector consists of three subsectors: prescription drugs, over-the-counter (OTC) products and medical devices. Even though the overall healthcare market is only 15% of the size of the consumer goods market, it nevertheless boasted an impressive average MES penetration rate of 45% in 2013.

For healthcare companies, foreign markets represent highly complex challenges. The complexity derives

value chain. Accordingly, demand for market expansion services is likely to increase further.

By contrast, overall growth forecasts for engineered products have been adjusted downward in line with revised economic growth prospects. Uncertainty prevails in many markets, such as some peripheral European countries, Greater China and Brazil. In this climate, companies tend to be reluctant to expand and are holding back investments in the short term. In the long term, growth in the engineered products industry is expected to pick up again as government investment in infrastructure and transportation projects resumes and confidence returns to the market.

Specialty chemicals

Specialty chemicals serve a wide range of applications relating to industrial, consumer and healthcare products. They can, for example, be found in fertilizers and crop protection agents for the agricultural sector, in sealants, coatings and paint for the construction industry, and in perfumes and detergents in the consumer goods segment. Since the specialty chemicals sector is a pure B2B business, it depends heavily on trends in its end-user industries.

The industry itself is characterized by low turnover volumes, high unit prices and considerable customization. Many manufacturers lack the critical mass they would need to directly manage small and mid-sized customers in local markets and therefore ask market expansion services providers to do it for them. MES providers can reach the required scale by bundling volumes from various clients (acting as a single point of sourcing) while at the same time managing marketing, sales and distribution processes and providing consulting in relation to product development and innovation.

The slowdown in industrial production in both developed and emerging markets has caused demand for specialty chemical products to drop, although part of this decrease has been offset by higher demand for innovative products in consumer industries. Given the current climate of increased uncertainty about industrial output, the expected five-year growth rate has been revised downward from 6.2% in the previous report to 5.2%.

Global growth fueled by emerging markets

Besides differing from industry to industry, demand for market expansion services also varies considerably in different geographical regions. As predicted in last year's report, the Asia Pacific region has taken over from Europe as the largest global MES market and is now worth USD 691 billion. Europe now occupies second place with a volume of USD 649 billion, followed by North America (USD 529 billion), Latin America (USD 342 billion); the remaining countries taken together (USD 256 billion), with Japan taken in isolation (USD 213 billion).

In the next five years, Asia Pacific's high MES growth rate of 10.6% is expected to widen the gap between the Asia Pacific region and Europe and North America. At the same time, the other emerging regions, Latin America and Africa and the Middle East are catching up with the developed regions, posting projected growth rates of 12.5% and 10.7% respectively. Growth in these regions is driven by strong overall development in consumption and in the industrial market, but also by increasing demand for market expansion services.

On average, MES penetration rates and growth expectations are higher in regions with a large share of emerging countries – regions whose markets tend to be highly fragmented and complex. Cultural and language barriers, regulatory restrictions and local peculiarities pose huge challenges for Western and Asian companies alike. In addition, local competition in emerging markets is growing stronger, forcing companies to build up detailed knowledge if they are to remain competitive. To work the market with maximum efficiency and effect, companies are therefore increasingly turning to MES providers in emerging countries.

Global trends driving the growth of market expansion services

Despite the recent correction in short-term economic growth rates in emerging markets, volatile exchange rates resulting from the US tapering and geopolitical uncertainty in Latin America, South East Asia and the Commonwealth of Independent States (primarily Russia and Ukraine), long-term growth prospects for emerging markets remain robust. The revival of economies in

Global MES market growth

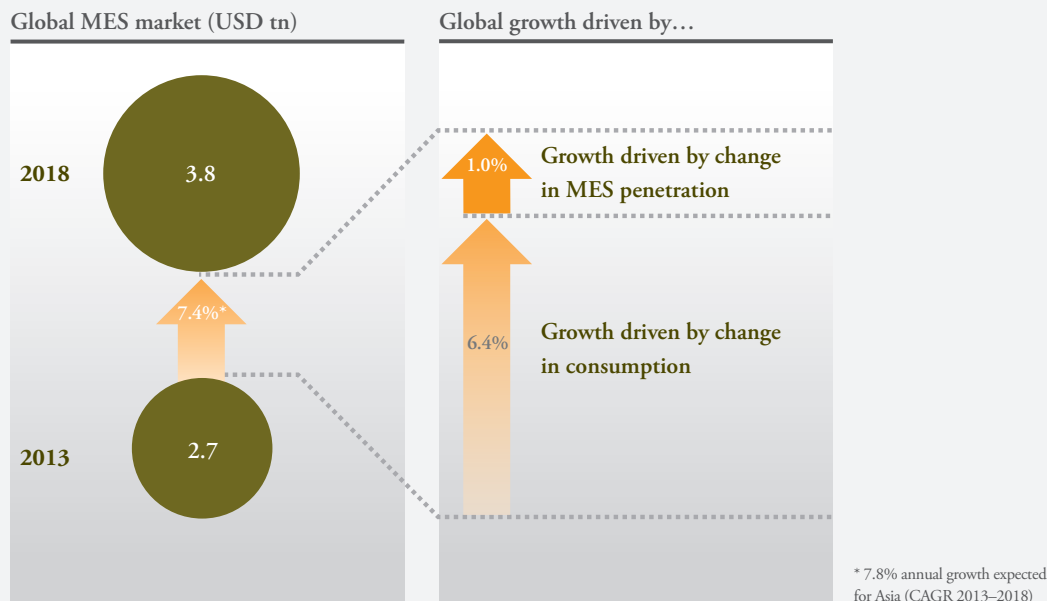


Figure 7: Global consumption market versus global MES market (CAGR 2013–2018)

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

Europe, North America and Japan has helped to further stabilize global MES growth at a high level. The overall MES growth rate for the next five years is estimated at 7.4%, compared to 7.5% in last year's report. It is estimated that the worldwide MES market will be worth USD 3.8 trillion in 2018.

Growth in the MES markets is driven by the overall change in demand in the consumption market and the change in MES penetration. Both of these drivers are directly impacted by three global megatrends.

Growing middle classes

Growth in consumption is being driven by an increasing population, declining unemployment rates and growing middle classes that have more disposable income. According to the OECD, the global middle classes are set to double in size by 2030, by which time a total of 4.9 billion members will generate demand totaling USD 56 trillion.

In combination with higher levels of education, the trend toward urbanization and improved health awareness, this development has led to a trade up from necessities and standard products to convenient and branded quality products. The shift is not only boosting the consumer goods and healthcare markets, but will also, indirectly, have a positive impact on industrial goods – such as specialty chemicals and engineered products – that are needed to locally manufacture these consumer products.

However, long-term economic growth rates in larger emerging countries such as China and India have been revised, and the lavish monetary policies in which Europe, North America and Japan are now tailing off. These developments seem to indicate that further economic development in emerging countries and developed nations alike is becoming more volatile and uncertain – witness the recent minor economic crises in Brazil, India, South Africa and Indonesia. On another level, political unrest

Growing emerging market middle classes are driving global demand

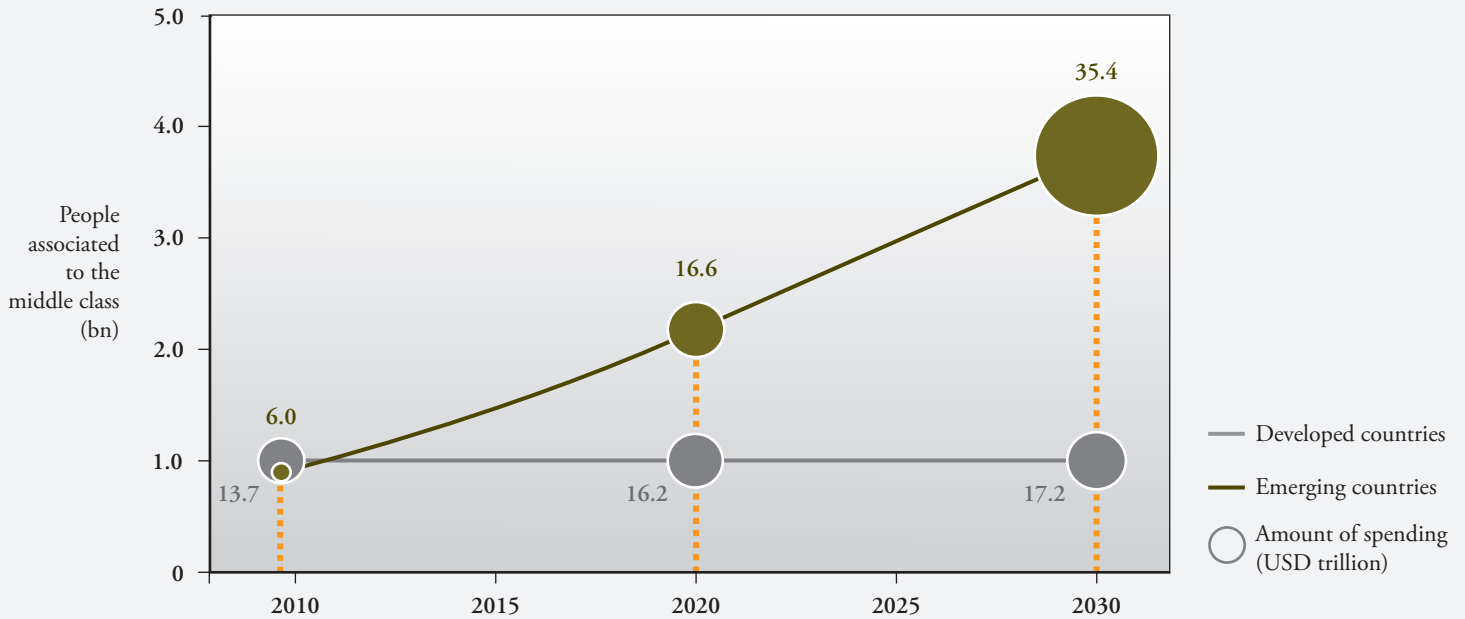


Figure 8: People associated to the global middle class and amount of spending (USD trillion, calculated at fixed 2005 prices and exchange rates)

Sources: OECD, Roland Berger Strategy Consultants analysis

in Thailand and smoldering political tensions between China and Japan, and between China and Vietnam in the South China Sea have only added to economic instability in the region. In the eyes of the middle classes, such volatility can pose a significant risk to further growth. Particularly in emerging countries, the correlation between GDP growth and poverty reduction is significant. People who have worked their way up to the middle class during the years of plenty are at risk of falling back below the poverty line if economic growth would decelerate. Even in developed countries, the middle classes are likewise in danger of shrinking, having borne much of the burden of the recent economic crisis.

In the short-term, the impact of growing middle classes on global demand should thus be treated with caution and in the light of what may happen to economic growth rates in the near future. In the long-term, however, both the assumptions and the underlying trend remain intact.

Asia with vibrant growth in intra-regional trade

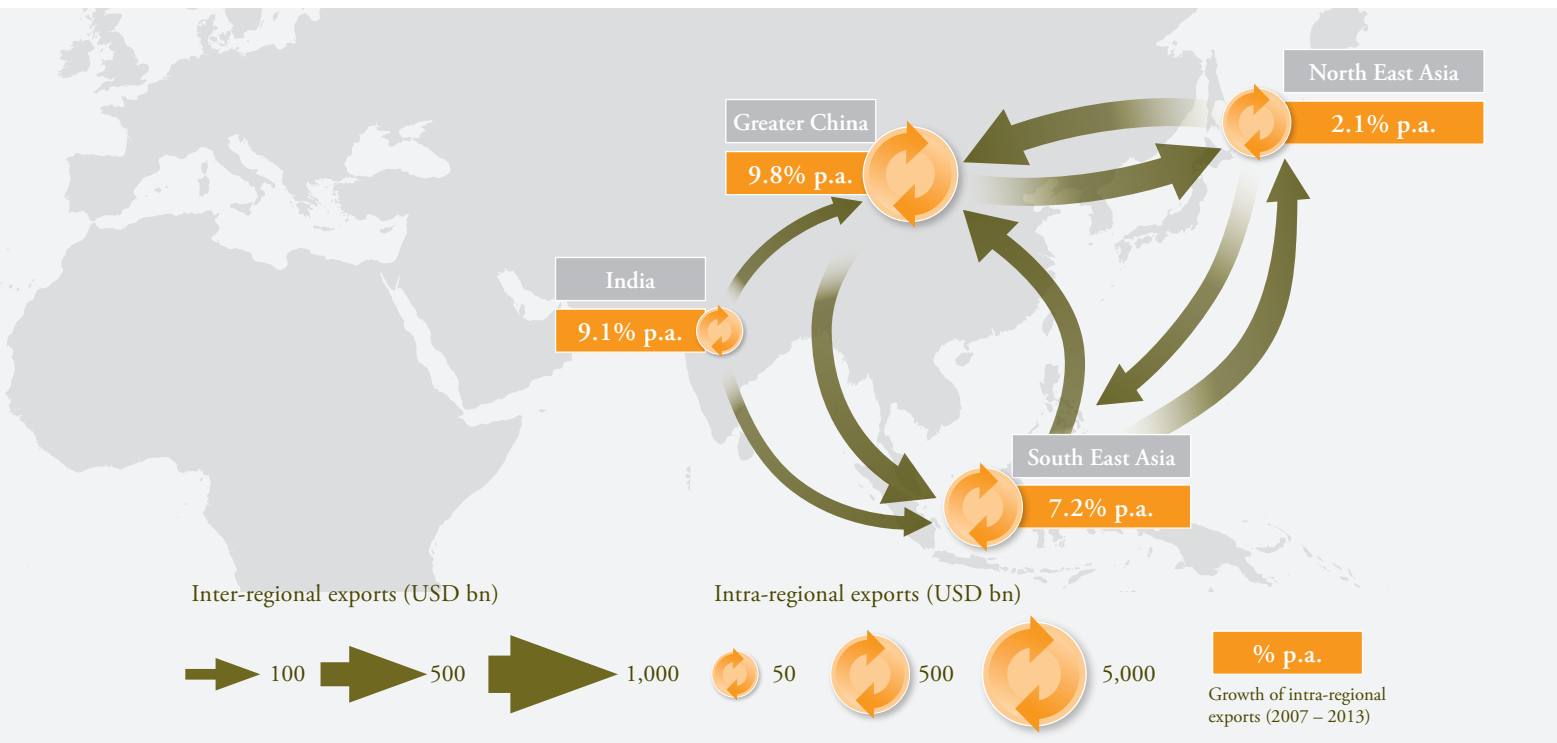


Figure 9: Inter-regional and intra-regional merchandise exports within Asia (absolute figures 2013, annual growth rates for intra-regional exports in 2007–2013)
Sources: UNCTADstat, Roland Berger Strategy Consultants analysis

"Our company has adjusted to increased market volatility by reducing internal complexities and through a continuous re-evaluation of the value chain."

General Manager, European-based pharmaceutical company

Increasing intra-regional trade, especially in Asia

Exports between leading emerging markets are another megatrend that is driving global growth in market expansion services. According to UNCTAD, what is referred to as south-south trade has doubled to over 25 percent of total world exports over the past 20 years. While developing Asia has hosted the bulk of intra-regional trade, trade within the developing Americas and developing Africa has likewise climbed significantly in recent years. Countries at the forefront of this trend include China, Vietnam, Egypt, India, Turkey, Peru, Columbia, Brazil, Mexico and Chile, for example.

Asia has over the years become increasingly integrated with the rest of the world, its rapid development driven largely by exports to the United States and the European Union (EU). In the past, though, even as the world's

main economic arteries shifted eastward, intra-regional integration within Asia itself still lagged behind. The last global financial crisis and the still relatively low growth rates in Western markets have changed the focus of emerging companies. The regional Asia Pacific markets are becoming more attractive for expansion to Asian manufacturers. Growth in intra-Asian trade will also be fueled by the establishment of the ASEAN Economic Community (AEC) in 2015, a project aimed at fostering economic integration among the South East Asian nations.

Close geographical proximity to other markets within a region should not obscure the fact that companies seeking to operate across borders still face a series of stiff challenges. A company that is based in China and wants to sell its products in Thailand, for example, also needs help in accessing local customers, building up capillary distribution networks and aligning its marketing activities to local needs. Hence, intra-regional trade is another key driver for further growth in market expansion services.

Trend toward outsourcing

Companies today operate in what has aptly been termed a VUCA world – a world of volatility, uncertainty, complexity and ambiguity. Confronted by fiercer competition, constant cost pressures and political uncertainty, they have begun to focus increasingly on their core competencies. In the process, they are outsourcing more and more links in their value chain, which again is driving demand for integrated MES providers. Moreover, companies are seeking to mitigate risks as economic development in emerging countries becomes increasingly volatile. For many market players, "going it alone" as they enter or develop foreign markets poses too high a risk, so trusted partners are increasingly being seen as the more rational solution. Companies feeling uncertain about political situations – such as that in Thailand, for instance – are therefore hedging against potential risks by relying on a strategic partner with a knowledge of local conditions and an established local infrastructure.

Indeed, as marketing and distribution systems in emerging markets also become more complex and resource-intensive, the need for and the competitive advantage offered by specialized MES providers is becoming ever more pronounced.

Summary

As markets become ever more uncertain and volatile, companies are reviewing their current business model to look for ways to boost further growth and mitigate risk. Increasingly, this exercise is causing them to turn to market expansion services providers as they move to enter new markets or develop existing ones. An in-depth knowledge of local customs, practices and cultures, a strong local infrastructure and proven access to sales channels leaves MES providers well placed to significantly reduce companies' risks and costs while at the same time increasing their sales and market share. The global market for MES is expected to grow further and offer attractive opportunities in the years to come. Accordingly, growth expectations for MES have been revised only slightly, to 7.4%, despite adjusted economic growth forecasts and increasing uncertainty in the marketplace.

To maintain high growth rates and meet the needs of their clients, MES providers keep a close watch on future trends in order to constantly develop and enhance the services they offer. As the middle classes grow in emerging countries, more and more customers are gaining access to advanced technologies such as smartphones, which will ultimately impact on how they shop and interact. This development is flanked by the demographic shift, as increasing numbers of users become accustomed to digital technologies in all walks of life. In contrast to this emerging trend, the digital market is still on a low level in South East Asia in particular, where offline interactions and transactions remain the predominant form.

The trend toward digitization presents tremendous opportunities to companies wishing to enter new markets and/or develop existing ones. Yet it also poses significant additional risks. MES providers can be valuable partners in driving digitization and offering an omni-channel approach while mitigating the associated risks.

This report looks at how digitization is changing the way people and companies do business – and how MES providers are able to support companies in that process.

Enhanced growth in consumer markets...



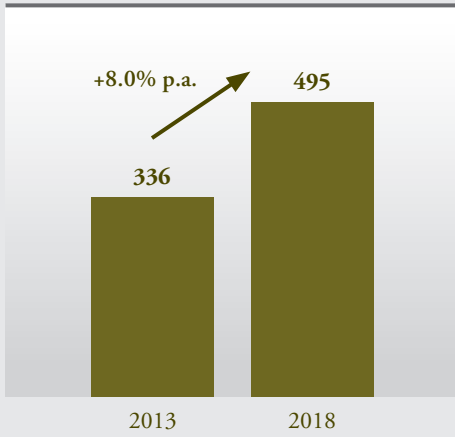
Figure 10: Growth of global MES market by industry (2013–2018)

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

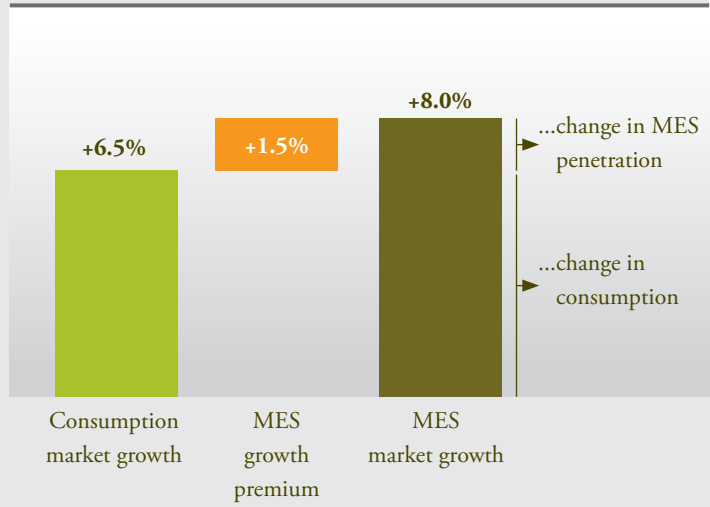
... and cautious but stable industrial markets

Industrial markets

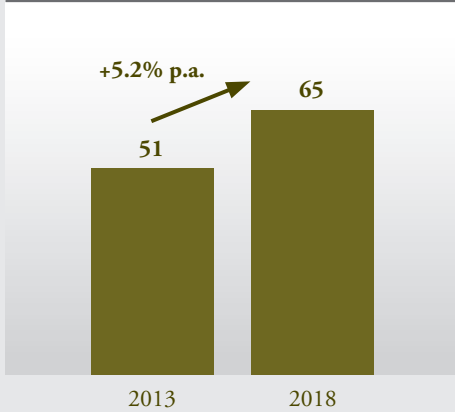
Engineered products (USD bn)



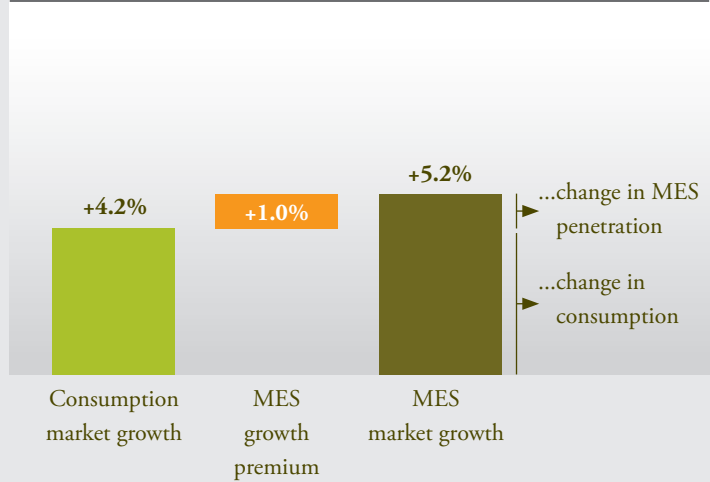
Growth driven by... (annual rate, 2013–2018)



Specialty chemicals (USD bn)



Growth driven by... (annual rate, 2013–2018)



B. DIGITIZATION OF THE BUSINESS MODEL – A TREND WITHOUT LIMITS?

Digitization as a global phenomenon

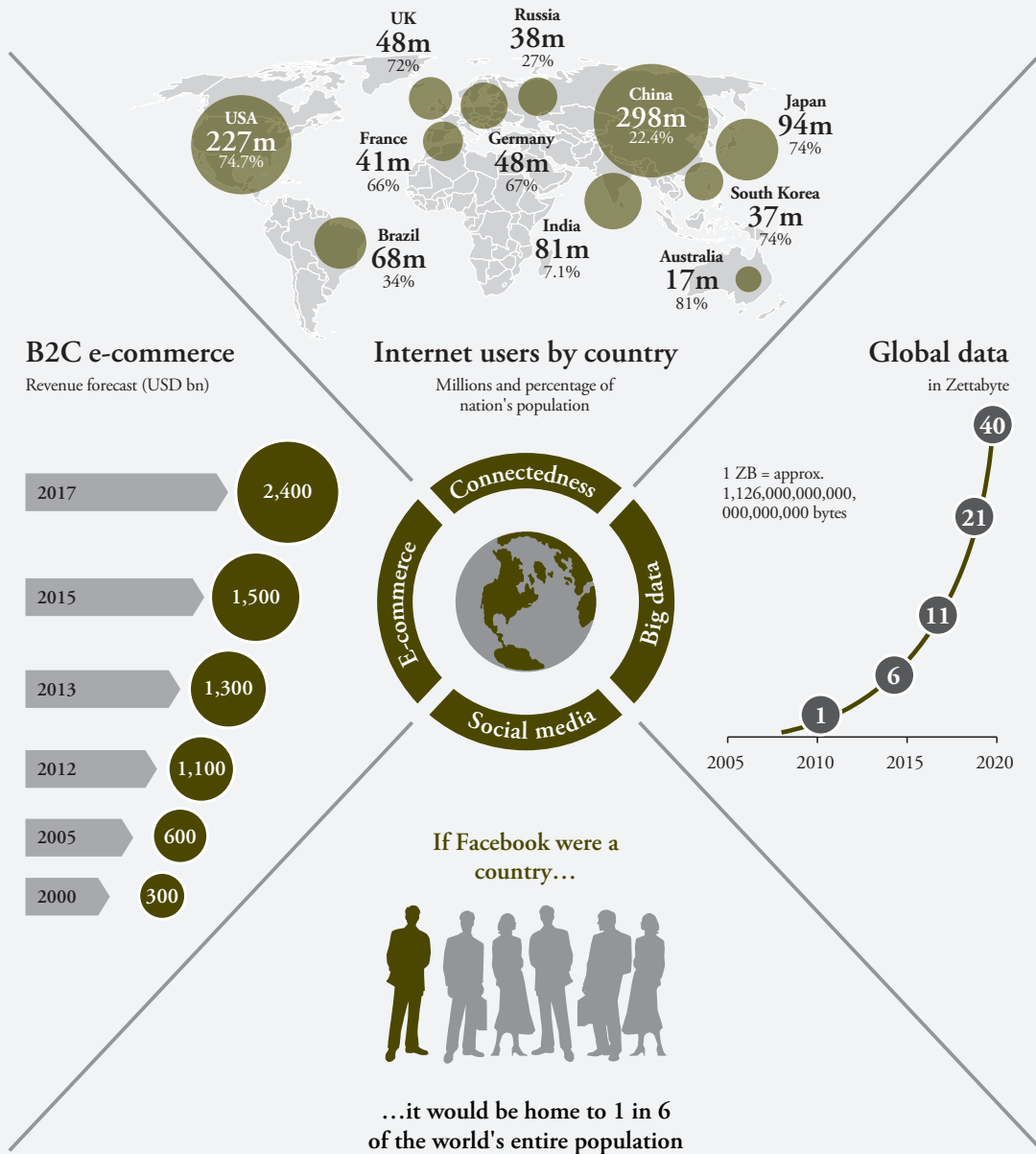


Figure 11: Highlights of the digital era

Sources: UNECE, Facebook, CIA factbook, eMarketer, Internet World Stats, Roland Berger Strategy Consultants

Digitization as a global phenomenon

By the end of 2013, global smartphone penetration had increased by 1.3 billion devices in only four years to approximately 25% of the global population. In the USA, nearly half of all American adults own either a tablet or an e-reader. In China, the number of mobile subscribers has reached 1.2 billion, four times more than in the USA and two times more than in the whole of Western Europe. In Germany, Facebook has 25 million active users, of whom 19 million use the service daily – equivalent to the audience for the best rated show on German television, but for the whole year. Google consumes over two billion kilowatts of energy per annum to run its servers and data centers, roughly a quarter of the output of a nuclear power plant.

Books have become e-books. DVDs and VHS movies have given way to online streaming services. Music is played from media files. And the best way from A to B is not seen on a physical map, but is calculated in real time from a combination of GPS signals and traffic data. These are just a few of the more prominent examples of how digitization has changed our world. The growing presence of digitization in our daily lives and the emergence of new technologies have also led companies to adapt their business models and anticipate new forms of consumer behavior. Digitization is a new way of thinking about business, innovation and opportunity at corporate level. It allows companies to interact with their customers more efficiently while at the same time reducing transaction costs.

A company's digital transformation can take place both internally and externally. Internal digitization focuses on shifting from analog to digital business processes. This includes internal data processing, content management, financial reporting, order processing and merchandise management, for example. On the other hand, external digitization tackles the digitization process at either end of the value chain. On the supply side, companies are becoming ever more closely connected to their suppliers, with processes such as procurement, inventory management and stock replenishment being increasingly automated. At the other end of the value chain, consumers are likewise becoming interconnected with companies' information systems. Customers and

Tesco – bringing online grocery retailing to the mass market

Shopping for groceries was long considered unsuitable for internet-based retailing. Yet Tesco, the leading UK grocery and merchandise chain, began looking into opportunities to sell its products online 17 years ago. The road to success has been long and challenging, with the low point reached during the dotcom crisis. Thanks to process automation and warehousing, real-time data availability and intelligent demand forecasts, Tesco has nevertheless been able to make online grocery retailing a marketable proposition, enabling same-day delivery and guaranteeing the freshness of its products. Today, Tesco is the world's leading online grocery retailer, with revenues of approximately GBP 2.5 billion. Compared to a global market size of USD 2.3 trillion for packaged food in 2013, however, even this impressive digital sales figure accounts for only a very tiny fraction of the overall grocery market.

shoppers place orders and handle the purchasing process via an interface that is integrated in a company's internal information system and thus allows for real-time stock information and demand-related price adjustments. Information about the client or consumer is also collected and analyzed in real time, which vastly increases upselling potential.

Digitization has gone through many different phases in the past few decades (the invention of computers, the launch of the internet, etc.); and the speed at which new game changing technologies are being introduced is growing faster by the year. This phenomenon is leading to higher overall investment costs combined with greater uncertainty and complexity as companies address the issue of digitization.

The speed of innovation is constantly increasing

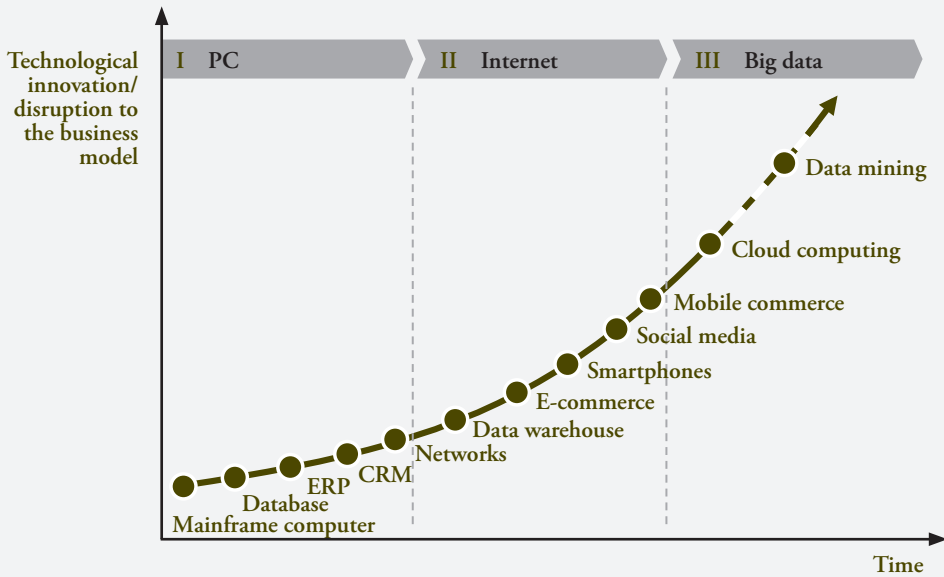


Figure 12: Conceptual illustration of digital phases

Source: Roland Berger Strategy Consultants analysis

Powerful trends are reshaping the industry

Within the wider scope of digitization, we have identified three megatrends that are likely to have a significant short- to mid-term impact on companies and customers: mobile commerce, smart infrastructures and business intelligence.

Back to the future – the next generation of game-changing technologies

New disruptive trends are emerging that will have a lasting impact in the long term. These technologies have not yet matured to the point where they are likely to have a business impact within the next 7–10 years. Further development work and research are necessary if they are to become both marketable and cost-efficient. However, companies addressing the issue of digitization today would do well to keep an eye on the longer-term trends, too, as they will probably have a massive impact on the business models of the future.

According to technology research company Gartner, 3D printing is at the heart of the next "digital industrial revolution". 3D printing uses computer-created

Disruptive megatrends of the future

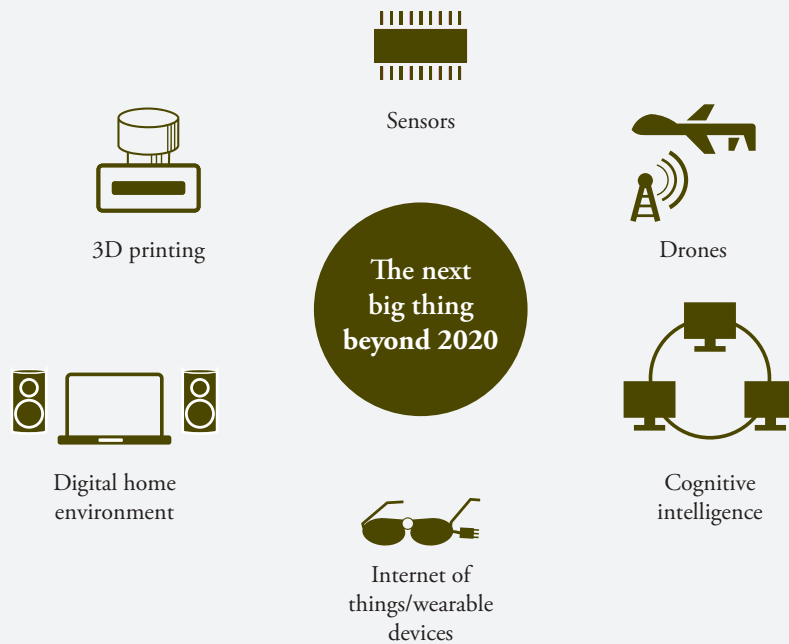


Figure 13: Digital megatrends
Source: Roland Berger Strategy Consultants experts

digital models to create real-life objects. While the production of individual spare parts is already feasible, 3D printing is one day expected to be able to build houses from scratch or assemble replacements for human organs. In manufacturing, 3D printing – also referred to as additive manufacturing – is set to revolutionize product realization and reduce the cost and time needed to produce customized components.

Wearable devices are already available in the form of smartphones, intelligent glasses and highly engineered watches such as the Samsung smartwatch. However, these devices still largely depend on manual input by the user. Looking ahead towards the internet of things, devices will become more sophisticated and practical, capturing and processing a person's movements automatically. At the same time, more and

more goods are being equipped with digital sensors that can communicate with consumer devices or with each other. UK-based luxury fashion label Burberry has woven RFID chips into its dresses at selected flagship stores. If a customer approaches an advertising screen, the selected dress is detected and the corresponding promotional film is played.

An entirely different development trajectory is emerging in the drone industry. While military applications are already highly developed, the underlying concepts will sooner or later be transferred to the commercial sector. Selected companies have successfully tested the use of drones for same-day delivery services, although commercialization is currently being held back by the unclear legal basis.

Mobile commerce is gaining ground

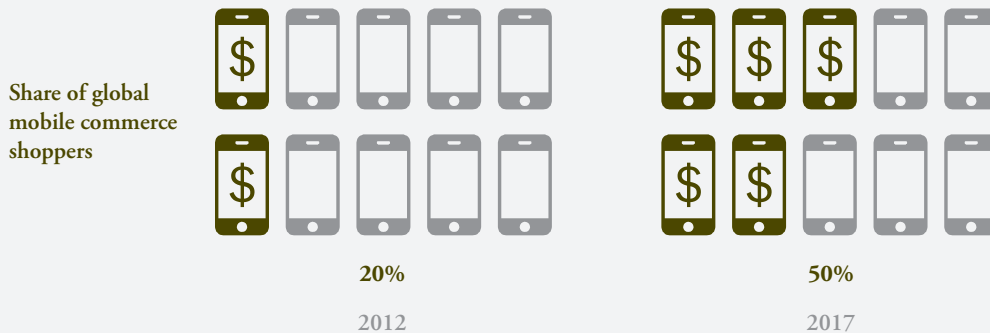


Figure 14: Mobile retail buyers as a percentage of mobile internet users
Source: Forrester Research Mobile Commerce Forecasts, 2012–2017

Mobile commerce: connected everywhere

Independent technology research company Forrester Research predicts that, by 2017, half of all smartphone users will also be mobile shoppers. This "mobile commerce" is a subcategory of e-commerce that is optimized for use on mobile devices. As mobile commerce solutions deepen their market penetration, a brand new sales channel is enabling companies to compete with traditional sales and conventional e-commerce solutions. Mobile commerce will not only impact on customers' purchasing behavior, but will also give rise to all kinds of new solutions, such as mobile marketing and mobile payment solutions. However, many companies are not yet prepared to maximize the benefits of mobile applications. According to market experts, only one in four companies has so far optimized its online sales environment for mobile devices. Ever more demanding customers expect companies to have a mature sales platform on all available channels. Similarly, the customer experience is becoming increasingly important to each purchase decision, with customers less and less willing to tolerate synchronization issues between mobile, online and offline sales channels. Omni-channel shopping is thus becoming the norm, as more and more customers

want to use channels seamlessly. Companies that are not present in all these channels and fail to combine online and offline sales in a manner that delivers a superior customer experience are likely to lose business. Interestingly, in many emerging countries, people are skipping fixed broadband connections altogether and opting straight for mobile connectedness. In Indonesia, the world's fourth largest cellphone market, eleven million fixed lines stand against 180 million feature phones. Companies that do not service the mobile commerce channel will therefore miss out on large swathes of the consumer base.

The success code

In early 2013, DKSH Performance Materials (PM) introduced a user-friendly, utility-oriented app for Apple smartphones and tablet devices. The tool was designed to deliver industry news in real time, provide a location finder and fact sheet for every DKSH PM location worldwide and support travelers to and in Asia with utilities such as a translation tool and an event planner. The app was developed, coded, tested, approved and launched by DKSH in less than six months. Backed by a focused awareness campaign, it has been a huge success in terms of the number of downloads.

Smart infrastructures: the digital world

The advancement of smart infrastructure technology opens up exciting opportunities for consumers and companies alike. Smart infrastructures improve the speed, safety and efficiency of the ways people live, work and do business. 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).

Smart infrastructures comprise any technology that makes business processes more efficient through automation, connectivity and decision-making based on collected information. Smart infrastructure applications can be found in a variety of industries: Retail companies use them to manage stock and optimize distribution while also enabling real-time ordering. Pharmaceutical companies track the incidence of diseases through a system that links them to local doctors and hospitals in order to provide the right amount of sensitive drugs in the right locations at the right time. Communications companies are currently working on multimode networks – a barrier-free combination of Wi-Fi and cellular systems – to improve network coverage.

Many companies have understood the vast potential afforded by cloud computing, which is essentially the virtualization of computer resources and systems – and is the newest form of IT outsourcing. Cloud computing lets companies purchase IT hardware and software as a service rather than a physical, on-site solution. This in turn lets them slash their investments in IT infrastructures and flexibly adjust demand in line with changing requirements. There is much more to the concept than the potential to reduce infrastructure costs, however: It can also "virtualize" collaboration between the people in an organization, allowing them to share information in real time and improve working efficiencies.

Monetary transaction systems are another form of smart infrastructure. Many start-ups have invested in building solutions that enable credit card payments by combining mobile devices with credit card dongles. Other solutions

provide a more secure or convenient way for companies and customers to finalize transactions.

China Unicom – reaching for the clouds

The race for a share of the global cloud market has so far been dominated by Western technology giants such as Oracle, SAP, Amazon and Apple. China's state-owned telecommunications company, China Unicom, has now launched a full-service cloud computing and big data service offering under the Wo-Cloud brand. Wo-Cloud will focus on Infrastructure-as-a-Service (IaaS) and Platform-as-a-Service (PaaS) products. China offers substantial opportunities and is expected to become one of the major cloud markets over the next few years.

Exponential data growth in all areas leads to information overload

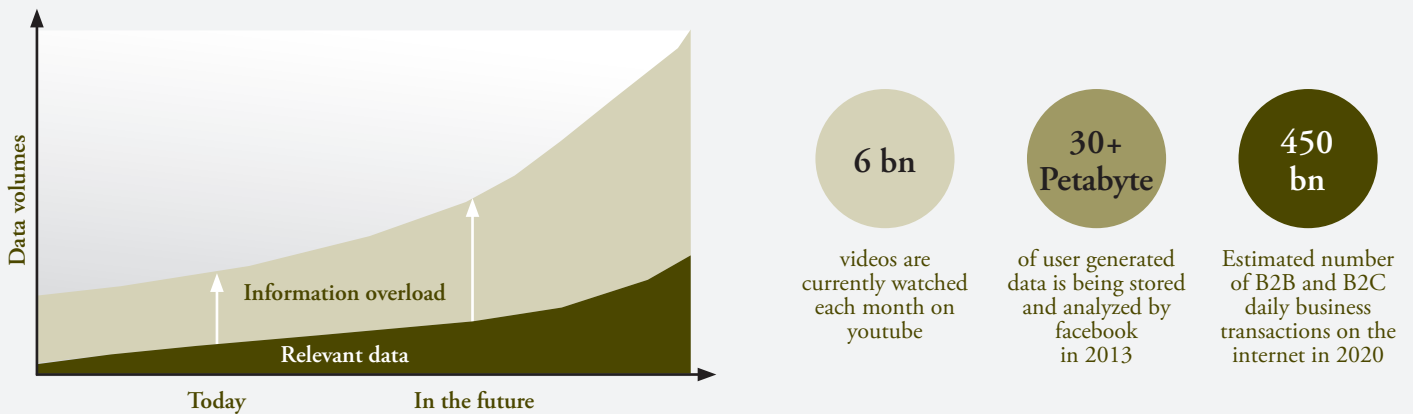


Figure 15: Development of data volumes

Source: Roland Berger Strategy Consultants analysis

Business intelligence: predicting behavior

In a world where markets are becoming increasingly transparent – thanks to the emergence of price comparison websites, customer review features and smart search engine algorithms, for example – understanding the customer becomes ever more crucial to business success. A range of new technologies now allows customer data to be collected, processed and analyzed more efficiently and at lower cost. At the same time, consumers are increasingly getting used to sharing information, seeing customized advertising and receiving personalized offers. The copious data volumes collected in the process often exceed the capabilities of commonly used software. Companies are therefore advised to invest in tools that can manage and process such data within a reasonable time frame and at affordable cost. Examples include analytical software and predictive models, whose effective and smart analysis of the data reveals dependencies and new insights. These insights in turn enable a company to identify new revenue potentials (by increasing their share-of-wallet or improving customer loyalty) and/or cost saving opportunities (by reducing marketing expenditure).

Aware of its associations with massive data volumes, frantic velocities and huge varieties, many companies are wary of the perceived complexity and resource-intensive nature of big data and business intelligence. And there is indeed a real danger that companies could be overloaded with irrelevant data and spend most of their resources and time on the wrong analysis. Data is often collected from a variety of different sources, which makes comparison difficult and can leave data analysis unstructured. On the other hand, if they want to remain competitive and meet the exacting demands of international customers, companies must at some point come to terms with advanced business intelligence from big data, either by investing in new technology themselves or by outsourcing the entire process of collection, analysis and interpretation of customer and market data to third-party providers.

Metro Group – eating healthily thanks to historic information

Metro Group, the global cash-and-carry group, introduced a digital shopping list in 2009. Optimized for mobile devices, the list provides customers with individual dietary plans and suggests products for purchase based on detailed analysis of previous purchases. At the same time, analysis of sales receipts allows Metro to make precise predictions about future demand for individual products.

"Data is becoming the new raw material in business."

.....

Rollin Ford, Executive Vice President, Walmart

Strong growth of digitization in emerging markets

The impact of digitization differs depending on the developmental stage of the economy in which a company operates. Emerging markets stand to make significant employment gains from digitization, but will reap fewer rewards in terms of output and productivity. In developed economies, digitization adds more to GDP growth than it does to employment. The rapid adoption of new digital technology in emerging markets is evident in global connectivity trends such as mobile phone penetration, access to the internet and network expansion. The latest statistics from the International Telecommunication Union (ITU) estimate that there are about 5.3 billion mobile subscribers in the world, of whom roughly 73% (3.8 billion) are in the developing countries. China and India are fueling most of the growth, having added 300 million new mobile users in 2010 alone – a figure larger than the entire mobile subscription base of the USA. The number of web users currently stands at 642 million in the BRIC nations, compared with only 409 million in the four top developed economies (the USA, Japan, Germany and France).

Euromonitor forecasts that, as of 2018, consumers in the Asia Pacific region will spend USD 500 billion on online

retailing, roughly 8% of the region's entire retail market. This figure singles out Asia Pacific as the region with the busiest e-commerce activities and transactions in the world. In China, e-commerce has become very popular and is growing at a tremendous pace. China's biggest online retailer announced sales of USD 5.75 billion on Singles' Day, two and a half times more than online sales on the equivalent occasion known as Cyber Monday in the USA. The leading product categories are apparel and accessories, electronics and books. As highlighted in figure 16, the share of online retailing is growing strongly, albeit from what is still a very low baseline. In terms of volume, traditional retail will remain the dominant form of shopping, especially in emerging markets.

On the other hand, companies in developed markets still find themselves hampered by legacy systems in the shape of physical networks, software, and support and maintenance contracts. Emerging economies can often bypass these aging technologies and advance directly to new, innovative systems. Additionally, companies in emerging markets appear more willing than their counterparts in industrialized nations to adapt to disruptive digital technologies. They generally show a greater willingness to change established business practices, try new technologies and take greater risks.

Share of online retailing is growing from a low base

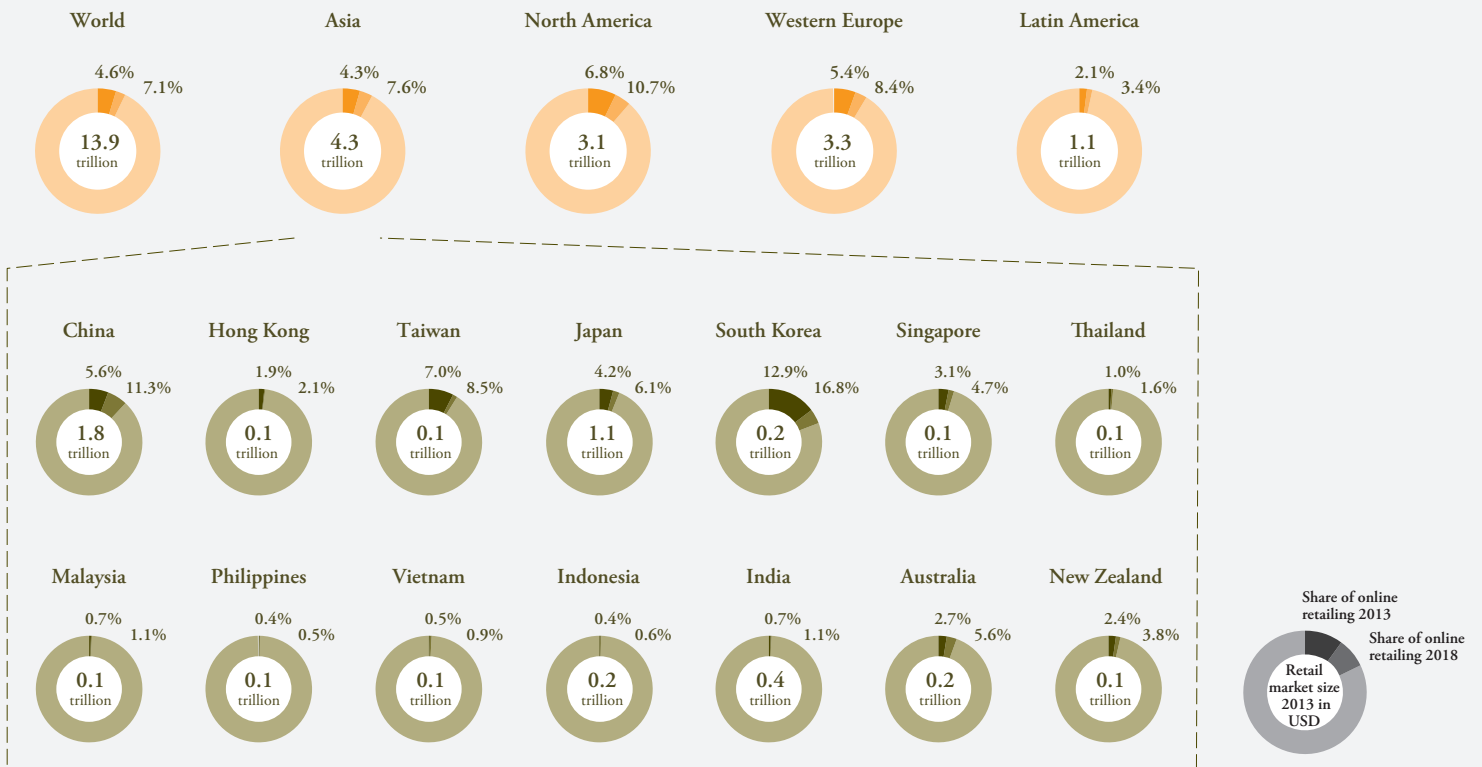


Figure 16: Share of online retail as of total retail

Sources: Euromonitor

The developments taking place in emerging and developed countries could potentially lead to two different outcomes: In one scenario, emerging countries would close the gap on developed countries and then stabilize at around the same level. The current fast pace of digital development in emerging countries would in the future slow down as it approached the level of developed countries. In a second scenario, emerging nations could surpass developed countries as digitization is advancing much more dynamically in these regions. In this scenario, emerging countries would lay a firmer foundation for the years ahead, as they are not encumbered by legacy systems and are more willing to adapt to new, innovative technologies. Developed countries, however, have already missed out on the opportunity to invest early in new technology.

Experts suggest that a combination of both scenarios is the most likely outcome. As emerging markets outstrip the developed markets in terms of digitization, the developed countries would come under increasing pressure to remain competitive, and would therefore have to invest heavily to regain their dominant position.

MES as an enabler for digital opportunities

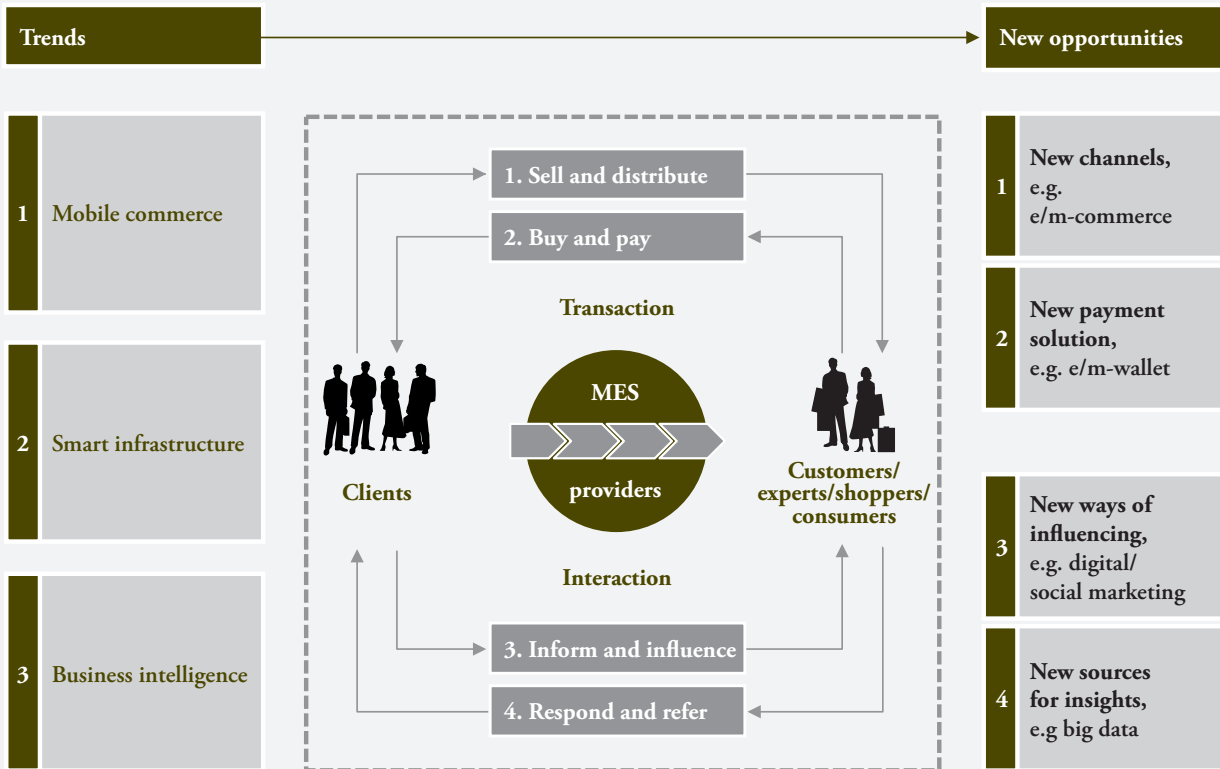


Figure 17: Digital MES framework

Digital opportunities – improving the way business is done

The digital megatrend and the opportunities associated with it have implications for many business sectors and processes. Interaction between companies and customers is becoming increasingly important, and digitization is reshaping the way in which it is handled, opening up new opportunities for marketing, advertising and customer influence. The change in interaction is, however, not limited to company-customer interaction alone, but also includes communication with all of a company's stakeholders.

At the same time, digitization is also reshaping the way business transactions are conducted. New technology is

giving rise to new sales processes and new sales channels. Companies are aiming to offer their customers a superior shopping experience and expand their customer base in online and offline channels. New payment solutions are even enabling customers in remote locations to engage in business transaction in the first place.

Market expansion services providers are positioned all along the value chain between clients and customers. This position allows them to fully exploit the potential of digitization on both the interaction and business transaction sides. Their integrated approach also allows them to combine both perspectives and realize synergies and efficiencies at every link in the value chain.

New sales channels

For most consumers, traditional offline retail stores and outlets are still the most important places to shop. Online and mobile shopping is, however, rapidly gaining in significance. Online sales channels are add-on engagement points that let customers make purchases while also increasing convenience. However, not all product categories are equally popular among online shoppers. According to eMarketer, computer and consumer electronics combine with apparel and accessories in making up nearly 50% of e-commerce sales in the mature USA market. Conversely, food and beverages, healthcare and personal care products, and bulky categories such as furniture command disproportionately low online sales. A similar pattern can be seen on the Chinese market: The most popular categories here are apparel, footwear and bags, electronics, cosmetics and personal care products, which, according to the China-Britain Business Council, together account for approximately 55% of total B2C e-commerce sales.

Companies can enter the online world at relatively low cost and offer their products to a worldwide customer pool. To stand out from the crowd of online shopping opportunities, companies must create a superior shopping experience for their customers. The customer interface, for example, must be adapted to the local needs and cultural idiosyncrasies of a country in order to make shopping on the website attractive to customers. In China, websites are generally packed with vibrant red or yellow colors, whereas simplicity is the dominant design rule in Western markets.

The greatest revenue effect can be achieved by a smart combination of online and offline sales. An omni-channel sales strategy gives customers a wider choice of ways to buy products. As they become increasingly demanding, however, customers expect the same quality of service whichever channel they choose. Synchronizing all available sales channels to offer the client a superior sales experience is therefore a key success factor in digital sales strategies.

Famous Amos – going online with chocolate chips

Famous Amos, the freshly baked chocolate chip cookie brand, has around 90 retail outlets at shopping malls and airports around Malaysia and an online shop on its website in Malaysia to effectively penetrate the market via all channels. Customers can purchase goods and also have them delivered to gift recipients nationwide. The company's digital sales effort is backed by a very strong social media presence, with over 7,000 followers on Facebook. Famous Amos leverages this channel to engage with customers through Facebook promotions, contests, trivia and games.

New payment solutions and shopping procedures

The order-and-pay process is undergoing a similar transition as e-commerce and mobile commerce grow in popularity. Customers who shop via online stores or by smartphone tend to be reluctant to make wire transfers or type in their credit card information. The entire shopping process is thus becoming a one-click solution, where a customer can buy a product without any additional effort. Ideally, the customer data, shipping information and payment instructions will already be stored in a smart payment solution such as an e-wallet or data safe (e.g. Google Wallet, Apple's Passbook, Square Wallet, etc.). Customers should have to negotiate as few hurdles as possible that could potentially abort the purchasing process. The existence of many different online payment providers presents companies with additional challenges: They have to find the right combination of payment partners to keep fixed costs down, but they also have to leave their customers the flexibility to choose their preferred partners.

New payment technology can also facilitate offline business transaction in less developed countries. People in India and Africa are used to paying their bills by smartphone, and dongles allow merchants to accept credit card payments without the need for a physical infrastructure. In Thailand, customers can select the "cash via counter" option for online purchases. This lets them print an invoice with a QR code and pay the online bill in cash at a local 7-11 or Tesco Lotus store. New payment technologies can thus help overcome barriers to purchase such as customers' lack of trust in online payment systems or a country's low credit card penetration. Accordingly, companies must adapt their payment systems to local practices and standards in each country to allow a broad range of customers to complete business transactions easily and conveniently.

New ways of influencing and informing clients and consumers

Every day, more customers are turning to interactive shopping websites, registering on social platforms and downloading mobile apps. Digital technology creates new ways to influence, inform and understand customers, and the number of touchpoints enabling companies to interact with their customers has increased significantly. Social media and digital marketing can be efficient ways to reach and activate a large customer base in a short space of time. The customer experience and brand can be improved by an appealing, interactive corporate website. And, both customer care and after sales are enhanced by online manuals, help corners and live support.

Overall, marketing efforts can be customized, personalized and targeted more efficiently to the relevant customer groups. This improves the return on marketing and makes it more transparent.

CH Healthy Family

DKSH launched its chhealthfamily.com platform to combine all brand and product information for its consumer health products in China on a single website. At the same time, the site boasts a direct link to T-Mall, the B2C e-commerce platform operated by Alibaba for quality, brand-name products for customers in China. Interaction with consumers and brand awareness is flanked by digital campaigns and promotional activities on social media platforms such as Weibo. Access to Alipay gives customers a safe and efficient way to pay their invoices. Consolidating activities on a single platform has led to increased sales, greater brand exposure and improved customer service.

New sources for customer and market insights

A few years ago, companies collected data primarily in the course of their daily business transactions, using the data to monitor operations and provide management with sales forecasts. Thanks to digitization, the possibilities of collecting and exploiting customer-generated data have exploded.

Digital sales channels, social media platforms and smart customer devices provide a multitude of detailed data points in the form of website behavior, social media posts and search queries. It is possible to follow a customer's every click on a company's website and summarize the conversations people have about a product or a brand on social media platforms around the world. Intelligent analytical tools enable what is often unstructured data to be processed, analyzed and filtered effectively and cost-efficiently. Armed with the resultant information and insights, companies are able to make fact-based decisions, improve their product offerings, streamline their marketing efforts and adjust their brand strategy. Companies use customers' purchasing history and individual preferences to make predictions, segment markets and target them on a far more granular level.

Digitization – a game-changer?

The opportunities arising from digital trends are not free from certain challenges, however. Some of these match the risks and challenges already familiar from traditional business processes, such as the need for a profound understanding of local markets and the availability of a local warehouse and capillary distribution network. Other risks and challenges have emerged with digitization itself – one prime example being the sensitive issue of ensuring customer data privacy while screening customer behavior as closely as possible. Successful companies must anticipate these risks and manage them accordingly.

Accessing consumers via different channels

While different channels make it easier for companies to reach out to new and existing customers and shoppers, it has become more difficult to manage them efficiently. The combination of different channels and the level of customization required for each country and channel add to the complexity of digital marketing. Additionally,

customers and shoppers have become more value-driven and price-sensitive, as they now have more choices and market transparency is improving. Shoppers share their opinions on products, write reviews or blogs and talk to friends about their favorite brands. Advertising campaigns may be praised or ridiculed by the community; rumors spread within seconds.

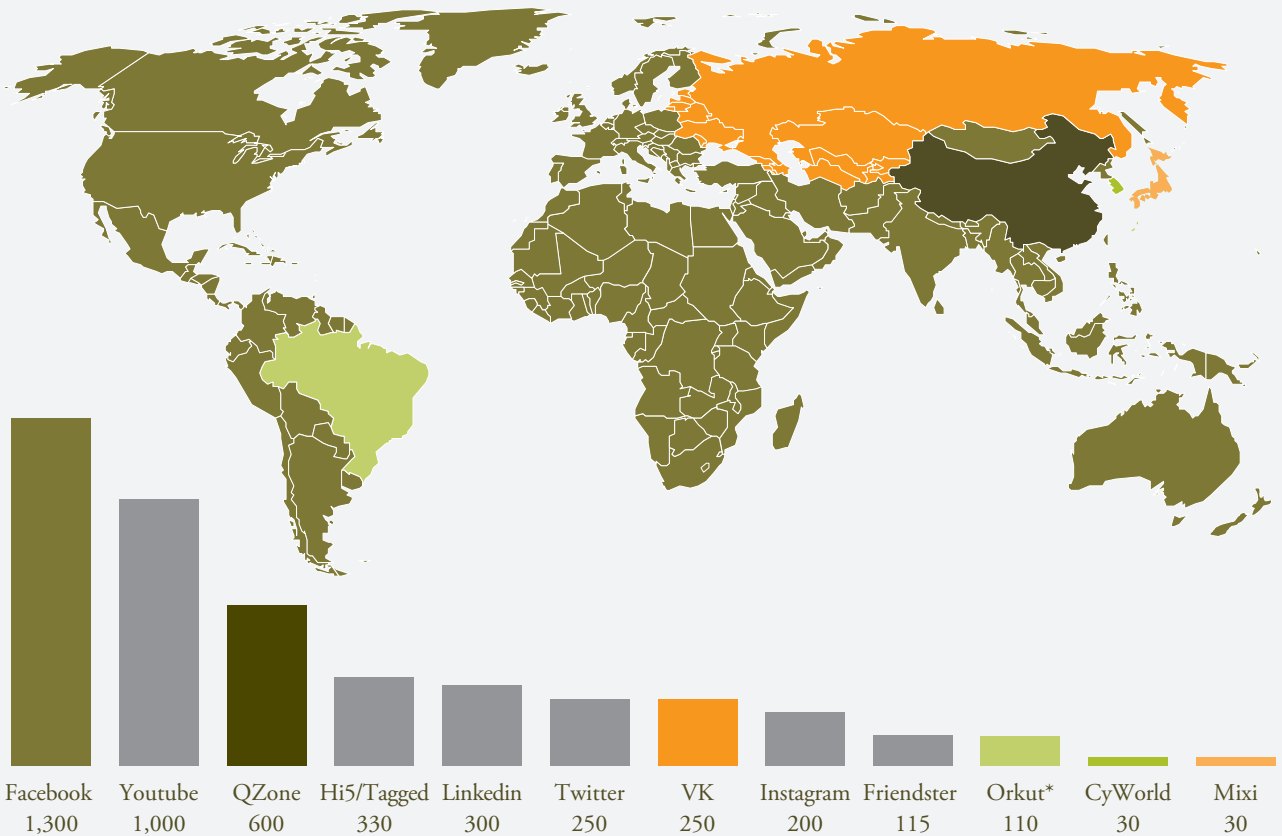
The biggest risks face inexperienced companies that fail to grasp how their behavior can have a negative impact and that do not know how best to combine different channels. Companies must also be aware of the risk that digital marketing can potentially damage their brand or reputation and manage this risk accordingly – preferably with the advice of an experienced expert.

It is also true that neither digital nor traditional communication can today be viewed in isolation. To guarantee a modern customer experience and cutting-edge interaction, communication via online and offline channels must be combined in an omni-channel communication strategy. This adds to the complexity for companies, as both forms must be aligned and harmonized with each another, but enhance customers' positive perceptions.

Social media networks are used differently around the world; many platforms have deep regional roots. Networks such as VKontakte in Russia, QZone in China, Orkut in Brazil and Cyworld in South Korea enjoy huge popularity and are often regarded more highly than global, USA-born networks such as Facebook, Twitter or LinkedIn. And even these international networks are used differently in different countries. Chinese users, for example, are three times more likely than their American counterparts to make purchase decisions based on user-generated content on social media platforms. In Japan and South Korea, the most efficient way to reach customers is via social media games or events. Companies should actively engage in those local networks in order to engage with customers and build better brand loyalty. Other formerly popular networks, such as Myspace, Ping and Friendster, have sunk into oblivion.

The opportunities created by digital marketing and customer interaction in no way imply that companies should divert attention from traditional activities that

Popularity of social media platforms varies around the world



* Planned to be shut down on September 30, 2014

Figure 18: The world of social platforms (in million users; color indicates prevailing platform in each country)

Sources: Company websites, Roland Berger Strategy Consultants analysis

have proven successful in the past. Depending on the targeted customers, their digital readiness and their cultural habits, traditional marketing via television or direct mailing may still prove to be the most effective option. Companies should also remember that the customer journey passes through various channels, and that there are multiple touchpoints in an omni-channel environment. To follow and engage customers on their journey, companies must combine interaction and communication across both the digital and traditional channels. Accordingly, they must aspire to a tailored combination of both online and offline communication.

"I see (businesses) saying, 'Let's talk to people on Twitter or let's have a Facebook page or let's advertise.' And these are good first steps but they are nowhere close to a social strategy."

Mikolaj Jan Piskorski, Social Media Expert,
Harvard Business School

Generating insights with data analysis while ensuring data security

The use of new technology, customers' permanent connectedness and improved data collection tools and analytical software provide companies with many and varied opportunities. They are in a position to collect, analyze and make use of massive amounts of customer and market data. However, companies also run the risk of being overwhelmed by a flood of irrelevant, non-compelling data that leaves them unable to identify and extract genuinely valuable insights and dependencies. Nor do they have the right capabilities for result-driven analysis in many cases. At the same time, the technological landscape is evolving extremely rapidly and investment in a powerful IT infrastructure is a continuous process. One good way for companies to mitigate the risks and costs of data analytics is therefore to cooperate with a capable partner.

Collecting and using customer data also presents a new ethical challenge, as companies must strive to preserve individual privacy and ensure data protection. Building and maintaining a level of trust between customers and companies is becoming increasingly important. Yet beyond the issue of trust, companies today also have to contend with privacy laws, regulations and standards that vary from country to country. For example, it may not even be possible to transfer non-anonymized customer data from a subsidiary in one country to the company's headquarters in another country. Such local differences add further complexity and expense to the use and analysis of customer data.

Digital opportunities must be fulfilled

To make use of the opportunities arising from digitization, companies need access to a broad spectrum of technology. This can range from building web customer interfaces, online stores and smartphone apps to setting up data centers, server parks and analytical software. Smart payment solutions must be integrated in existing transaction processes, and successfully combining online and offline retail channels requires a knowledge of the local market. Also, companies that want to keep up with ever more demanding service standards have no alternative to maintaining a strong, local fulfilment and distribution infrastructure to safeguard product availability and timely delivery. Back-end fulfilment thus becomes more important than ever.

For smaller and bigger companies alike, the cost of investing in both technology and a local capillary distribution network can be challenging. In many cases, the risks and sheer complexity of such a global undertaking are enough to discourage many companies. On the other hand, companies that conquer markets solely via online channels certainly need a local distribution partner.

Summary

Digitization is the vital driving force of the 21st century and is moving up the agenda on companies' list of business priorities. The megatrends associated with digitization open up opportunities for growth and efficiency gains. Disruptive innovations are often superior to the solutions that are already available. They have the potential to change established business processes or products. Three key digitization trends – mobile commerce, business intelligence and smart infrastructures – will have an immediate and powerful impact on companies within the next five years. These trends will affect the ways business transactions are conducted and how companies interact with their suppliers, customers and other stakeholders. Opportunities for companies mainly come in the form of new communication, interaction and sales channels, access and analysis to market data and intelligence, and innovative models to rejuvenate the sales process.

Though aware of the opportunities associated with digitization, many companies do not have the resources to leverage this potential by themselves. They often lack the expertise necessary to build superior services, combine online and offline sales efficiently and cope with the burden of relentless investment. Moreover, if they want to deliver a modern customer experience and interaction, they would also have to combine communication and sales via online and offline channels in a coherent omni-channel strategy. Particularly in markets outside their home turf, companies require an in-depth knowledge of local preferences, customs and culture in order to successfully implement a digital strategy. And even then, a pure digital strategy for market expansion rarely succeeds, as local distribution and fulfillment is required to satisfy customer demands. For all these reasons, companies are increasingly turning to experienced partners who can tap the potential afforded by digitization more effectively – partners who are well able to combine digital and traditional forms of market expansion and development.

C. DIGITAL MES – SUPPORTING COMPANIES IN CAPTURING THE POTENTIAL OF DIGITIZATION

Companies with four distinct digital profiles

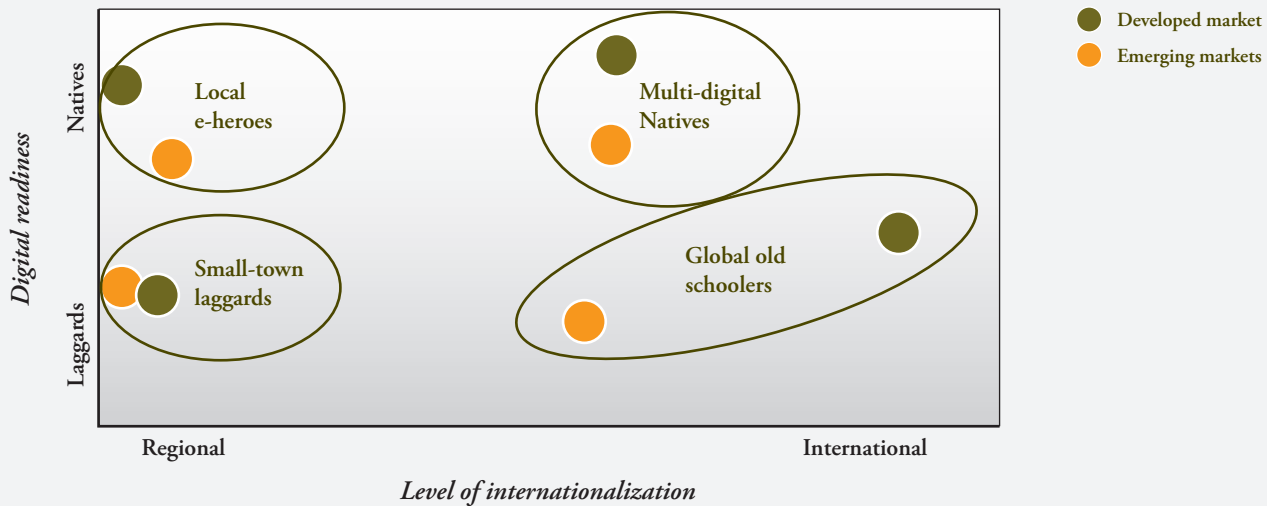


Figure 19: Types of digital companies
Source: Survey data

Companies in Western markets and Asia see digitization as a key future megatrend that will have a significant impact on their current business development and future strategic decisions. The degree to which companies are ready to adapt towards digitization and implement new technology can thereby vary substantially. Some companies see opportunities in digitization for entering new markets or reaching out to new customer segments, while others hope to streamline their operations in their existing markets. A third type of company mainly feels threatened by the speed of technological change and the competition arising from it. Geographical reach further adds to the different perception and strategic relevance of digitization within a company.

Hence, the readiness, confidence levels and needs of companies intending to utilize digitization as a means of growing or improving their current business can be diverse. Four types of companies were identified which share similar characteristics in terms of digital maturity and strategic priorities. These are referred to as multi-digital natives, global old schoolers, small town laggards and local e-heroes.

Multi-digital natives

Multi-digital natives are companies with global operations and an extensive market reach. These types of companies have been building up their foreign operations from the beginning of the globalization era and are present in all major international markets. They have either expanded with their own, strong brand (e.g. Gillette or LMVH) or have acquired competitors with a strong foothold in local markets (e.g. Nestlé). Given their size and multi-country operations, they were confronted with the strategic question of digitization early on and part of their growth was initially enabled through digitization. While multi-digital natives have in the past invested heavily in digitization to ensure the global flow of information and enable international business transactions, their main focus now is on improving the customer-company interaction and rendering digital operations as efficient and effective as possible.

Local e-heroes

Local e-heroes have a strong regional focus and are very advanced in terms of digitization. As they already have a strong foothold in their regional markets they

Strategic incentives of digitization

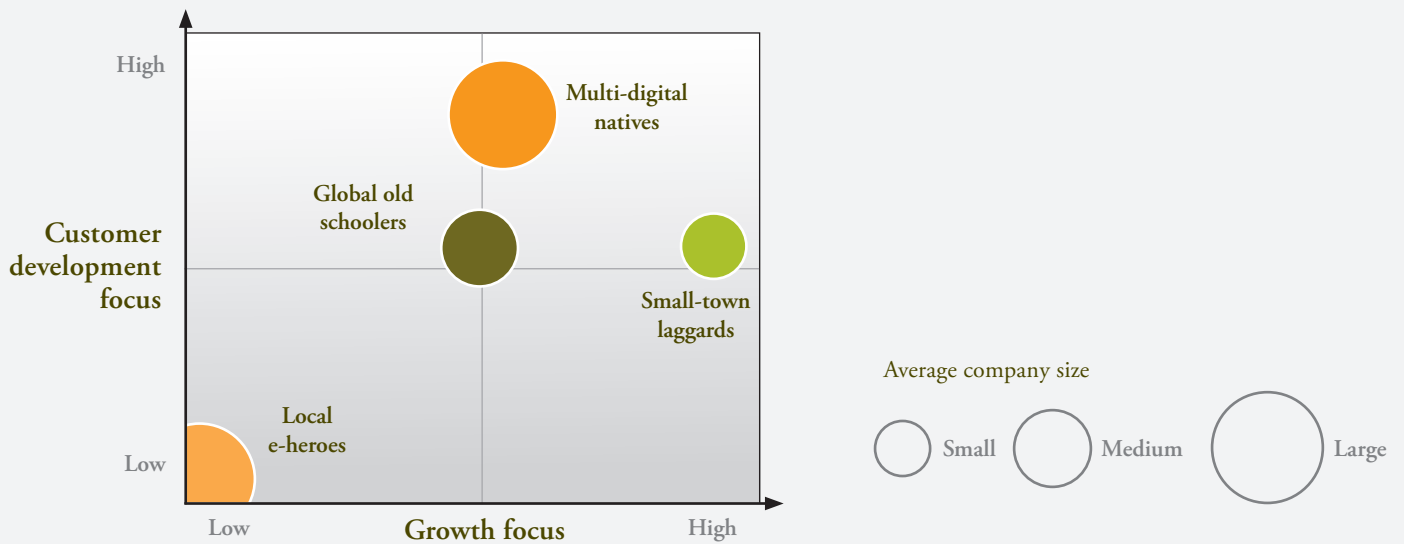


Figure 20: Strategic focus of digital market player
Source: Survey data

focus primarily on reducing operating costs, becoming more efficient in terms of digitization and making their operations lean. They are less eager to grow internationally but intend to increase their regional market share and maintain their strong market position. Local e-heroes are willing to adapt to new, innovative technologies or services as long as these prove to be more efficient. Their digital knowledge level is very high and accordingly they are looking for specialized partners.

Global old schoolers

In contrast to local e-heroes, global old schoolers focus on growing internationally but have lost sight of the latest technologies and opportunities arising from digital trends. As their operations have grown profitably in the past, they had no particular interest in dealing with opportunities arising from digitization. With fiercer market environments and stronger competition, global old schoolers are increasingly considering digitization as a means of boosting their sales and improving their customer relationships. This type of company is prepared to invest amounts into digitization of their business model to catch up with their key competitors.

"Yet we do not have the internal structures to push digitization actively but we have recognized the need to deal with the topic to remain competitive."

General Manager, mid-sized global consumer goods brand

Growing from digital laggards to natives

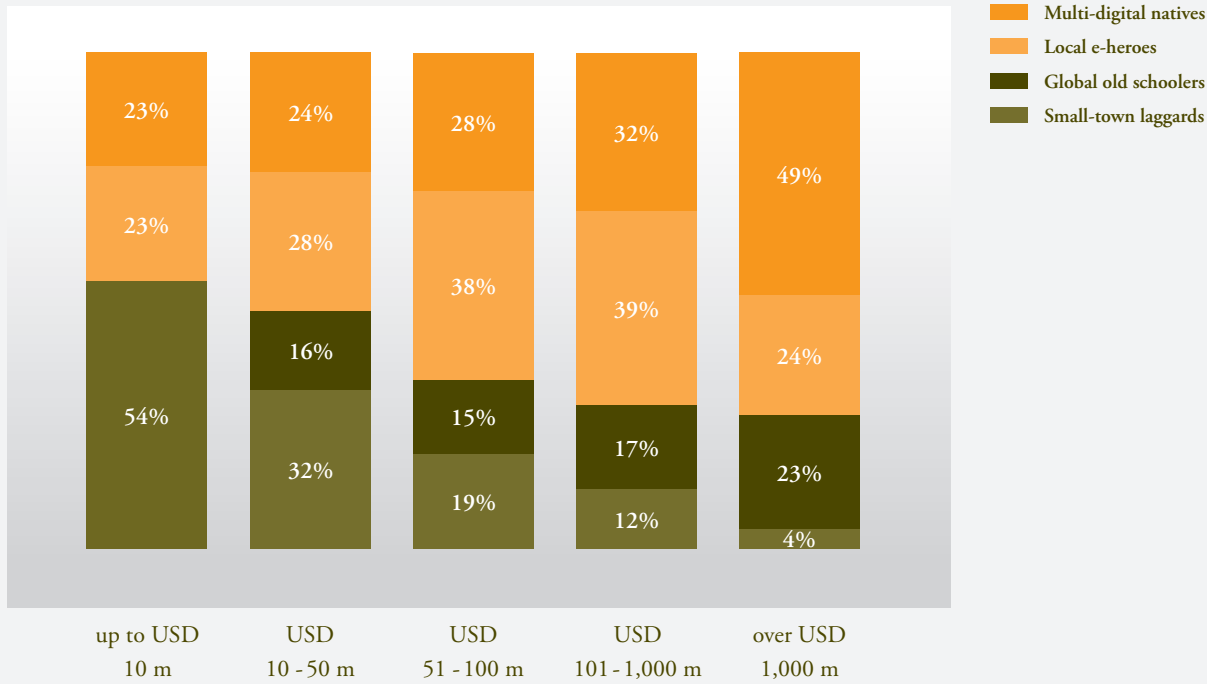


Figure 21: Prevalence of digital types by company size (% of total)
 Source: Survey data

Small-town laggards

A strong willingness to grow and international aspirations drive small-town laggards towards digitization. So far they have not shown a high affinity to digital trends or technology but as they are reaching the growth limits of their traditional home markets, small-town laggards see opportunities in digital trends to increase their domestic market share even further or grow internationally in an efficient and reliable way. As they have been cautious in the past and are aware of the associated risks, they need to build up extensive knowledge and require the support of a capable partner.

In dealing with digital trends, companies pursue different strategies that correspond to their stage of digital readiness and corporate objectives. Multi-digital natives and local e-heroes for example demand sophisticated services and technology while global old schoolers or

small-town laggards have to be gradually introduced to the new opportunities.

Siemens – building on digitization

Siemens, the German engineering conglomerate, presented its overhaul strategy "Vision 2020" to the public in spring 2014. The key pillar of the strategy is to focus externally as well as internally on digitization. The focus of products and services for customers is on electrification, automation and digitization. Internally, the company enhances growth by gathering and generating data, analyzing content and drawing conclusions from it.

Size matters – digitization as a growth driver

Company size has a major impact on the general digital mindset, and strategic priorities shift as companies grow. The share of multi-digital natives and local e-heroes increases significantly as companies become larger. Three fundamental effects explain this development: as companies grow, business operations become more complex and less transparent. To maintain their efficiency levels, larger companies apply digital technology to control their operations, consolidate information and automate processes. Secondly, larger companies often reach growth limits in their existing markets and through their traditional channels as they expand. In order to keep their growth rates high, companies use digital sales channels to access new customer segments and boost sales through cross-selling opportunities. Digitization also requires a certain amount of upfront investment and maintenance costs in IT infrastructure, online customer interfaces or data mining solutions. On average, companies spend around 1% of revenues on IT costs. For smaller companies, IT related costs have a much larger impact on bottom-line profitability and are therefore kept to a minimum.

To summarize, as companies become larger, they eventually have to take digitization into account in order to stay competitive.

Leveraging the potential of digitization – a differentiated view

Regarding digitization, companies have different ideas about the opportunities it presents. Multi-digital natives see strong value in new technology to improve their customer relationships, obtain a better understanding of customer preferences and collect feedback to improve their service and product offering. They intend to continuously improve the interaction with their existing customers to strengthen their brand, improve the share-of-wallet and build up stronger loyalty. Local e-heroes perceive digitization as an opportunity to improve the efficiency of their operations in existing markets. Digital technology is applied to achieve a sophisticated understanding of markets, customers and products. They expect to improve their marketing and sales efforts through a granular breakdown of their markets while simultaneously eliminating inefficiencies.

While all four digital company types see the chance to boost sales through digitization, it clearly stands out for global old schoolers and old town laggards. Their primary motive for addressing digital trends is to increase sales and improve market share. Global old schoolers focus on developing new market segments through a strong interaction with their customers. Old town laggards see a possibility in digitization to enter new markets quickly and efficiently.

Finding the right approach to digital market expansion – a combination of traditional services and digital expertise

When companies decide to develop existing markets or expand into new markets through digitization, they are confronted with a variety of options. Depending on their digital readiness and capabilities they might be able to organically grow their digital operations or transfer their knowledge from home markets to foreign operations. This approach to digital market expansion is often unsuccessful as companies neglect to adjust their digital know-how to foreign markets, align their digital marketing efforts with local peculiarities and establish a physical presence in the market. Companies therefore rely on partners for these processes. Gaining access to new customers and improving market share through a capable partner can significantly accelerate digital market expansion and, at the same time, strengthen the competitive position.

Traditional partners such as exporters, licensors, joint ventures or logistics partners are one option for driving digital market expansion. These somewhat conservative approaches allow companies to gain fast access to foreign markets at reduced risk, without high investments in local infrastructure or analysis of local markets. With an export partner, companies often have to surrender control about how their products are being sold in foreign markets and are not able to tap into the full potential of those markets. Alternatively, companies make use of licensing or franchising agreements in order to target foreign markets more easily and without reduced investments. On the downside, those companies lose a substantial amount of control and depend on the partner in the longterm. Joint ventures are another common method.

Digitization offers opportunities for all types of companies

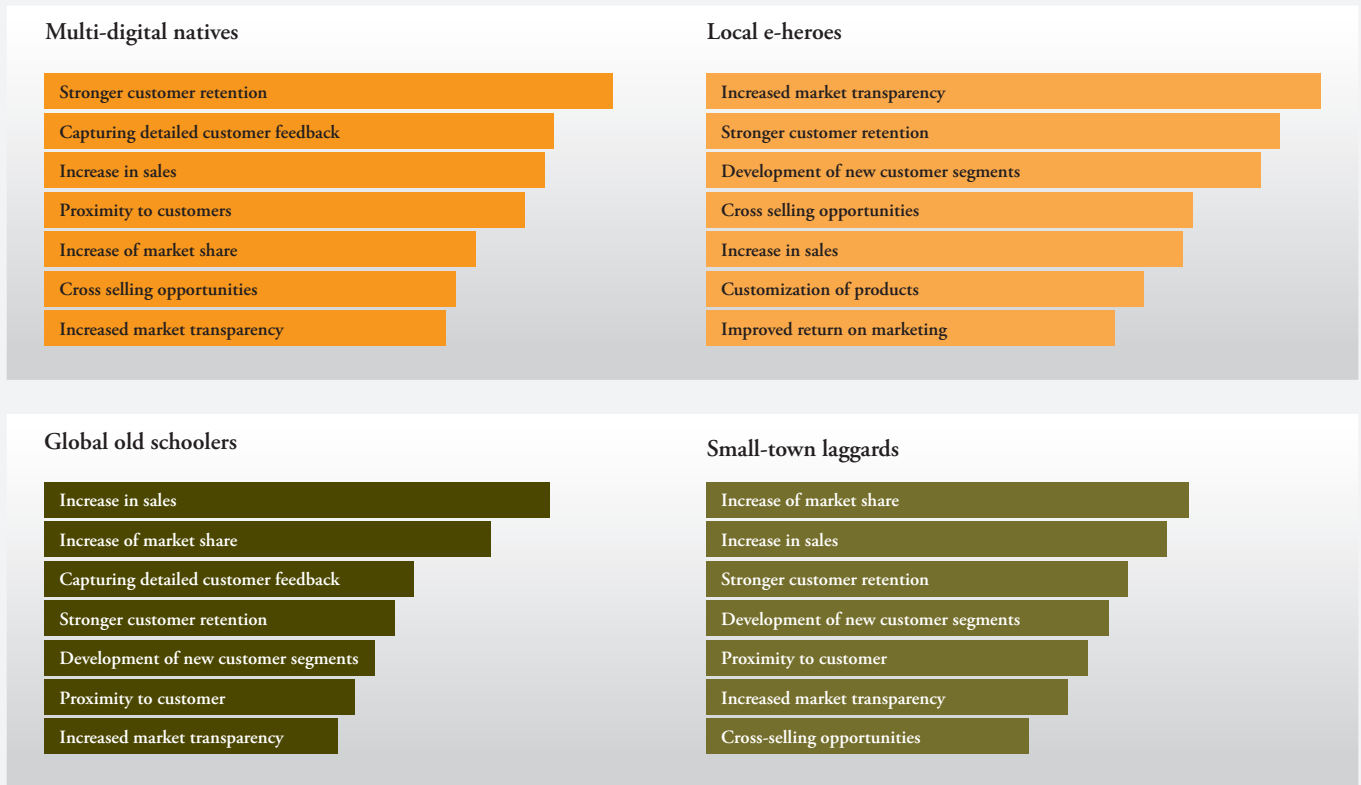


Figure 22: Opportunities by company type
Source: Survey data

This model allows companies to gain market access through strong local partners without establishing own subsidiaries. This model also reduces costs and brings efficiency gains but increases the complexity within the company and control is shared with the partner. These traditional partnership models seldom provide specialized experience or access to digital marketing, e-commerce platforms or innovative technology.

In the wake of the digital era new forms of partnerships have advanced. Digital specialists are companies that have specialized on a certain digital service or product including social media agencies or digital consulting firms. Digital specialists are very experienced within their specific field but normally operate locally. In most cases

they do not have the capabilities for delivering services to clients on an international scale. Other pure e-commerce players (e.g. Amazon, eBay or Alibaba) have built up strong international sales platforms where companies can sell their products at the cost of a share in their revenues. While established e-commerce platforms offer companies a quick and cost efficient approach to entering international markets, competition on these platforms can be fierce as entry barriers for competitors are similarly low. Companies also face the risk of becoming largely dependent of platforms that have a dominant market position. While digital specialists and pure e-commerce players do have very specialized digital know-how, they have a very narrow view of the entire value chain.

Companies expect local fulfillment capabilities for digital market expansion

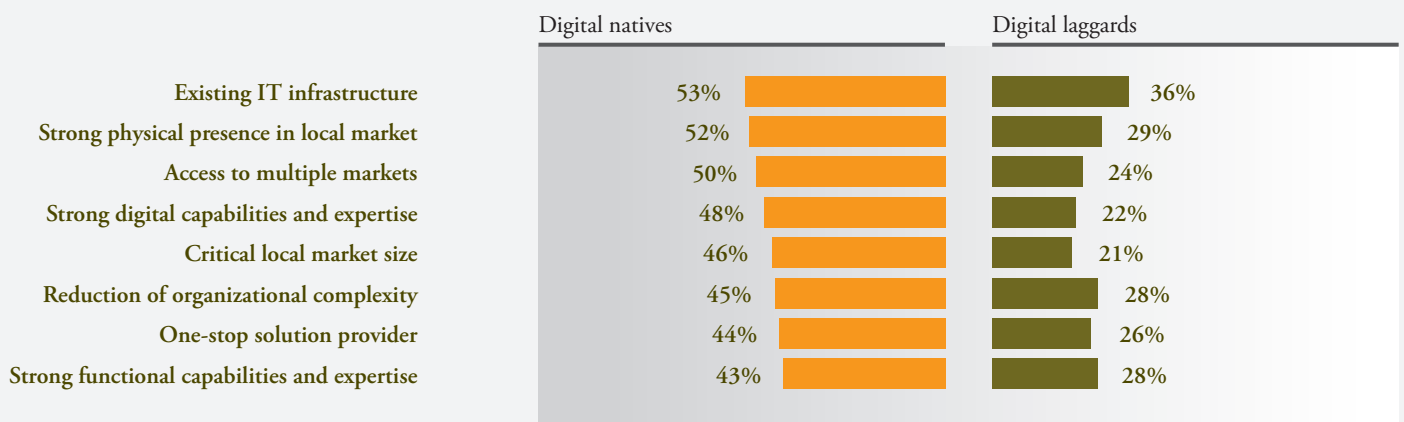


Figure 23: Expectations of companies towards partners
Source: Survey data

"We have reached our limits with traditional exports. In order to maintain the growth momentum in our foreign markets we have to think about alternative approaches."

Head of International Sales, European luxury goods brand

It comes as no surprise that a growing number of companies are looking for a partnership model that can fulfill traditional market expansion services and at the same time provide extensive knowledge about digital services along the entire value chain. Market expansion services providers are an increasingly popular solution as they offer the advantages of traditional partnership models such as quick market access, mitigation of risks and reduced upfront investment costs while at the same time leveraging untapped potential arising from digitization trends. MES providers reduce the cost and complexity for companies, increase sales and offer efficient and value-enhancing services along the entire primary value chain. Larger MES providers in particular have an international reach and provide companies with integrated solutions beyond their traditional regions.

Choosing a suitable partner for digitization

Companies often lack the resources, capabilities and expertise needed to enter new markets or develop existing ones through digitization by themselves and therefore often turn to partners. When selecting a partner to successfully drive digital market expansion, companies consider a number of internal and external factors and demand certain qualifications. They expect their partners to have both experience with digitization as well as market expansion.

In terms of digitization, the most important capability is the availability of a sophisticated IT infrastructure. Companies turn to partners in order to find a cost-effective way to digitize and are reluctant to build up their own data centers or purchase computer hardware and software. Expertise regarding digital sales channels, online marketing and automation of business processes is a must.

Companies entering or developing any market are currently faced with a variety of challenges along the value chain. These can include high complexity, market entry barriers and a lack of local expertise and infrastructure when interacting with customers. The importance of local knowledge of customers and familiarity with cultural peculiarities has increased and can be met by partners with a strong physical presence in local markets.

With increasing competition, complexity of business operations and uncertainties in the global economy, companies prefer to turn to partners who are able to handle several steps along the value chain and are big enough to realize cost savings through economies of scale.

Going forward with market expansion services – the prioritized choice for digitization

The different corporate objectives and digital mindsets of multi-digital natives, global old schoolers, local e-heroes and small-town laggards lead to differentiated market expansion strategies (see figure 24). Multi-digital natives are already advanced in the use of digital technology and monetization of digital sales trends and rely on partners who can deliver state-of-the-art digital services and innovative solutions. They accordingly turn to digital specialists to refine their existing portfolio, conduct selective improvements and strengthen their customer interaction. Global old schoolers and local e-heroes increasingly rely on market expansion services – for different reasons. MES providers are able to reduce a company's operating costs, boost efficiency and reduce complexity and thus can meet the ambitious targets of local e-heroes. At the same time, MES providers help clients to achieve sustainable growth and improve market share which plays into the hands of global old schoolers. Small-town laggards take a somewhat different approach. They also rely on market expansion services providers and digital specialist but prioritize logistics partners. They have a short-term perspective and pursue an aggressive growth strategy. For example, they can quickly build an international website and deliver their products internationally through a logistics provider. In the long run growth from this approach is limited as markets increasingly demand customization and adaptation of sales activities to local peculiarities. With a purely "sales and delivery" approach, small-town laggards will eventually miss out on leveraging the entire upside potential of digital market expansion.

Pure e-commerce players are not perceived as a primary model for digital market expansion. Despite their technological leadership and market dominance, pure e-commerce players only focus on a specific part of the value chain and do not offer an integrated approach of online and offline services demanded by many companies.

MES providers are highly valued as partners for digital market expansion

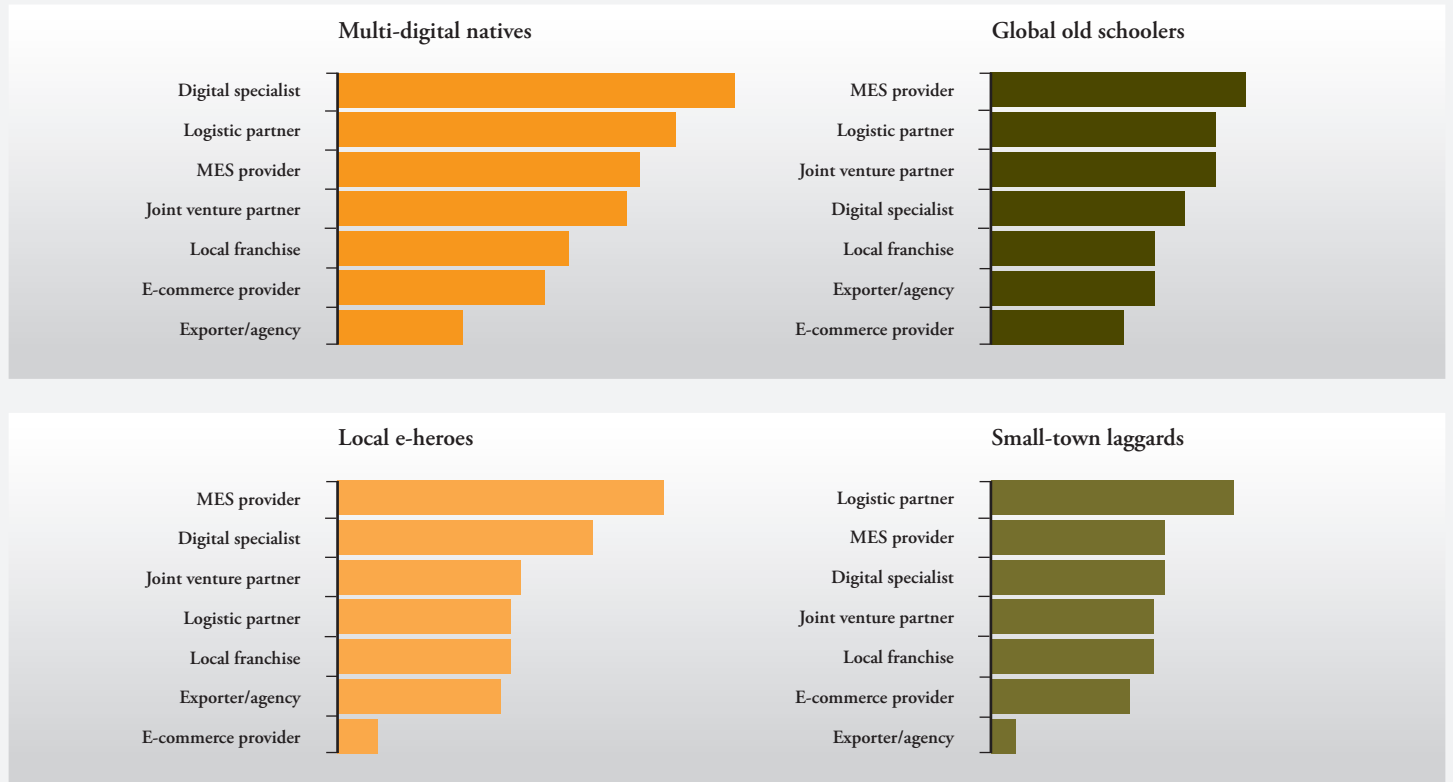


Figure 24: Qualification of partners for digital market expansion
Source: Survey data

Export partners on the other hand might serve as an instrument for companies to enter new markets quickly but are less suitable to drive digital strategies.

Companies following a digital market expansion strategy rely on partners who can deliver superior services in both digitization and market expansion. Naturally, market expansion services providers are best suited to fulfill this demand. With a local presence, they are aware of the peculiarities in the specific market and combine online and offline sales in an efficient and reliable way. MES providers offer companies an integrated approach and deliver services along the entire value chain; reducing complexity risks and costs. At the same time, MES

providers are prepared for the latest technological trends, thereby being able to provide clients with innovative services and solutions.

Balancing act of interaction and transaction competence

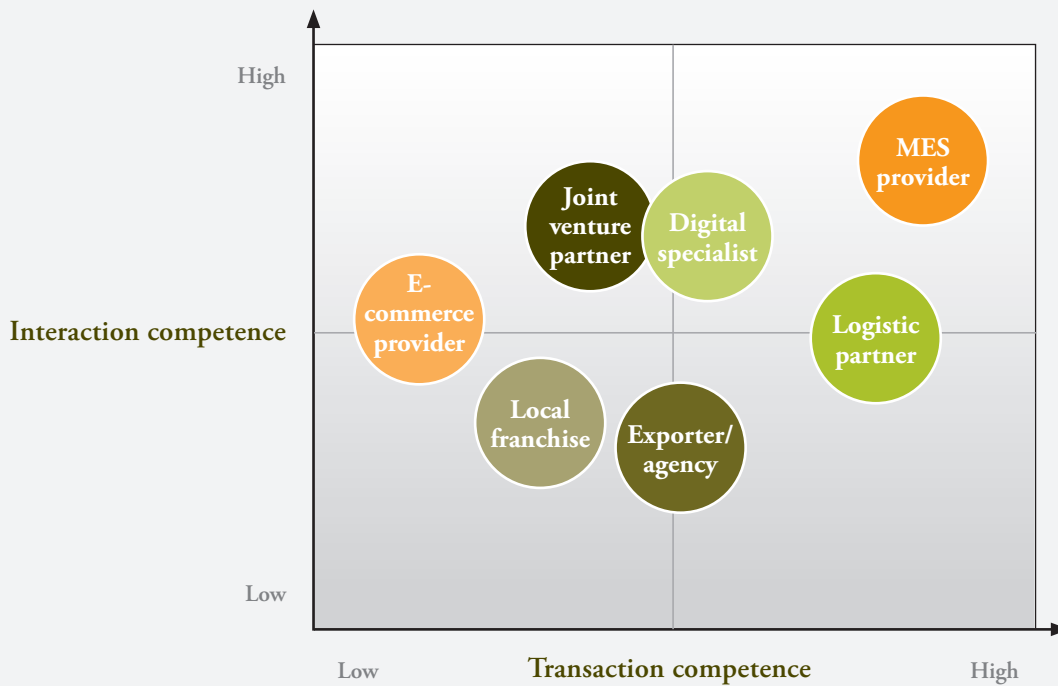


Figure 25: Clients' perception of service provider competence
Source: Survey data

MES succeed in the balancing act of transaction and interaction competence

To reduce complexity and costs, companies seek partners who can offer exceptional services along the entire value chain. An integrated approach includes enhancing the company's client and customer interaction as well as improving the business transaction processes. Potential partners for digital market expansion have their strength in different application areas. Logistics partners and exporters are rated as strong partners to drive foreign transaction processes but lack competence in improving customer interaction processes. By contrast, the strength of digital specialists is seen in enhancing customer relationships. Market expansion services providers manage to offer their clients superior services across both dimensions.

MES providers as preferred partners for taking advantage of new opportunities

The value of market expansion services providers in delivering superior services and driving digital market expansion is recognized by all types of companies. MES providers are well positioned to provide their clients with the best mix of market expansion and digital transformation services. 80% of the surveyed companies would consider an MES provider to drive their digital market expansion strategy. In our study we examined the reasons why companies choose market expansion services providers. The results vary for digitally advanced and digitally less-advanced types of companies.

One of the key advantages of MES providers is their physical presence in the markets. They have obtained specific market knowledge and compiled the skills to operate successfully in local markets. MES providers

Omni-channel approach – a seamless integration of all channels along the consumer experience

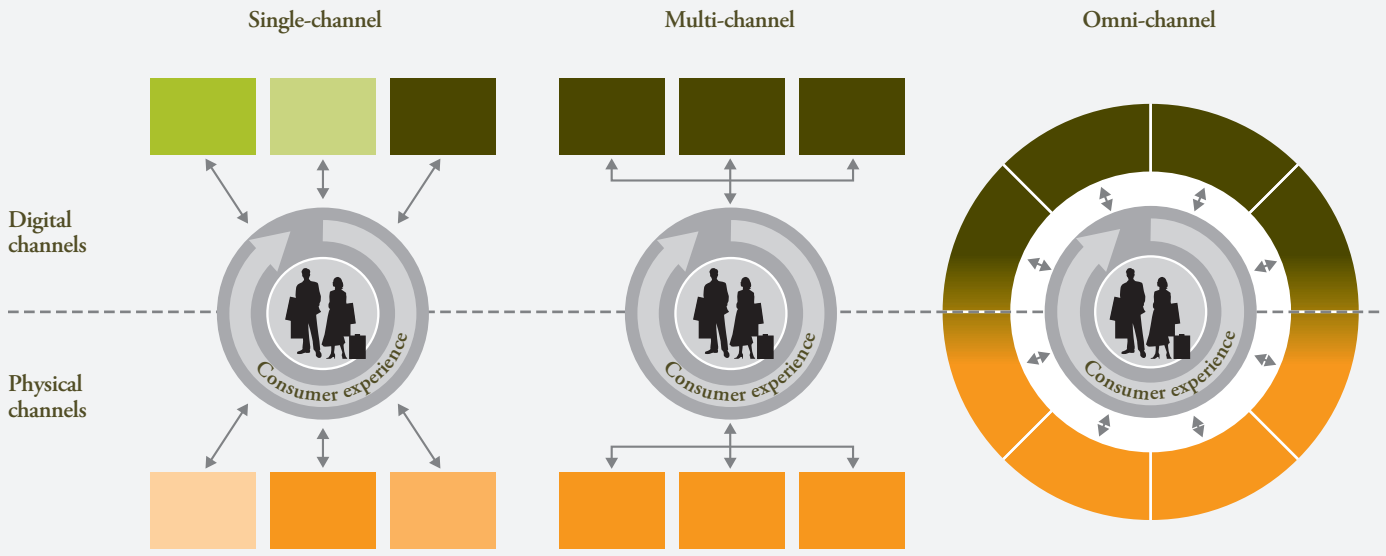


Figure 26: Channel management approaches

"Shifting budget into digital services is not about shifting everything online. Instead it is about merging the best of online and offline solutions."

Head of Marketing, South East Asian cloth manufacturer

Multi-channel access and proximity to customers

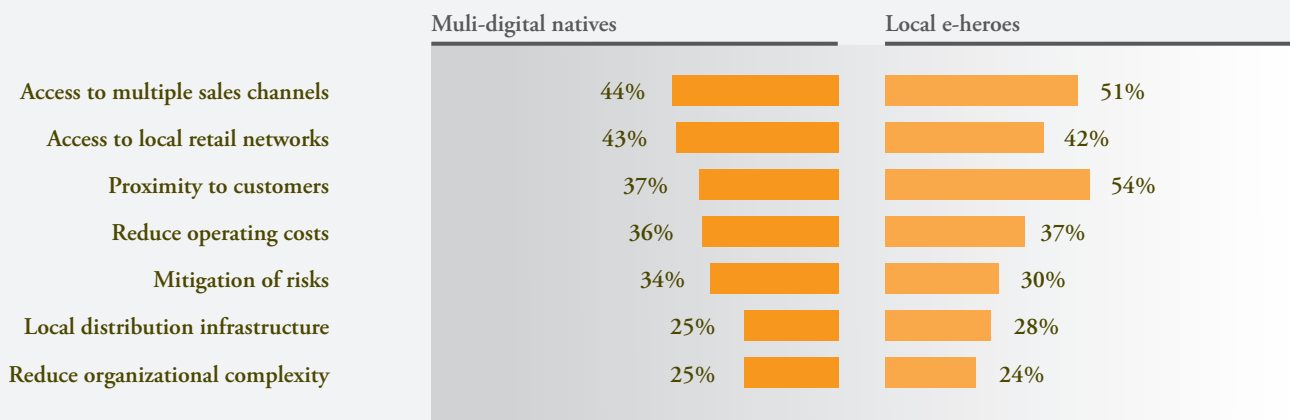


Figure 27: Reasons for partnering with MES providers by digitally advanced companies (%)
 Source: Survey data

can provide local sales and infrastructure with capillary distribution network and fulfillment services. With the increasing popularity of e-commerce among customers worldwide and as the lines between traditional retail and e-commerce increasingly diminish; it becomes increasingly important for companies to have access to both online and offline sales channels. Being present in only one of these channels is not sufficient as customers become increasingly demanding. With their strong physical presence, MES providers have access to local offline as well as country-specific online channels and are able to drive the digital integration of both. The interviewed companies rated access to multiple sales channels as one of the major reasons to turn to MES providers.

Besides access to multiple sales channels, multi-digital natives and local e-heroes cite proximity to customers as one of the top reasons why they would turn to MES providers. The ability of MES providers to provide support and services along the entire primary value chain enables them to be close to the customer and channel useful feedback to their clients.

Global old schoolers and small-town laggards see possibilities of digitization to grow and improve their customer relationship. At the same time, those companies often cannot bear the high upfront investments required for digital market expansion. They avoid high costs for digital transformation and mitigate the risks associated with

Reduced operating costs, mitigation of risks and access to multiple sales channels

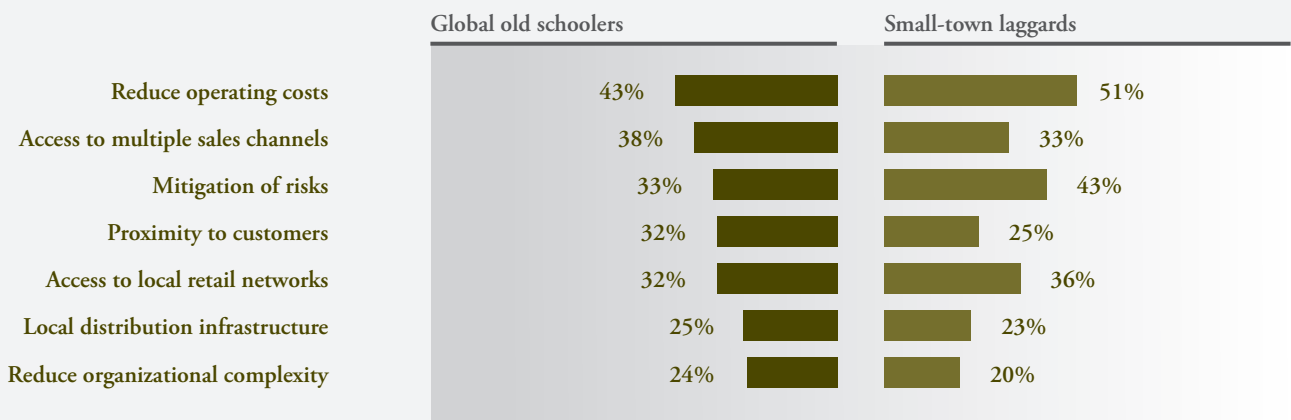


Figure 28: Reasons for partnering with MES providers by digitally less-advanced companies (%)

Source: Survey data

building up their own infrastructure or investing in new but yet unproven technology. MES providers are often able to reach significant market size and realize valuable economies of scale. Investment costs of logistics and IT infrastructure can be spread among clients and mature technology is pre-selected. Clients gain access to innovative, digital services and technology at reasonable costs.

Big data management, customer interaction and channel optimization in high demand

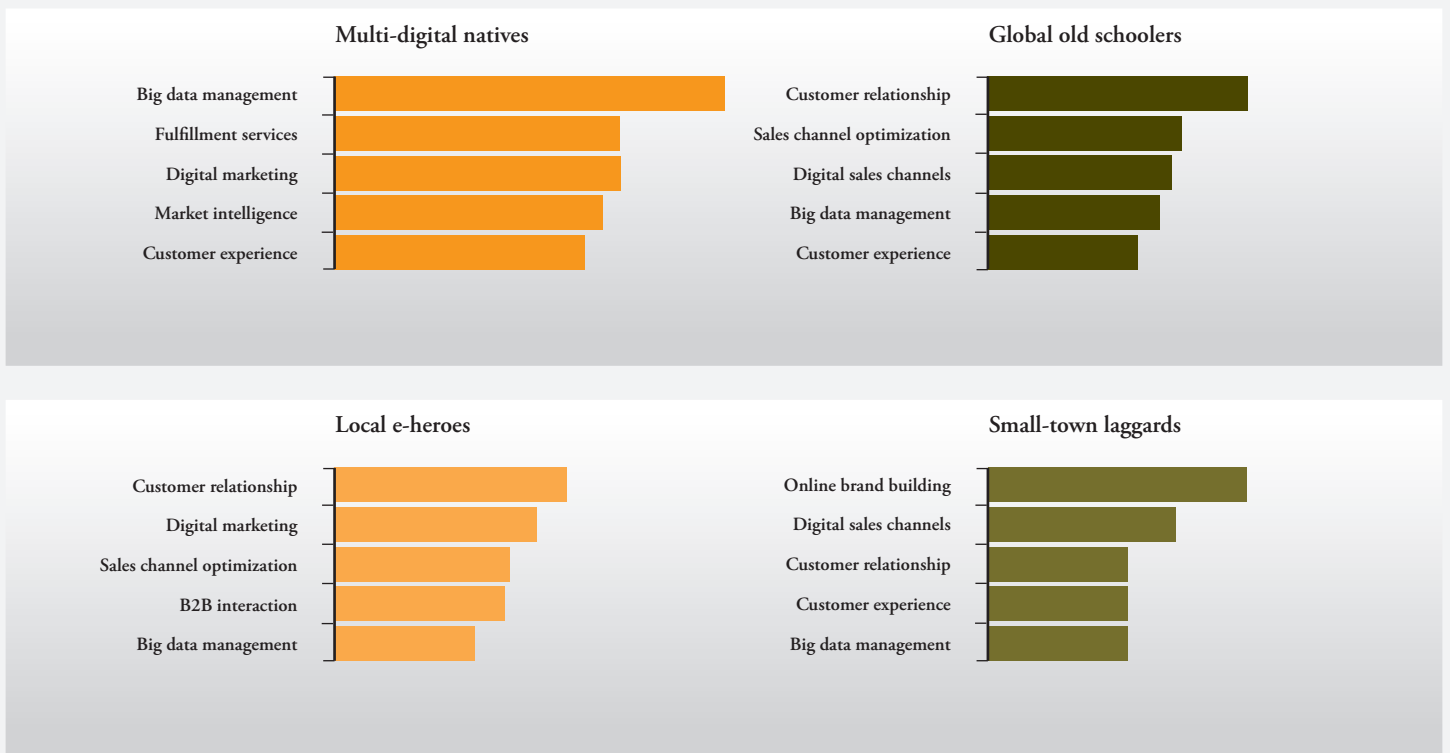


Figure 29: Services demanded by digital company type
Source: Survey data

MES providers enabling digital customer and channel management

Different types of companies and their varying strategic goals translate into different demands for services offered by market expansion services providers. Depending on their digital readiness, they either look for an integrated approach or selected services in marketing, sales, distribution, logistics, research and analysis as well as customer service and support.

Companies of all types particularly rate services that improve interaction with customers and key stakeholders as highly relevant and that focus on the primary steps of the value chain. This includes digital marketing strategies, improving the customer experience in all channels and handling customer management in overseas countries.

As multi-digital natives are already technologically advanced, they are likely to be confronted with a massive amount of digital data. In order to make valuable use of this data and to handle the overflow most efficiently, they turn to MES providers to leverage their experience and infrastructure in this area. With the analysis of dependencies and insights into the market, multi-digital natives want to make their digital marketing activities more efficient and improve the customer experience.

Local e-heroes also show strong demand for services that can improve the relationship between their company and its customers, enhance marketing efforts and extract insights from customer data. The exchange of information with suppliers and customers is a key service for local e-heroes to render their digital operations more efficient in line with their corporate objectives.

Global old schoolers and small-town laggards are at the beginning of digitalizing their operations. They need MES providers to optimize their digital operations and enter the digital sales channel. They seek partners able to support them in the process of building up new channels and synchronizing them with their traditional ones. Moreover, they turn to MES providers to improve their digital marketing and customer experience in order to boost sales.

Realizing a holistic marketing and engagement strategy through MES

Digitization has changed the way consumers engage with brands and companies before, during and after a purchase. Market expansion services providers support companies in building up and establishing their digital communication channels and driving a company's social marketing strategy. Such services involve more than purely digital marketing and range from creating a company's website in foreign markets, setting up promotional events or establishing company profiles on social media platforms. They also include monitoring and tracking of the activities and management of social media communication. Simultaneously, MES providers are in a position to use traditional interaction channels such as TV, billboards or radio to reach customers. This scope permits a holistic marketing and engagement strategy where online communication is attuned to offline market initiatives. Conversations that have been held with customers through an online help forum could ideally be continued at the physical customer service of a sales outlet at a later point and without interruption.

Through its physical presence in many countries, the MES provider is able to align a global marketing campaign or branding strategy to local circumstances and peculiarities. This can include, alongside other measures, the adjustment of the marketing message, the analogous translation into a foreign language or the use of appropriate communication channels. It suggests to the customer that the company is committed and present in the respective country. All these alignments to local conditions and the combination of online and offline communication tools lead to an improved and smooth customer journey and increased customer loyalty. This ultimately enhances the company-customer relationship.

Leveraging big data through MES

Companies have mainly focused on their home markets to collect customer data and take appropriate measures from data analysis. As they expand internationally, the importance of timely and accurate local market research increases. In order to continue pursuing a global strategy and competing successfully against local champions, they need to understand their customers in every market. In many cases, it is difficult, inefficient and costly for companies to develop capabilities to conduct and coordinate research and market intelligence activities in each individual country.

Instead they leverage the processes of data collection, processing and analysis through market expansion services providers. Through their full-service integration and their end-to-end solutions, MES providers are already optimally positioned to channel information from customers back to the client. They can ensure that none of that valuable information and insights get lost before they ever find their way back to the client. MES providers are aware of legal, social and cultural differences in the respective countries and have a better understanding of data privacy rules. Protection of personal data is a key legal issue in many countries as storage of personal information has exploded and cases of misuse have become more frequent. Companies with less experience can not only run in serious legal difficulties but also compromise their reputation.

MES providers ensure that data collection is done most efficiently, in accordance with local regulations and that the comparability of the results is given. MES providers can add their knowledge of local situations to the data analysis and draw the correct conclusions from it. Local understanding is the core pillar to accurate analysis and meaningful interpretations. Furthermore, MES providers are able to collect data from various sources and for different clients and thus reach a level where the data basis becomes more reliable and meaningful. In addition, MES providers are able to collect data through online and offline tools, thereby guaranteeing a comprehensive information backflow.

Building and fulfilling an omni-channel strategy through MES

Companies need to find the right balance when combining online and offline sales as different customers demand that they sell products through different channels. The omni-channel consumer expects product availability through all available channels and that the overall brand experience is equally satisfying. Many customers combine channels to support their purchasing decision: for instance, they inform themselves online about prices and product attributes but purchase the product at a local store. Many customers even review product information on their mobile phone while being physically present at local stores. Companies must therefore be prepared to reach a customer through a variety of channels, while at the same time ensuring the same level of service across all channels.

MES providers are able to complement existing retail channels with new digital sales channels, offering their clients an integrated omni-channel approach. With their strong foothold in local markets, they are able to identify optimal combinations and adapt channel strategies to the needs of individual markets. MES providers are also able to provide strong local networks and capillary distribution for their clients and facilitate quick expansion in the markets. Through this existing distribution infrastructure, MES providers can handle the entire fulfillment process and ensure the availability and timely delivery of products.

Efficient business transaction through MES

Customer credit worthiness and means of payment can vary considerably from country to country. MES providers have extensive experience and knowledge about local customers and their purchasing habits, and can use this expertise when implementing digital sales strategies. This includes the selection, implementation and efficient usage of innovative payment solutions. Depending on the digital readiness of a country, different means of payment have to be included in order to allow a broad spread of customers to purchase goods from a company. MES providers are able to handle the entire purchasing process and offer end-to-end solutions, reducing the complexity and risk for companies.

MES and digitization – combining the best of both worlds

Digitization creates many new opportunities for companies but also confronts them with real challenges. It has been shown that various types of companies are at different stages of digital readiness. Different company types have distinct priorities with regard to digital market expansion and follow varying strategic goals. Consequently, they demand different digital services and solutions.

To fully exploit the maximum potential while at the same time mitigating risks, many companies turn to strategic partners to drive their global digitization strategy. Integrated, cross-country MES providers are ideally positioned to drive both traditional and digital market expansion. With their local presence, expertise and know-how they are able to offer their clients and customers superior services along the entire value chain. MES providers can leverage their capabilities in individual countries and regions to develop reliable and successful market strategies together with the companies. Their local presence allows them to efficiently establish essential business relationships, deal with local regulations and provide the required capillary distribution network. With their existing distribution infrastructure they can act as a true full-service fulfillment partner for their clients.

MES providers are able to leverage their expertise and investments into digitization with their clients to reach economies of scale and provide exceptional knowledge. With their history and expertise in traditional market expansion services, they are in the best position to combine and synchronize online and offline processes in the best possible way.

MES providers will play a vital role for companies expanding into new markets or developing their business in existing markets. They can support companies from all industries in driving growth, reducing complexity and realizing efficiency gains in foreign markets. Uncertain market developments and the consistent focus on core competencies will further add to the demand for market expansion services in the years ahead.

MES providers combine digital and traditional market expansion services

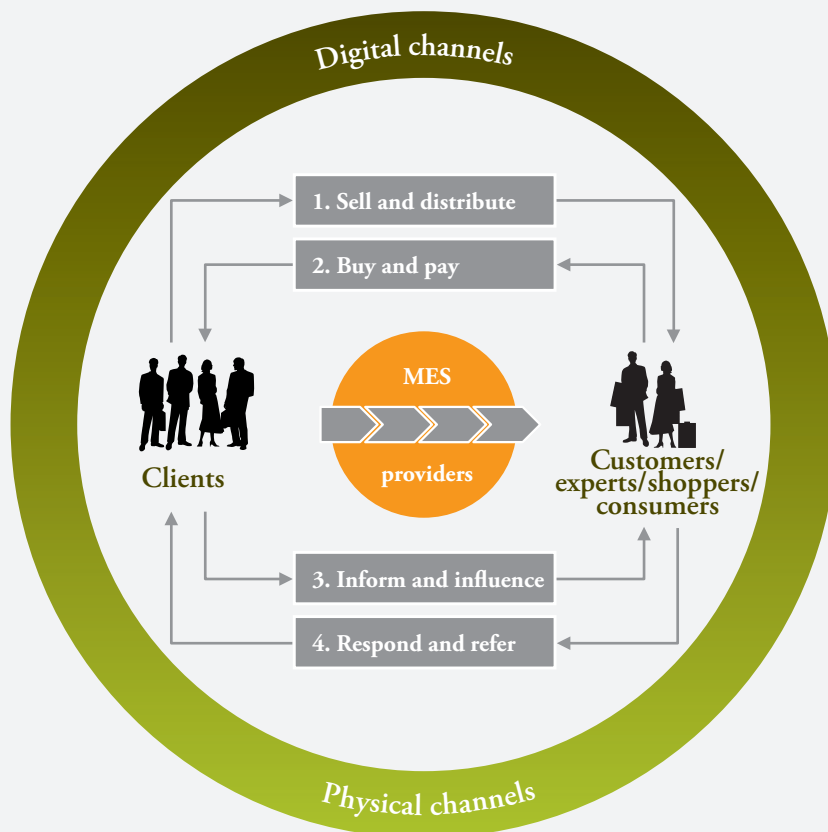


Figure 30: Positioning of MES in the global market expansion context

ARE YOU READY FOR DIGITAL MARKET EXPANSION?

Needs		GO into new markets	GROW in existing markets
Digital market strategy	Digital advanced players	Are you looking for a strategic partner to support your global, digital strategy? <input type="checkbox"/>	Would you like advice on how to improve your performance in existing markets through digitization? <input type="checkbox"/>
	1 Digital beginners	Do you need strategic support with accessing new growth markets through digitization? <input type="checkbox"/>	Are you looking for a strategic partnership to drive your international, digitization activities? <input type="checkbox"/>
Local market intelligence	Digital advanced players	Do you lack market insights to adapt your global digital market entry strategy to local specifics? <input type="checkbox"/>	Do you need additional market know-how to improve your performance in any existing market? <input type="checkbox"/>
	2 Digital beginners	Do you need market know-how to adapt your products and your marketing strategy to local customers? <input type="checkbox"/>	Are you lacking critical customer insights to grow your local business? <input type="checkbox"/>
Skills and financial resources	Digital advanced players	Would you like to access new markets with external resources and specialist capabilities? <input type="checkbox"/>	Would you like to improve your efficiency by outsourcing parts of the value chain to a partner to focus on your core competencies? <input type="checkbox"/>
	3 Digital beginners	Do you need to access external financial resources to successfully enter into a new market at low cost? <input type="checkbox"/>	Would you like to grow in existing markets while reducing costs and improving efficiency? <input type="checkbox"/>
Risk transfer	Digital advanced players	Would you like to access new markets at low risk with low investment? <input type="checkbox"/>	Would you like to further develop the existing market without utilizing own assets? <input type="checkbox"/>
	4 Digital beginners	Would you like to reduce your risk level when entering new markets through digitization? <input type="checkbox"/>	Would you like to make a critical step forward in a market and share the risk with your partner? <input type="checkbox"/>
Platform and networks	Digital advanced players	Are you interested in gaining access to an established local network and market entry platform? <input type="checkbox"/>	Do you want to expand your existing network and infrastructure to aggressively grow in established markets? <input type="checkbox"/>
	5 Digital beginners	Are you looking for access to proven local network of customers and contacts when entering a new market? <input type="checkbox"/>	Would you like to integrate your operations into a professional and efficient local platform? <input type="checkbox"/>
Omni-channel	Digital advanced players	Do you require a strategic partner to realize efficiency gains when entering new markets through a combination of digital and physical channels? <input type="checkbox"/>	Do you need help in synchronizing your online and offline activities to improve the customer experience? <input type="checkbox"/>
	6 Digital beginners	Are you looking for experienced and proven concepts when entering new markets through multiple channels? <input type="checkbox"/>	Would you like to combine online and offline sales and communication channels to boost sales and improve customer interaction? <input type="checkbox"/>

METHODOLOGY

Survey

Roland Berger Strategy Consultants conducted an online survey generating more than 380 responses from executives of current or potential clients of market expansion services (MES) providers in the Asia Pacific region. The survey asked about overall goals and strategies, modes of market expansion, demand levels for MES and companies' expectations of MES providers.

Interviews

In addition, Roland Berger Strategy Consultants conducted 10 interviews with industry leaders and experts. The interviewees were executives of current or potential clients of MES providers. The sample was balanced between industries (consumer goods, specialty chemicals, pharmaceuticals/healthcare and engineered products), geographical regions and company size. Case studies are based on publicly available company information.

Market sizing and breakdown

Market sizes were calculated using a detailed market model developed by Roland Berger Strategy Consultants. Total market sizes are based on industry-specific data (from sources such as Euromonitor, Espicom Healthcare Intelligence, GIA and SRI) and publicly available reports from leading institutes (including the IMF, WHO, World Bank and UNCTADstat). Roland Berger Strategy Consultants first calculated the total size of each market, then estimated the size of the market for market expansion services in a multistage approach. The input for this step-by-step market breakdown, initially carried out for our first report in 2011, was a combination of quantitative market data and qualitative and quantitative expert opinions.

Market projections

Market projections are also based on a detailed market model developed by Roland Berger Strategy Consultants. They distinguish between market demand forecasts and forecasts for the penetration rate of market expansion services. All market projections are in current prices based on fixed exchange rates (base year: 2012). Projections for the demand side and historical data are derived from market data published by the relevant research institutes.

Limitations

The market breakdown is the result of our analysis of quantitative and qualitative information from quantitative sources (e.g. market reports) and interviews with experts. A realistic market breakdown also requires qualitative information. For this reason, estimates were used, and some figures must therefore be considered "best approximations", and the actual market sizes may vary. Market forecasts are projections and as such cannot fully take account of all possible eventualities. Despite these limitations, Roland Berger Strategy Consultants is convinced that the analysis presented in this study is a true and fair reflection of the markets in question.



DKSH is the leading Market Expansion Services provider with a focus on Asia. As the term "Market Expansion Services" suggests, DKSH helps other companies and brands to grow their business in new or existing markets.

Publicly listed on the SIX Swiss Exchange since March 2012, DKSH is a global company headquartered in Zurich. With 735 business locations in 35 countries – 710 of them in Asia – and 27,200 specialized staff, DKSH generated net sales of CHF 9.6 billion in 2013.

The company offers a tailor-made, integrated portfolio of sourcing, marketing, sales, distribution, and after-sales services. It provides business partners with expertise as well as on-the-ground logistics based on a comprehensive network of unique size and depth. Business activities are organized into four specialized Business Units that mirror DKSH fields of expertise: Consumer Goods, Healthcare, Performance Materials, and Technology.

With strong Swiss heritage, the company has an almost 150-year-long tradition of doing business in and with Asia, and is deeply rooted in communities and businesses across Asia Pacific.

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Roland Berger Strategy Consultants

Roland Berger Strategy Consultants, founded in 1967, is one of the world's leading strategy consultancies. With around 2,700 employees working in 51 offices in 36 countries worldwide, we have successful operations in all major international markets.

Roland Berger Strategy Consultants advises major international industry and service companies as well as public institutions. Our services cover all issues of strategic management – from strategy alignment and new business models, processes and organizational structures, to technology strategies.

Roland Berger is an independent partnership owned by around 250 Partners. Its global Competence Centers specialize in specific industries or functional issues. We handpick interdisciplinary teams from these Competence Centers to devise tailor-made solutions.

At Roland Berger, we develop customized, creative strategies together with our clients. Providing support in the implementation phase is particularly important to us, because that's how we create real value for our clients. Our approach is based on the entrepreneurial character and individuality of our consultants – "It's character that creates impact".

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