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The challenge of smart growth in Asia

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The Challenge of Smart Growth in Asia

Chris Nailer, Associate Director, IMA Asia

An Asian Issues Management (AIM) Paper based on interviews and discussions with IMA Asia clients.

Asia's challenge to corporate stability

… how to manage the complexities & dangers of rapid growth

Fast growth is generally a good thing but managing it is rarely a comfortable experience. For the past few decades business growth in Asia has been like that. The experience of the 1990s and early 2000s indicates that companies are now being much more selective about the kinds of growth they want in Asia. Asia-Pacific operations present a particular challenge because, on the one hand, they offer the prospect of high growth, but on the other, they often create additional complexity in the way the business has to be managed. If Asian operations are growing at 25% annually while the rest of the world is averaging 5% growth stresses can emerge even though Asian sales may be no more than 10-15% of the total business. So is it worth it creating all these complex exceptions within the business, just for the sake of capturing growth in Asia? How can companies capture the some of the growth without creating unnecessary complexity? This is what we will be discussing here.

What is smart growth?

… there are smart structures

Smart growth means growth that is efficient in the use of resources (i.e. profitable), growth that can be serviced continuously without creating costly and unnecessary business infrastructure, and growth that creates new options for future business that fit coherently within an overall international corporate strategy.

… and smart processes

'Smart' could also describe the way the company goes about achieving this kind of growth. For example, smart growth might involve:

- Aligning with complementary businesses to create a more valuable product/service offering or to get greater visibility or access to customers.
- Sharing production and delivery resources, subcontracting, outsourcing, piggy-backing so as to create flexibility in the way the product or service is delivered.
- Accelerated learning and development so as to create a more powerful management team or more powerful channel partners to drive Asia.
- Knowledge sharing from one market to another, to accelerate growth based on successes tried elsewhere in the region
- Drawing on knowledge from other international operations – particularly emerging markets - so as to accelerate the development of effective operations in Asia

Driving fast sales growth is relatively easy

… but creating a business to profitably sustain that growth can be challenging

Business growth is governed by complex, interdependent and often unstable relationships amongst variables. In the past the topline – sales revenue - tended to dominate the corporate view. Achieving high growth in sales or market share was seen to be the main priority of businesses in Asia because:

(a) Asian markets themselves were expanding rapidly.

(b) In many places new products and services were becoming established in the local purchasing pattern for the first time, delivering 'penetration' stage accelerated growth.

Sometimes the focus on the revenue line distracted attention from ensuring that the processes for delivering the product were able to keep pace. Expanding the operations and delivery system of a business is generally more complex and time-consuming than growing sales revenue, particularly when that delivery system has to deal in multiple geographies, across very different regulatory frameworks, financial systems, infrastructure constraints and so on. As a result, rapidly growing businesses often run into resource constraints, as the training and development of people and the expansion of supply capacity leg behind. One important aspect of 'smart growth' therefore involves looking for innovative ways of making the business rapidly scalable.

In the next few sections we present case studies on eight international companies looking for innovative ways of creating 'smart growth' in Asia.

CASE STUDY 1: A US IT solutions company

Escalating competition for Asian markets

The principal challenge this company faces is that the selling environment in Asia is now much tougher than it used to be.

> "There are more international competitors in the markets we serve; there are more local competitors also. And since 1997, corporate profit goals are tighter. We have been focusing on ways of getting out from under the pressure that the market tends to commoditise the product."
>
> *Operations Director, Asia-Pacific*

Plus wildly divergent growth rates across Asia

A second challenge is that the company's Asia-Pacific territory comprises markets that are growing at different rates.

> "Japan is large for us, but growing very slowly. Together with Australia, it used to be a big proportion of 'Asia-Pac.' But now China and India are growing really fast. And across these very different markets we have to develop a coherent regional strategy."
>
> *Operations Director, Asia-Pacific*

Asia is also the supply-point for most of the company's products, for distribution worldwide. Some product is made in Ireland. US production has now all been moved to the Philippines. China is a major supply point also and India has an R&D and software development centre.

The challenge of maintaining margins and profits

… a critical role for customer-centric teams

In order to maintain product margins and make Asia-Pacific sales highly profitable, the Asia-Pac organisation has recently restructured around customer-centric teams. Each team focuses on one major customer group: individual key accounts, industry vertical segments, the small-to-medium business sector, and resellers. The customer-centric team is responsible for coordinating all resources necessary for selling, supplying and supporting their customer segment – from sales, marketing communications, finance, IT products, manufacturing and so on. Coordination amongst the teams is maintained through weekly sales update calls, a monthly conference call and quarterly face-to-face meetings to review operations and to share learning. From the customers' point of view, this approach ensures all activities relevant to the customer's ongoing relationship with the company get appropriate attention, issues get resolved quickly, enhancing the company's reputation for responsive service.

A strong focus on knowledge sharing

… managed by a Singapore-based team

… supporting solution selling skills development

The US end of the company is also organised into 'customer-focused teams', but is looking closely at how the teams work in Asia-Pac. The challenges presented by widely different market demands in Asia have highlighted the benefits of sharing knowledge across the region.

> "We're not going to be able to deal with China challenges unless we look at what's been successful for our business elsewhere. Having tight teams sharing their learning regularly makes a big difference." Across the corporation, learning, training and development are receiving new emphasis. A new Learning and Development team with around 20 staff has been established in Singapore to accelerate the development of higher-level 'solution selling' skills needed by the 'customer-centric' approach to marketing and service.
>
> *Operations Director, Asia-Pacific*

Mixing wholly-owned sales ops

… with distributors for frontier markets

… it works in India, so try it in China

And the company is looking for innovative, resource-efficient ways of selling into second- and third-tier cities in its most rapidly-growing markets.

> "We set up a wholly-owned local sales organisation in each country and fund that through the distribution channel. When we get down to second and third-tier cities, this gets very expensive. So we experimented in India with outsourcing the sales effort for the smaller cities to our local distributors. We pay for them to make the sales calls. This has worked well in India and we are now adopting this approach in China."
>
> *Operations Director, Asia-Pacific*

Taking successful Asian smart growth strategies to other regions

In summary, this company has reorganised its Asia-Pacific sales and marketing and service delivery to emphasise customer value to preserve its margins; it has experimented with resource-efficient ways of selling into smaller cities; and it has set up mechanisms for sharing knowledge across different segments and country markets. These approaches have shown themselves to be successful in Asia-Pacific and the parent organisation in the USA is now looking at adopting some of their approaches.

CASE STUDY 2: A US industrial services company

Focusing on the premium price segment

… with high-quality service

The principal challenge that this company faces in Asia is how to support double-digit profitable growth, while maintaining quality, consistency and control. The company delivers industrial services to the food, beverages and hospitality sectors. It pitches its services against one major competitor in most of its markets – another US company. It positions itself at a higher price-point and is growing faster that this main competitor. The value proposition includes high levels of customer service and intensive training to ensure consistent delivery of the benefits to end customers. The customers are major global brands with reputations to protect.

> "The total budget for our services is only a tiny fraction of the customer's overall costs, so premium pricing for us makes almost no difference to them. What is vitally important is absolutely consistent quality service. For that, we have to be able to control what we do."
>
> *Asia Pacific Vice President*

A large part of the company's growth in Asia comes from existing customers – food processing or hospitality companies – expanding across the region and globally, and asking this company to service them in new locations.

Look for lessons from other emerging markets

… in choosing your customers

… in curtailing investment

… in containing overheads

… and in intensive service training

The company has modelled and adapted its approach in Asia over the past four years based on approaches developed for handling the emerging markets of Eastern Europe some ten years earlier. "Sure, Asia is different, but many of the management challenges across emerging markets are similar, and many of the same principles can be applied" according to the regional vice president, who previously worked for the company in Europe. These principles include:

(1) Be selective in the customers you take on. Understand who the winners are. Don't target too many. Build your knowledge of their operations. Build a long-term partnership with them. Grow with them.

(2) Keep the capital investment in producing the ingredients and materials low; look for co-packing arrangements with existing manufacturers; take an equity stake in the manufacturer's business so you know what's going on, but you don't need 100% ownership. Source ingredients locally so as to balance costs and revenues in local currency, reducing currency risks.

(3) Keep expatriates to a minimum. The total Asia-Pacific organisation for this company has only 6-7 expatriates. Operations in each country, right up to the local CEO, are local employees.

(4) Intensive service training. Absolute adherence to your service processes, quality standards, monitoring systems and schedules. The key to quality in this business is not in the products but in the process know-how, so that needs to be rigorously reinforced. Establish 'centres of expertise' capturing and disseminating knowledge on customer processes in key market segment. Hold quarterly or half-yearly 'experts conferences' and fly in experts to share knowledge.

A critical link between equity control and service quality

Fast growth markets such as China present new challenges. The company set up initially with a joint-venture, but took control in 1990 and more recently bought out the partner altogether.

> "You have to have control to guarantee service quality. The key to 'smart growth' for us was to take control as quickly as possible. We are now setting up in India, which is looking very promising for us, and we will be wholly-owned there."
> *Asia Pacific Vice President*

Accelerated training strategies

The company is experiencing very high rates of growth in China, and that is making it rethink how it gears up to train people.

> "To deliver on value, you have to have the best people and you have to train them thoroughly. In China, we are looking at 30% per annum, sustainable growth for the next few years. To drive that, we will be shifting to a batch training process. Classrooms – a kind of 'university' training – will replace on-the-job training because we need to get large numbers of people into the field."
> *Asia Pacific Vice President*

Acquisitions are now easier and quicker

… with better advice & information

The company is increasingly considering acquisitions as a means of faster expansion in other high-growing markets of Asia. It made an acquisition in Korea in 2000 and another one in Thailand in 2004.

> "Ten years ago, no, it was all too murky. Business ethics cannot be compromised. Now, there is a higher level of professionalism across the region; there is better advice available. This is a faster approach. We are now scanning for potential targets with assets that we can adapt to our business model."
> *Asia Pacific Vice President*

Driving service quality with the latest technologies

Lastly, fast growth in Asia is bringing forward the time when 'first-world' technologies will need to be applied to monitoring and controlling service quality.

> "At present, quality control and service monitoring is all done visually, manually. In the US and Europe, we use hand-held devices for standardised, real-time information on customer status. We will need to invest in automated systems far sooner in Asia than we had to in the developed markets if we are to continue to drive high-quality service because of the pace of growth."
> *Asia Pacific Vice President*

A rigorous focus on service quality

… while also undertaking rapid growth

In summary, this company has been reapplying and adapting knowledge already gained in other emerging markets to help drive smart growth in Asia. It sustains a premium price position based on uncompromising service quality, which in turn is based on having operational control backed by intensive investment in training. In its highest growth market – China - it is shortening the training and development lead-times by shifting from on-the-job training to classroom training. In other highly prospective markets it is shortening the capacity investment lead-time by targeting acquisitions. Finally, the company is anticipating the need to invest in process automation ahead of time, based on the speed with which the market is developing.

CASE STUDY 3: An Australian logistics services company

Introducing standardized logistics to Asian markets

This company specialises in the hiring of physical logistics equipment. It commenced Asian operations in Thailand in 1994 on the back of an initiative to standardise logistics services around international norms, and now operates in six Asian countries. Some of those operations were acquired from another player in the industry. The majority of the company's clients are MNCs. The biggest challenges in Asia are keeping track of the physical movements of the hired equipment, getting paid in places where there is a culture of running long accounts receivable, recruiting and retaining enough high-skilled staff in the high-growth markets, and deciding how to implement the new growth opportunities that the company has yet to tap across the region.

The importance of sticking to a standard business model

… which can mean avoiding some contracts

Operating with a standard business model and the same equipment across the whole region, and the same as the business model in Australia, is central to the profitability of Asian operations for this company. Growth in Asia is driven by the shift to modern forms of retail trade, and as different parts of the region are at different stages of that transition, there is still substantial growth to be gained. Both the retail customers and the international standardisation that is taking place in transportation are pushing in this direction. The most important element in the mix, according to the company's chief financial officer, is to "stick with the business model, because it works." The company actually turned down an invitation to supply a large customer in the Philippines who wanted a customised system. Sticking with a standard business model does slow growth:

> "We're just now starting up in China, and are using the standard model again there. We'll focus initially on 20-30 customers located in two or three provinces in order to keep control of business operations."
>
> *Chief Finance Officer*

Letting demand lead investment in increments

… while also changing structures as demand grows

Judgement about when to invest in expanded operations is another key factor in this company's Asia-Pacific profitability.

> "We tend to increase the hire equipment in steps, so judging when it's time to buy more equipment is important, as investment has an immediate effect on utilisation rates."

Judgement is also applied to decisions regarding support activities such as repairs and maintenance.

> "We start out working with a third-party for repairs, but once we reach critical mass, it pays to set up our own repair operations."
>
> *Chief Finance Officer*

Using systems that rely on basic management skills

The company tends to gear its growth around its capacity to effectively resource it. Hiring enough of the right skilled people to drive growth and retaining them is another key challenge, especially in China. But local operations do not require a large number of personnel. The company hires local staff. There is one US manager in Thailand, which is a regional operations HQ (on a local package) and one expatriate in China and all others are locals. According to the CFO the company looks for "customer service and business sense and relationships. There is no lengthy training involved in selling the service." Local operations are set up as independently as possible, funding their own operations out of locally-generated cash-flows so as to reduce foreign currency exposures.

Avoiding over-commitment to new opportunities

While there are promising opportunities in untapped markets, the company is evaluating those at present and is not in a rush to implement. As the CFO notes "… we don't have enough management resource to do it now."

The conservative case for smart growth

In summary, this company is protecting its profitability by being selective both with which markets it goes into and with which customers it services – in the case of China, even which subregions it will service. It also sticks

… careful selection of markets & customers

… sticking to proven business models

closely to a well-tried business model to ensure operational efficiency; it makes careful judgements about the timing of investments in new equipment capacity; and while acknowledging the challenge of recruiting the right skills in high-growth markets, the business is not costly in human resource, and the company tends to gear its growth to the rate at which it can provide capable management resources.

CASE STUDY 4: A European industrial engineering company

Local production of components & picking up out-sourced work

… a skills shortage threatens growth

This company supplies engineered components to manufacturing customers. Products are mostly designed and manufactured in the markets where major customers are. One key driver of the business has been the tendency for manufacturers to increasingly outsource specialist design and components. The company's biggest growth challenges in Asia are recruiting and retaining skilled people – and managing upward pressure on compensation for its existing employees. According to the Asia Pacific managing director, "…this is now constraining our growth in China and India."

Recognizing that Asia may require a different growth paradigm

The company doubled in size around 2000 following a major global acquisition, since when the main growth strategy for the company has been to go for organic growth by gradually expanding into adjacent market segments at the same time as pursuing growth opportunities in Asia. Embedding this parallel approach to business growth within the European top management team – more used to managing sequentially – has been an additional internal challenge for the team managing Asia.

Being selective about customers

… and partnering on technology

One of the keys to securing profitable growth for this company has been to be quite selective about which companies it will partner with. Customers come to be thought of as 'partners' because of the technical complexity of the components that are developed and supplied to them. And the company is only interested in servicing those customers that place a value on the company's high-value design-make-supply-service offering.

The challenge of building businesses in both China and India

… drawing on temp assignments from worldwide staff

The company has set up a manufacturing plant in China to service China-based customers. Acquiring an existing operation was considered as a potentially faster entry, but the company did not find one that met its requirements. The company has also decided to set up in India. Gearing up to resource high growth in China and India operations has forced the company to be quite inventive. The company has taken on large numbers of new recruits but found it also needed to borrow large numbers of experienced people from elsewhere across its global operations. One of the people intimately involved in the whole planning and business-case preparation has been retained as Project Manager for the construction of the plant.

> "We had to accelerate the process to fill gaps where there just weren't locals. We borrowed engineers from around the globe; our logistics specialists came from Australia to design the system and to train and deliver expertise. Lots of expatriates initially. All of the foreign assignees were there for the early phase, and to educate others to take their place. We used consultants also."
> *Managing Director, Asia-Pacific*

Applying the lessons from China to new the Indian entry

The company has also been explicitly applying the lessons learned in China to the start-up of its India operations.

> "India is about a year behind. The India Managing Director is in China once a quarter. Within a year, the expat who is currently managing the key account team in China will move across to a broader regional role which will be located in India, so as to embed the process there."
> *Managing Director, Asia-Pacific*

Setting up an Asia training academy in China

To accelerate the establishment phase, the company has also set up a formal 'Training Academy' to deliver induction courses, and technical training. It has been set up in China because of the large numbers of new personnel who need to be recruited there. But this will become an Asia-Pacific training centre and staff will go there from other parts of the region to participate in courses.

Finding the right staff in China

In gearing up to build the China business, the company had a breakthrough on the recruitment front also.

… first you need a top-flight HR manager

> "We used to have a China service team who were very much from within the traditional Chinese company culture and we struggled to get them involved. This time we hired an absolutely first-class HR manager – a Chinese fellow - who had 14 years experience working for other engineering-based MNCs in China, and he's now brought on board a whole cohort of dynamic managers with MNC experience who have very quickly brought real value to the business. Their motivation, their skills, their work-ethic, their active engagement with the whole project have been outstanding. The HR manager and the expatriate Project Manager will together accelerate the development of the China facility."
> *Managing Director, Asia-Pacific*

A game plan for fast growth in China & India

… balancing care on customer selection

… with systems for fast staff growth

In summary, this company has maintained its profit margins by carefully selecting its customers and delivering high value by partnering with them on technology. In doing this it has taken the decision to invest in local manufacturing capacity in both China and India to ensure supply to key customers. It is also speeding growth of the China venture with substantial local recruitment that has been backed up by formalised academy-style training and intensive use of international assignees and consultants. And the key to hiring the right skills in China was to hire a dynamic Chinese HR manager who had substantial experience working for other foreign engineering companies. All of these lessons are now being transferred to India to support a recently launched operation.

CASE STUDY 5: A US industrial equipment company

Key challenges

+ selling premium products in small markets

+ preparing for a surge in demand & for Chinese competitors

+ developing channel partners & staff

This company manufactures complex materials-handling equipment. Its principal growth challenge in Asia is maintaining its premium positioning and profitability across the region, particularly when some markets are quite small. A second challenge is how to meet an expected surge in demand in the next few years as a replacement cycle commences. The company is concerned that new competitors from China will crowd into the market then. A third growth challenge is developing channel partners with the capability to sell a complex, premium-priced product, and finding (and retaining) staff with multiple language skills.

> "Our focus is to supply and support a premium product, providing premium quality service. It takes a long time to build the right network. This is a very competitive business with narrow margins, so when you add in the effect of import duties in different places, there's not a lot of leeway. And the last thing anyone wants in this business is a price war."
> *Managing Director, Asia*

The importance of pricing variations by country

The company achieves this goal through a variety of strategies. The company prioritises different countries depending on the kind of pricing it can apply.

> "It's not easy in our business to compare pricing across countries. So there are key pricing countries where we won't do anything to destroy pricing, because that is where we earn the margin. And there are others – selected countries – where we will price low in order to get volumes, sometimes lowering prices if we need to add

> throughput to the factories. Because we do have differential pricing, we watch very carefully where the units actually land."
>
> *Managing Director, Asia*

Service is an important part of how the company maintains margins, as the margins on spare parts are higher than those on the original equipment.

Preparing for price competition with China-made products

… a role for second hand products

The fastest growing markets at present are Australia, where a replacement cycle is in full swing, and China. However, there is significant pent-up demand across the region, with customers delaying replacements. In some markets like Indonesia, that is because customers cannot get access to finance. But at some stage in the next few years, there will be a boom that will attract new competitors, most likely from China. To address this, and to help to ease the boom-bust cycle, the company is promoting sale of its own refurbished equipment which presently do well against new products made in China.

A major investment in channel partners

… backed up by training for channel partners

Building the distribution network involves getting the right quality partners on board.

> "It takes about five years to develop good channel partners. They need to be full service dealers, not just traders. They need to be appropriately capitalised. Once we find them, we invest substantially in helping them to develop their business. We set up dealer groups, where they can discuss their businesses with an independent consultant. We provide sales tools and metrics and business diagnostics. We provide a professional sales training program, a quality service delivery program, a program on how to run a repair shop. There's about three years of training delivered."
>
> *Managing Director, Asia*

In order to accelerate this further, the company is building an online 'Training Knowledge Centre' to enable faster and more effective staff training, in between short-courses and visits by the supplier's team of experts. Some of the basic dealer training is delivered in a central location.

The challenge of bringing investment and product R&D cycles into sync with demand

Making supply scaleable tends to be a challenge for fast growing manufacturing businesses. The company has increased its factory capacity and is still occasionally facing component shortages. The company makes regular five-year forecasts, but five years ago demand didn't come through as expected, so capacity was not added; now the demand is there and they've had to crank up output swiftly, with the result that there are still sometimes backlogs. The new product development cycle also needs to be managed carefully.

> "We took a big cost burden a couple of years ago while we were developing a new series of products; but the advantage now is that we're in the market with new products that are better than those of our competitors."
>
> *Managing Director, Asia*

The capacity expansion and new product development cycles require careful judgement as they do not always coincide with the rate of demand growth.

Designing new low priced products for China

… which may be taken to global markets

The company sources a lot of components from China for worldwide distribution and also supplies a locally-made unit into the Chinese market. This unit has been specifically developed as a low-cost entry-level unit, and is only sold in China.

> "Elsewhere across the globe the company pools the design needs of different segments; a low-cost unit is supplied into Latin America and Eastern Europe and parts of Asia. In the next few years, this 'low-end' product will be pitched too high for China or Africa. At present, the China unit is for China only; but this may become the new 'low-end' offering. We will be watching carefully

the impact on the brand-name."

Managing Director, Asia

In summary, the company preserves margins by emphasising its high value proposition, balancing pricing across high-margin and low-margin countries, and choosing these carefully. It invests substantially in the development of service skills in its distributor network, and is aiming to overcome the constraint on how fast it can grow the network by creating an online dealer learning centre. The company is promoting sales of refurbished units to bring forward the next replacement cycle, anticipating a surge which may create opportunities for new low-cost competitors. And it tries to gear capacity expansion and new product development cycles in line with five-year demand forecasts.

CASE STUDY 6: A US software company

Targeting Asia's 2nd tier cities

… by carefully selecting & managing channel partners

This company sells and maintains business software. About half of the company's revenue is from sales of new licences and about half comes from technical support and maintenance fees. Within Asia, the company's biggest growth challenges are how to expand into 2nd tier cities in China and India. In those markets, the company sells through channel partners – often through multiple tiers. So cracking the 2nd tier cities depends on finding and developing enough of the right quality of channel partners, while also ensuring integrity and control is maintained across all levels of the selling process.

Coping with the threat of weak IP protection

… by establishing check-systems for channel partners and customers

The company adopted a strategy of selling 'licences to use' its software, rather than copy-protecting its products, as it sees this as a way of controlling the creation of a 'standard' even amongst the counterfeit user population. So the key to successful growth is in creating a channel structure that has a built-in compliance and monitoring system, so as to minimise leakage. In China, which is the company's fastest-growing market, it provides 'licence certificates' directly to end-users, in order to authenticate how many users have been authorised under any particular sale. There is no physical supply constraint as the product is downloadable. The company does not require that resellers reveal the prices of any individual deals done, but it insists on obtaining final end-user contact details, and then issues licence certificates.

Establishing systems to cope with corruption

… and withdrawing were such systems are unable to work

One of the other limits to growth, for a US company, is the risk of corrupt practice in the sales process. According to the regional CFO "… integrity management adds a certain overhead to the cost of doing business in Asia, but as a US corporate, there is no alternative." This company has set up a 'business integrity hotline,' details of which are printed on a small card which is given to all end-customers. Anyone who suspects that there may have been misconduct in the way a sale was achieved – either by the company's employees or by channel resellers – is encouraged to report that to an independently appointed firm of lawyers in the US. The Asia CFO notes that they have "… pulled back from some markets, such as Vietnam, because it's just too hard to ensure zero side-deals." And to ensure against 'channel-stuffing' the company insists on seeing the end customer contract from the reseller before it recognises revenue from the sale.

Building solid ties with channel partners

… requires a major investment in training and support

The biggest constraint is finding the right channel partners, with the right kind of focus on value-added selling, with the right kind of skilled staff. The Asia CFO points out that they are "…not interested in just transaction-based business; we want to develop our relationship with them as a long-term partnership." To do that, the company has a team of around 200 working with partners across Asia, transferring knowledge through partner training, through technical updates, through briefings on strategic direction and so on. It is difficult to specifically identify the pay-off from this investment in training and development.

"It's completely unlike expanding with a direct sales-force. But where we want to get the right kind of emphasis and were we want to maintain the integrity of the process, right down to the end-user, there is no alternative, particularly once you get outside the main metropolitan areas. And no-one who wants to grow in India or China can afford to overlook the 2nd-tier cities."

Asian CFO

Bringing new business models into Asia can take time

In the last few years the company has made a couple of major strategic acquisitions. So another substantial growth drive comes from selling complementary products into sites where customer have previously bought the company's original products. Another new trend, likely to make inroads across Asia in the next few years, is the shift to hosting clients' software and running it for them. Where this can be promoted, particularly with larger customer sites, the service/maintenance process becomes significantly more efficient; even technical support and maintenance services cease to be a growth constraint then.

"So far, customers are a bit reluctant to transition to this approach; they like the feeling of security from running their own software. But more customers are moving away from bespoke software for cost/efficiency reasons, and as they do so, the 'hosting' model will pick up."

Asian CFO

Developing & controlling channel partners in 2nd tier markets

In summary, this company has reduced the physical supply constraint by making the product downloadable, and has been expanding its market geographically into 2nd tier cities in the region's two most populous markets. At the same time, it has maintained control by implementing a verification certificate and 'misconduct hotline' against corruption. It is investing extensively in transferring knowledge to its channel partners, after selecting them carefully for their approach to value-added selling. And in the future, an alternative model of service delivery to customers promises to further minimise the support and maintenance constraints also.

Conclusions

It is impossible to come up with a list of the '10 principles that will deliver smart growth in Asia' and expect them to apply to every business in every part of the region. However, from the six case studies above, some valuable lessons can be drawn.

Asia is not unique

… learn from other regions & take Asia's successes worldwide

- Look in the company's worldwide portfolio of operating processes for 'emerging market' models that can be adapted quickly to growth conditions in Asia. Similarly, look at what you are doing in your Asia-Pacific markets with a view to adding useful learning to your business elsewhere; Asia-Pacific may be where your company develops its low-entry product for Africa. Your 'smart growth in Asia' could be a source of smart growth elsewhere.

The benefit of sticking to proven business models

… and innovating without complexity

- Don't vary the business / operational model too far from ones that have been shown to deliver reliable, profitable growth for your company in other markets. Once you have a reliable business model for your key markets in Asia-Pacific, be wary of pressures to modify it further for specific new clients or new locations. That said, however, many companies seem to be adopting innovative business approaches to China and sometimes India, but only to the extent that the investment in further complexity is justified by high returns.

It pays to spend time selecting the right markets & customers

- Preserve profit margins by selecting markets and customers carefully; focus on those who are responsive to the high-value proposition you are offering, and aim to build long-term, collaborative relationships with them. Your accumulation of knowledge about what they need and how they operate, over time, enables you to supply their needs more effectively than the competition. You may have to be innovative in how you demonstrate to the customer how it is that your product delivers more value to them than the alternatives, which may be lower in initial price.

Channel partners are not always a cheap option

… high investment can produce high returns

- Similarly, select channel partners for their ability to deliver the high-value proposition that you need to sustain your profit margins. Then invest in them further, implanting your operating processes, your business culture, your technical and service knowledge, your company's know-how in how the product or service can be used most effectively by the customer. Help them to grow successfully as businesses. Create relationships not just transactions.

Start by hiring a top quality HR manager

- Accelerate your recruitment of local staff with the skills and mindsets you need by investing in a top quality local HR manager – one who has had experience of working with other multinationals. This person will then recruit a whole cohort of MNC-savvy managers who can galvanise your local business.

Accelerate the learning process across the business

- Accelerate your team's learning across different markets by building processes for experience-sharing. Where you have new businesses at different stages of development in different places, make sure the managers of the 'follower' businesses have regular contact with those driving the 'leader' businesses so that they can accelerate their implementation.

Look for innovative learning solutions

- Look for ways to accelerate the training and development of your in-country teams – including distributors – in the large markets such as China and India. One approach being tried is the establishment of a 'learning academy' delivering classroom style training. Another is to place existing learning materials online so that your teams and partners can learn independently of any schedule of courses. Anther approach involves intensive deployment of highly experienced expatriates and expert consultants in the early stages of a new business development project, as providers of vital operating know-how that cannot be obtained any other way.

Look at multi-channel distribution in Asia's large emerging markets

- Market growth for many companies in China and India has now moved to the next geographic tier of cities. You will need to work with your sales and distribution network in innovative ways to achieve cost-effective expansion of your sales there. Having mobile sales employees work alongside channel partners to support them, providing monitoring and verification processes that work across multiple layers of the distribution channel are some important ways of adding to the sales momentum while also keeping a good grasp on customer information.

High quality mostly means high control

- Don't sacrifice control. It can be more effective to grow your business at a rate that you can support and sustain than to grow it at a rate that causes problems in the way the business is done, in business ethics, in capacity to supply reliably, to provide quality service and support, and in the ability to manage the expanded operations effectively. Out of control growth is not 'smart growth' at all; it usually rebounds in unpleasant ways.

Develop scalable investment options led by demand

- Carefully and constantly monitor the business metrics and demand forecasts before taking step-wise decisions to expand capacity. It may be sensible to look at options for supplying from a suboptimal location, or contracting from a third-party as transitional steps, until it is clear that an investment in new capacity is going to pay off. And explore opportunities to apply innovative technology that makes various aspects of the business more easily scaleable.