

# Winning in Asia

*Creating long-term value*

A SPECIAL REPORT



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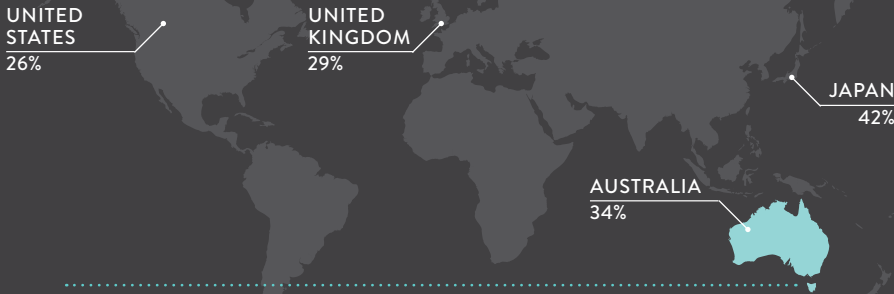


# Executive Summary

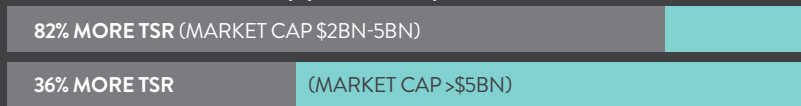
# WINNING IN ASIA: CREATING LONG-TERM VALUE

## 1. AUSTRALIAN COMPANIES ARE BECOMING MORE INTERNATIONAL

### PROPORTION OF FOREIGN REVENUES BY REGION (ASX 200 vs international peers)



Internationally focused ASX 200 companies create more value than domestically focused companies



Amongst the ASX 200, multiple sectors are predominantly international % of offshore revenues

- >70%**
  - Materials
  - Healthcare
  - Information Technology
- <25%**
  - Industrials
  - Comm. services
  - Energy
  - Consumer discretionary
  - Banks
  - Consumer staples
  - Insurance
  - Utilities
- >25% <50%**
  - Div. financials
  - Real estate

ASX 200 Asia Pacific (APAC) revenues have grown the most between 2014 and 2019

↑ **8.5% p.a.**



EMEA, Americas and other market share of total foreign revenues



## 2. BUSINESS MODELS TO DELIVER SUPERIOR RETURNS DEPEND ON THREE THINGS

### Clear evaluation criteria

- Size of the prize
- Potential for play
- Right to win
- Path to achieve

### 11 Asia capabilities

- Individual
- Organisational

### Executing through the right business mode

Agent/distributor, E-commerce, Licensing, Strategic alliances, Corporate venture capital, Wholly owned subsidiary, Joint venture (JV), Mergers and acquisitions (M&A), Listing in host country

Case studies to show how business models drive market share, profitability and returns



## 3. MATCH FIT ASIA-CAPABLE SENIOR LEADERS ARE ESSENTIAL TO ENABLE SUCCESSFUL ASIA EXPANSION STRATEGIES

OVER 90% ARE NOT ASIA-CAPABLE (>50% ASIA CAPABILITY SCORE)

**13.8%** Average Asia capability of board members

**13.5%** Average Asia capability of senior executives

**80%**

of companies that have above average Asia capability generate over 40% of their revenues from Asian markets

## 4. STRENGTHEN EXTERNAL AFFAIRS TO MANAGE STAKEHOLDERS, BRAND AND REPUTATION IN ASIA



>50% of market value is attributable to reputation in key Asian markets

[Weber Shandwick, 'The State of Corporate Reputation in 2020: Everything Matters Now']



The external affairs function of Australian companies in Asia is often smaller than European and US companies



Media sentiment in reporting on Asia related business and economic issues is not strongly positive, negative or neutral relative to business reporting on the US or Europe

# EXECUTIVE SUMMARY



## DOES OFFSHORE EXPANSION LEAD TO SUPERIOR RETURNS?

- 1. Australia's largest listed companies are becoming more internationally diversified**, as measured by the proportion of revenues generated in foreign markets. **ASX 200 companies generate 34 per cent of their revenues from foreign sources**, more than the largest listed companies in the UK (29 per cent) and US (26 per cent), but less than Japan (42 per cent). This is largely driven by the mining and materials sector. In consumer discretionary, consumer staples, energy and industrials ASX 200 companies generate the lowest proportion of offshore revenues compared to peers from these other regions.
- 2. The share of revenues from foreign sources among ASX 200 companies has increasingly been driven by exports to the Asia-Pacific**, which accounts for 42 per cent of the share. From 2014 to 2019, the number of companies exporting increased by around 10 per cent, while five additional companies generated over 70 per cent of their revenues offshore.
- 3. In Australia, industry dynamics have significant influence on the decision to expand overseas.** High domestic market saturation, opportunities to achieve economies of scale in sales volumes to offshore markets, and a high level of cross-border flexibility and low levels of regulation are some of the factors that influence offshore expansion. In 2019, the materials, healthcare and information technology sectors all generated 70 per cent or greater of their revenues offshore. Subject to ongoing industry dynamics, significant upside remains in offshore expansion in consumer discretionary, consumer staples, banking and the insurance sectors, all of which currently generate less than 10 per cent of revenues offshore.
- 4. There is evidence to suggest that, among larger companies, those that are internationally diversified create more value for shareholders** than companies that are domestically focused. For the medium (\$2b-5bn) and large (\$5bn+) market cap groups, the internationally diversified group outperformed the domestically focused group on average in long-term value creation, measured by a five-year Total Shareholder Return (TSR) from 2014 to 2019. Internationally diversified companies in the medium group achieved on average 82 per cent more shareholder returns, while in the large group they achieved on average 36 per cent more shareholder returns. This outperformance by large, internationally diversified companies generally holds within industries as well.
- 5. There is no uniform answer to offshore expansion.** It requires sound strategic rationale supported by strong execution. There is no 'one size fits all' answer to international expansion; business leaders should assess geographic expansion against other growth opportunities on a case-by-case basis. This observation is supported by analysis of the complete ASX 200 dataset which finds no uniform relationship between a company's geographic revenue mix and its TSR.

## HOW THE BEST 'WIN IN ASIA': BUSINESS MODELS FROM COMPANIES SUCCEEDING IN ASIAN MARKETS

- 1. Our research emphasises a three-part framework to considering and applying business models in Asia.** This includes a model to clarify criteria to pursue opportunities, a capabilities framework to execute and modes of entry. We profile 22 case studies of companies succeeding across markets and sectors.

2. We focus our research on the **success of local and non-Australian multinationals in China** over the last two decades. Key factors include the ‘consumption upgrade’ by Chinese consumers, the rise and influence of the internet, cultural change in Chinese business practices (impacting product development, business processes, and marketing), the integration of international brands, marketing and distribution across Tier 1, 2 and 3 cities, and the critical use of customer data to drive decision-making. **We use case studies in infant formula, sportswear, food service, hotels, and technology to illustrate how customers, revenues and operating profits can be grown in China.**
3. Our research on the **success of multinationals in India highlights a breadth of criteria, capabilities and entry modes adopted to succeed.** Case studies across the automotive sector, FMCG, diversified financials, and insurance illustrate a breadth of business models that have led to significant market share, returns and profitability. **Through our analysis of returns generated, we highlight how the Indian operations have become the most valuable asset of various multinationals.**
4. We showcase **a new selection of Australian companies** that have succeeded in Asian markets. The sectors covered include consumer staples, consumer discretionary, property, construction and infrastructure, technology, healthcare and financial services. A range of entry modes from joint ventures and wholly owned subsidiaries to acquisitions are presented to highlight that Australian companies – led by Asia-capable leaders – across sectors, bring world-class strategic thinking, products and services, technology, and relationships to succeeding in Asia.
5. **We contrast Australian public companies with private companies** and identify that private companies distinguish themselves across three key criteria in their approach to engaging with Asian markets: relationships with family-owned companies in Asia, long-term orientation, and the use of patient capital.

## MATCH FIT 2.0: CREATING ASIA-CAPABLE LEADERS

1. **The average Asia capability scores for board members and senior executives in the ASX 200 are 13.8 per cent and 13.5 per cent respectively.** Importantly, only seven per cent of board members and senior executives would qualify as Asia-capable (that is, have a score greater than 50 per cent). **This means that over 90 per cent of senior leaders (board members and senior executives) in the ASX 200 would not qualify as Asia-capable.** These results are concerning as our research has consistently found that companies with an above average level of Asia capability in their senior leadership generate a greater proportion of their revenues from Asia.
2. **We found that leaders were, on average, strongest in their knowledge of Asian markets and weakest in their ability to adapt to Asian cultural contexts.** This suggests that while Australian business recognises the need to understand the market opportunity presented by Asia, this knowledge is not yet matched by an appreciation of the cultural skills needed to execute on those opportunities.

3. We found that financials, consumer staples and materials were the sectors with the highest number of Asia-capable board members and consumer discretionary, materials, financials and consumer staples had the highest number of Asia-capable senior executives.
4. What these results indicate is that, subject to industry dynamics, there is significant upside potential in our consumer staples and consumer discretionary companies assessing and executing opportunities with Asian markets. They are underweight with their international exposure while they have amongst the highest number of Asia-capable senior leaders. Our materials and diversified financial companies are already strong with their international exposure.

Our banks and insurance companies are very low with their international exposure but they have had significant experience already in evaluating opportunities with Asian markets across a range of products and services. The value of Asia-capable senior leaders to our banking and insurance sectors may lie in their understanding of international best practice in governance, risk management, technology and management.

Finally, the results indicate that for as long as we remain export-driven in commoditised sectors, the relative need for Asia capabilities in board and senior executive teams may be lower. **As we transition to more outbound investment, typically in more services driven sectors, the relative value of Asia capabilities will increase.** Consequently, as we seek to export a greater proportion of services to the Asian region, Asia-capable senior leadership will be critical to successful offshore expansion.

## EXTERNAL AFFAIRS: MANAGING STAKEHOLDERS, BRAND AND REPUTATION IN ASIA

1. **A strong, well-resourced external affairs capability is important for navigating business opportunities in Asia, especially for investors.**
2. Most Australian companies operating in Asia have a limited external relations presence in the region, including at the individual country level. Of the larger Australian companies, some have external affairs representation in regional headquarters. However, the size of the external relations presence is often smaller than US or European company teams. **Building adequate strength and quality in external affairs teams is essential to managing critical risks related to matters such as bribery and corruption,** influencing policy and actively managing the corporate brand and reputation.
3. Our research highlights that, over the last three years of media reporting on economic and business issues, **there is limited evidence to suggest that the media is more or less positive, negative or neutral on Asia** than other regions, in particular the US.

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