Partnership Key to Achieving Profitability, PwC Says

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Bangkok--15 Jan--PwC Thailand

Forging local partnerships will be the key to success for businesses looking to become profitable in new markets, says PwC Thailand. Strategic foreign partnerships are essential for companies both in developed countries looking to expand into growth markets and emerging players looking for opportunities in their neighbourhoods.

Key investment destinations in Southeast Asia include Thailand, Indonesia and frontier market Myanmar. Brazil, Russia, India and China (BRIC) are more established markets, while Nigeria, Mexico and Turkey have also attracted investor attention.

Sira Intarakumthornchai, CEO of PwC Thailand, said that multinational corporations (MNCs) are spending a considerable amount of time and money on prioritising markets to enter and identifying consumer segments on which to focus.

"What's more crucial is choosing the right partner to navigate the complex and fragmented routes to market," he said. "To stay viable and grow, entrepreneurs must understand the cultural differences and business environment in that market in order to identify the right partner."

Citing PwC's Presence to Profitability report by its Growth Markets Centre unit, Sira said finding a right partner will give a company 'presence' in the market. The keys to 'profitability', he said, are putting in place the right organisational structure, setting up systems to increase visibility for distributors and setting up clear timeline expectations.

The PwC report, which identifies the steps that companies need to take in order to pursue profitable opportunities in growth markets, found that companies looking to expand into growth markets often need to rely more heavily on local third parties than they would normally in their home markets.

This means they must get used to having less control and visibility over how their products or services are delivered to customers.
Distribution seen as a key challenge

While most MNCs have long recognised the importance of growth markets to boosting their profits, few have developed distribution networks that provide them with the same levels of confidence and profitability that they enjoy in their home markets, Sira said.

"Distribution is seen as the most difficult aspect of entering into a new growth market. This is in addition to the lack of basic infrastructure such as roads and facilities, the sheer size of some of these markets, and the need for local knowledge and strong local relationships."

MNCs' increased legal obligations in new markets, particularly regarding financial compliance and governance, has led many to minimise their risks by entering countries mostly through arm's-length agreements.

This underpins the importance of having a partner who fully understands and adheres to local and domestic regulations and trade treaties.
Changing consumer behaviour in growth markets from value to premium also forces MNCs to rethink business models and approaches to meet demand and remain competitive.

Although GDP forecasts in many growth markets have been revised down slightly due to slowing growth in China, emerging markets and developing economies are projected to collectively contribute more than 60% of global GDP by 2019, Sira said, citing IMF forecasts.

Growth in the US and the UK may be accelerating, but it's still at a fraction of the rates available in the growth markets.
While concerns grow of a slowdown in emerging markets, Sira said he believed they will remain the main driver of growth in the future.
"Developing the right distribution strategies in the growth markets will become even more crucial as operators look to expand their capacity."

"For instance, we see growing interest in the automotive sector, especially with the OEMs and their associated supply chains looking to expand capacity in Southeast Asia and Latin America, while reducing capacity in more developed markets such as Europe and Australia."

Partnering up with foreign operators
Similarly, establishing partnerships with foreign counterparts will help Thai business operators to mitigate the uncertainties of entering an unfamiliar market.
Partnering with those possessing specific Know-How or technological advantages, in particular, will give business a competitive edge and close a technological gap to compete with rivals.
It's essential to make partners feel part of the company through trust and loyalty, Sira said, adding that most Asians prefer to get to know their partners first before entering into a formal agreement.
"In Thailand, key factors are to always show integrity, transparency and a genuine interest in the benefit of the other party," Sira said.

"With Southeast Asia being incredibly fragmented, with many countries and different religions and languages, we tend to prefer a softer approach, meaning that we secure a friendship before getting to the point.

"So, sometimes we can come across as having a hard time saying no. Some may appear more agreeable in business meetings than they actually are."

Sira concluded that an effective partnership is, nevertheless, not a guarantee to future growth.

Some businesses may need to bring on different partners – or partner with someone else entirely.

"Being prepared that certain partnerships may end will enable businesses to adjust effectively if things aren't working out as expected."

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