Asia Consumer Products forum

Asia-Pacific consumer product trends: building cost-effective platforms for growth

25 - 26 March, 2014
Singapore
Agenda

► Translating some of the key themes from Andrew’s presentation to the local market
► Set up the context for topics over the next two days
What are the trends we see in the market?

<table>
<thead>
<tr>
<th>What is influencing the trends in the Asia-Pacific market?</th>
</tr>
</thead>
<tbody>
<tr>
<td>► Emerging markets are the main engine for growth and profits.</td>
</tr>
<tr>
<td>► Companies are having to balance a number of apparent contradictions.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>The questions our clients ask...</th>
</tr>
</thead>
<tbody>
<tr>
<td>► How to build cost-effective <strong>platforms</strong> for growth?</td>
</tr>
<tr>
<td>► What <strong>location</strong> for a regional office?</td>
</tr>
<tr>
<td>► How to centralize <strong>activities</strong> into regional offices?</td>
</tr>
<tr>
<td>► What is the optimal end-to-end <strong>supply chain</strong> footprint?</td>
</tr>
</tbody>
</table>
Trends – what location for a regional office?

Singapore is the prime RHQ location, but China is fast closing the gap, resulting in dual RHQs: Singapore for South Asia and Shanghai/HK for North Asia.

Assessment criteria: Top 5
1. Proximity to clients and markets
2. Favorable legal and regulatory environment
3. Stable political environment
4. Access to human capital
5. Favorable tax environment

(Lower cost of operations ranked 8)
Trends – what location for a regional office?

Setting up regional innovation centres to gain insights into the unique consumer needs, rolling out tailored products … balancing local and global capabilities.

**Innovation centers**

**Unique Asian hair and skin properties**

**Distinct Japanese and Korean consumer skin cleansing needs**

**Indians preference for whitening toothpastes**

- **Amway**: Announced plans in August 2013 to open an Asia Beauty innovation center in South Korea, with the intent to strengthen the leadership position of its Artistry prestige brand, drive formulation development and increase speed-to-market across China and South East Asia.

- **Estée Lauder**: Opened an Asia innovation center in China in 2011, to develop products tailored to the specific needs of the Chinese and Asian skin (skin care comprises two-thirds of prestige beauty in China).

- **L’Oréal**: Established an R&D center in China in 2005 to understand the unique properties of Asian hair and skin and develop tailored products. Based on research that Korean women put in considerable time and effort in skin cleansing, L’Oreal acquired Clarisonic in 2011 and in May 2013, launched the company’s **vibrating cleansing device**, which claimed to clean six times as effectively as hands do, to target this segment.

- **Colgate (India)**: Established an oral care category innovation center in 2006, which works closely with the Technology Centers in India and the US, to develop tailored products for the Indian market. Based on this, Colgate has been the first player to launch a variety of innovations, including a ‘whitening’ toothpaste through ‘Colgate Visible White’ (2013).

- **PepsiCo**: Opened a food and beverage innovation center in China in 2012, to serve as a hub of new **product and packaging innovation** for PepsiCo’s businesses across Asia.

- **P&G (China)**: Customer research managers moved in with Chinese families to gain insights on their purchasing power and buying pattern. E.g., research provided valuable insights, including that urban consumers are willing to pay more than US$1 for a Crest toothpaste with exotic flavors, rural consumers, however, prefer the 50-cent Crest Salt White, based on the belief that salt whitens teeth.

- **Häagen-Dazs (China)**: Launches products designed exclusively for the Chinese market, e.g., a green tea flavor and ice cream cakes in the shape of designer Western perfumes for Valentine’s day.
Trends – centralizing activities into a regional office?

Centralizing management followed by procurement is typical. Centralising further, requires balancing the entrepreneurial focus of each country with the synergies of centralization.

**Key functions**
- Management
- Finance
- HR
- IT
- Procurement
- Manufacturing
- Logistics
- Supply planning
- Continuous improvement
- SHE/Food Safety
- Regional Account Management
- Brand Marketing
- R&D
- QA
- Sales
- Customer service
- Distribution
- S&OP
- Trade marketing

**Trends**
- Centralizing low impact functions regionally
- Centralizing high-impact functions within a country before centralizing regionally
- Managing similar countries as a “cluster” before managing as a region, with one P&L
- Managing as a region by category
- Establishing centralized delegations of authority and ways of working before wholesale process redesign
- Acquisitions are a trigger for centralization
Trend – Players are increasingly hiring local talent...

- **Häagen-Dazs (China)**: Recruits shop managers locally to ensure familiarity with the customers’ culture and that their expectations of experience are met.

- **L’Oréal (China)**: Moved its Asia-Pacific management and training development center from Singapore to China to focus on developing local management; 95% of L’Oréal China’s employees, including brand managers and marketing/sales executives, are local.

- **Unilever (Vietnam)**: Approximately 95% of managers, 80% of directors and 40% of the board of management are local.

- **Unilever (Indonesia)**
  “Being Indonesian, we don’t need to spend thousands on research to understand Indonesian consumers. We live here. We know. We tell London what to do, not the other way around.”

  — Maurits Lalisang, Chairman, Unilever Indonesia
Trends – what is the optimal supply chain footprint?

China and India dominate as locations for low cost manufacturing but are increasingly focused on domestic markets, creating the need for cost-effective regional solutions to serve new emerging markets.

**Considerations – Top 5**
1. Favorable economic environment
2. Infrastructure – e.g. access to ports, rail
3. Total product lifecycle costs e.g. R&D, design, production, logistics, duties
4. Total cost of goods (not just access to labor)
5. Supply and cost of land

**Manufacturing trends**
1. Consolidation and closure in mature markets like **Australia**
2. **Thailand** as manufacturing hub for South Asia
3. **Malaysia** and **Indonesia** as alternatives
4. **China** – local for local with shift toward Tier 2 cities
5. **India** – local for local
6. **North Asia** solution – Korea for Japan

**Distribution trends**
- Home-grown logistics companies competing against MNCs
- Traditional trade continues to dominate
- Modern channels with dedicated in-house teams fastest-growing but still small in emerging markets
- Consumer purchasing behavior limits modern channel penetration
- Distributor business management is becoming core capability to actively review and manage performance of distributors
- Investing to modernize traditional channels through perfect stores
Trend – innovative channels to market including rural focused distribution networks, online channels and retail

Increasing rural reach

- **P&G (Vietnam):** Uses boats in the Mekong Delta to access rural consumers living on the water, to sell low-cost lines including sachets of its “Downy Single Rinse” laundry softener.

- **Colgate (India):** Tripling the number of villages where its products are sold up from 5,000 villages in 2010-11; increasing penetration through rural salesmen.

- **Unilever (India):** Aggressively stepped up its direct reach, by increasing its direct retail coverage from 1 million to 2 million stores during 2010–11. Growth has been driven by increased rural outreach, in which the “Shaktiman” initiative (a part of its Project Shatki, a direct-to-consumer sales distribution network relying on female micro-entrepreneurs to tap rural growth) played a key role. As part of this, men from participating families were identified and assigned responsibility to sell products to surrounding villages via bicycles.

- **Häagen-Dazs (China):** Started facing stiff competition from local (Mengniu, Baxy and Guangming) and global (Unilever and Nestlé) players, which forayed into the refrigerated monocake market, and resulted in increased competitor stores in primary cities. To maintain leadership, Häagen-Dazs has started focusing on expanding its distribution by opening shops in secondary cities, along with driving in-store visibility.

Tapping online channels

- **Coca-Cola (India):** Piloted an online store for home delivery of all its products in June 2013, under which it will manage its own distribution and supply chain.

- **Danone and Nestlé (China):** Partnered with Tmall, China’s leading B2C online channel, in March 2013, to launch direct sales and delivery of milk powder for six brands of the two groups. The brands (Danone – Karicare, Nutrilon, Cow & Gate and Dumex; Nestlé – NAN.H.A and Wyeth) will be directly supplied from the countries of origin, i.e., New Zealand, the UK, Germany, the Netherlands and Switzerland. This is in light of a new development in the stringent Chinese regulatory environment with respect to control over the shipment and sale of milk, and offers consumers a new channel to buy milk goods.

Innovative retail models

- **Unilever (India):** Initiated its Perfect stores project in May 2010, wherein it works with “mom and pop” stores and chemists to help transform them into more of an organized retail format. The company has been aggressively focusing on this, and has doubled its perfect store network by adding 500,000 stores during FY12. A key revenue driver, the new format now accounts for more than 90% of its sales from the retail outlets channel.
Thank you
About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

How EY's Global Consumer Products Center can help your business
Consumer products companies are operating in a brand new order, a challenging environment of spiraling complexity and unprecedented change. Demand is shifting to rapid-growth markets, costs are rising, consumer behavior and expectations are evolving, and stakeholders are becoming more demanding. To succeed, companies now need to be leaner and more agile, with a relentless focus on execution. Our Global Consumer Products Center enables our worldwide network of more than 16,000 sector-focused assurance, tax, transaction and advisory professionals to share powerful insights and deep sector knowledge with businesses like yours. This intelligence, combined with our technical experience, can assist you in making more informed strategic choices and help you execute better and faster.

© 2014 EYGM Limited.
All Rights Reserved.

EYG no. 0574
CSG/GSC2014/1326860
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com