A SPECIAL SUPPLEMENT TO THE JULY 2020
ASIA TASKFORCE INTERIM REPORT
DECEMBER 2020

WHAT SUCCESSFUL COMPANIES DO WELL

Case studies of Australian businesses in Asia

Asia Taskforce is an initiative of

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WHAT SUCCESSFUL COMPANIES DO WELL

The Asia Taskforce's Interim Report provided a snapshot of our thinking on factors and drivers behind winning strategies and businesses. Here we marry these preliminary observations with more granular details derived from several in depth case studies of Australian businesses that have pursued growth in Asia. Specific examples have been drawn from some of these companies to illustrate key insights. Detailed accounts of four of these showcase firms (Lendlease, Cochlear, Seek and ResMed) are appended to the chapter.

According to the World Bank's Doing Business 2020 Report, Asia is home to the full spectrum of rankings on the ease of doing business from Singapore in second position to Myanmar at number 165 (out of 190 countries). Similar rankings are also found in Transparency International's Corruption Perception Index.

Growth in much of developing Asia is not a risk-free proposition. Experience shows that companies that have done well have been consistent and persistent in their strategies, while those that failed changed their plans half-way, paused or retreated early. There is no guaranteed formula for success but there are certain features that are always present.

Many Australian companies have succeeded in Asia. Understanding the drivers behind these successes can provide an outline for other companies aspiring to enter and grow in Asian markets.

There are three broad rationales for companies to expand into Asia:

1. **To drive growth** and take advantage of the growing economies, and especially the growing middle class
2. **To diversify revenue** by adding markets outside the home country
3. **To improve operations** and gain access to new supplies, lower costs or new ideas.

In several cases companies have leveraged their knowledge of and presence in Asia for revenue as well as operational gains.

Studying the history and practices of companies that have been successful in Asia has led us to identify eight success factors. The relative importance of each of these factors depends on the company, the market and the method of market entry. Successful companies spend significant time –months and years – to understand this synergy and join each element together in an integrated market-entry plan.

> "Growth in much of developing Asia is not a risk-free proposition… There is no guaranteed formula for success but there are certain features that are always present."

The eight factors are:

Long term vision

A common theme is that entry into an Asian country should be a long term strategic play rather than an opportunistic move to capitalise on a short term opening. This requires a compelling business case in terms of the strategic logic for the entry which allows time for the company to learn and develop relationships needed for success. Managing expectations in terms of the time, investment required, and level of returns is critical to aligning stakeholders (especially investors and the Board) prior to entry. And while there needs to be a clear pathway to profitability, realistic targets and patience are essential.

Cochlear has taken a long-term approach over the last 30 years to its growth in Asian markets, gradually increasing its investments and only recently opening its factory in China after 20 years of operation in that country.

Similarly, **Lendlease** has staged its growth in Asia since 1973, establishing its presence in Singapore, building up its trust and reputation in these markets before expanding into other markets in the region.

For **Bluescope Steel**, tariff arrangements and anti-dumping actions across Asia have led it to pursue a long-term growth strategy based on embedded multi-country production.

Where, when and how to compete

The entry strategy must identify specifically where to compete in terms of which countries and market channels. It should also identify how the company's capabilities can be leveraged or what unique capability does the company bring to the market that will support success.

Treasury Wine Estates recognised the importance of managing their inventory and supply chain as seamlessly as possible. They work closely with customers to forecast and plan for demand while managing stock levels in a way that protects the brand. They take a city by city approach, investing in their network of relationships, with local feet on the ground building knowledge of each local market.

Blackmores, on the other hand, proceeded to develop local products and adapt its branding, product range and packaging in order to address specific requirements and opportunities in different markets across Asia: "With entry into every market, 'you fix, you move, you fix, you move'. You can leverage capabilities and relationships from one market to enter into other country markets (e.g. leveraging our Korean partnership in Vietnam and China). It is very hard to plan the sequence and you do have to rely a bit on luck and learning as you go."

Understanding local business practice

In the specific markets the company should understand how negotiations proceed, what role local culture plays in behaviour and the hierarchy of laws, regulations and market practice. The company should know where the source of this knowledge is in its ranks or if it need to be acquired. Acquiring this intelligence requires a presence in the target country and/or a regional centre like Singapore and will take years.

The approach taken by on-line recruitment firm **Seek** has been to become a minority investor in local incumbent recruiting website businesses in order to gain a detailed understanding of the relevant market and business operation. Once confident of its level of understanding, it has then increased the level of ownership to gain a controlling stake.

Lendlease were quick to recognise the importance of a government's agenda around workplace safety, and subsequently benefited by investing to transfer its knowledge and train apprentices locally.

BlueScope Steel has used partnerships across its Asian operations both to establish a foothold in each target market and to sharpen its understanding of local business practice, local competitor strength and weakness and growth opportunities in each market.

Knowing who and how

Relationships are critical to success and identifying which relationships is critical. The value of these relationships needs to be recognised and should be managed as a strategic asset. There should be clarity on the insights that the company or partner brings to the business.

Lendlease was successful in securing the confidence and trust of prospective Asian clients by showcasing their Australian projects and expertise to senior government officials as a demonstration of their capability and strength of client relationships.

Infant milk formula producer **A2** has leveraged in-country partners to navigate a challenging regulatory environment, choosing to partner with a Chinese state-owned distributor to facilitate entry and understand market complexities.

Alliance management capability

Identify partnerships or alliances that close gaps in understanding or capability and be clear on how value is transferred in the alliances. Understand the risks presented by partners and choose those partners carefully.

ResMed and **Cochlear** adopted similar approaches for alliances when expanding into Asian markets. Both companies would look to setup a single local distributor for a market. At some point this model would plateau, as the single distributor would only be able to reach so many hospitals and providers on their own.

At this point, they would typically appoint additional distributors until a country's operations reached a size that warranted having a direct customer relationship and local operation. Rather than cut the distributor out when they entered the market directly, they look for ways to protect the relationships and knowledge they have built with those local distributors.

Reputation and image

Know who the company is dealing with and deliver on commitments. Promise only what you can deliver and deliver what you promise.

Investing in being seen as a 'local operator' can also deliver significant long-term returns.

ANZ recognised the importance of establishing its retail business in order to attain success for its institution bank. To do this it invested in tangible, bricks and mortar assets that gave the market confidence that its presence in Asia was going to be long term.

Treasury Wine Estates has been faced with challenges around brand counterfeiting. They work closely with local authorities and industry partners to identify and enforce quickly. They also support consumers in making more informed purchasing decisions by providing QR verification labels across Penfolds releases and introducing signature bottles across select wines.

Bluescope Steel invests in localised production facilities in each country, focusing on becoming a 'local operator' with in-country relationships as well as to avoid regulatory and tariff restrictions on transporting products across borders.

Empower people close to the market

Successful companies have combined Asia capable talent from the home market with strong local talent. In many cases being represented by locals improves relationships and the understanding of cultural nuances. High levels of trust for local management is critical given the speed of change in markets and the importance of relationships. Over-reliance on decision-making by the head office, and lack of local autonomy are unlikely to enable the responsiveness needed.

Dr Gordon Perchthold (Singapore Management University) observes that "the main challenge for Australian management, which has been acclimatized to operating in the context of limited competition within the Australian market, is that they have not yet learned how to 'survive in the jungle' that is Asia. Too often the motive is to find a quick path to revenue growth, rather than thinking of investing in a strategic platform. The timing for returns within the initial business case always looks rosier than the reality and does not cater for things not going to plan, and so expectations are not set appropriately, and patience is lacking."

One underutilised but potentially highly valuable resource here is the large diaspora of highly qualified Australian university alumni who live and work across Asia.

Blackmores recognised the need to empower local teams to meet the day-to-day challenges of running a business. They recognised that it is hard for an ex-pat to run and operate a local business due to their lack of understanding the local culture, language and relationships. During the period 2009 to 2020, Blackmores built its local Asia team from 200 to nearly 1,000 staff.

ResMed has invested to build and acquire local capability and feet on the ground, then giving its local operations freedom to experiment. They have been investing to understand and support the entire pathway for patients of their sleep apnoea medical device in different markets, which means they have needed to adapt their digital platforms, build awareness in the local market with physicians and consumers, launch operations and identify ways to scale that for the local market. If one initiative falls short, ResMed tries something different, being mindful not to overinvest and building confidence in proving an approach for a particular market.

Similarly, Cochlear uses local teams to lead in-country operations across Asia, with a regional headquarters supporting country led buseinesses

Governance model

The local team will need autonomy to succeed, but oversight from the core leadership, so that risks, performance and progress are visible. Developing process and structures that build trust and understanding while enabling autonomy is critical. Change can be required at head office. Often companies have a local advisory board. Bringing senior executives and boards into the market to develop understanding of the country, relationships and economic landscape is important. Head office presence at local relationship-building activities sends a signal of commitment and respect.

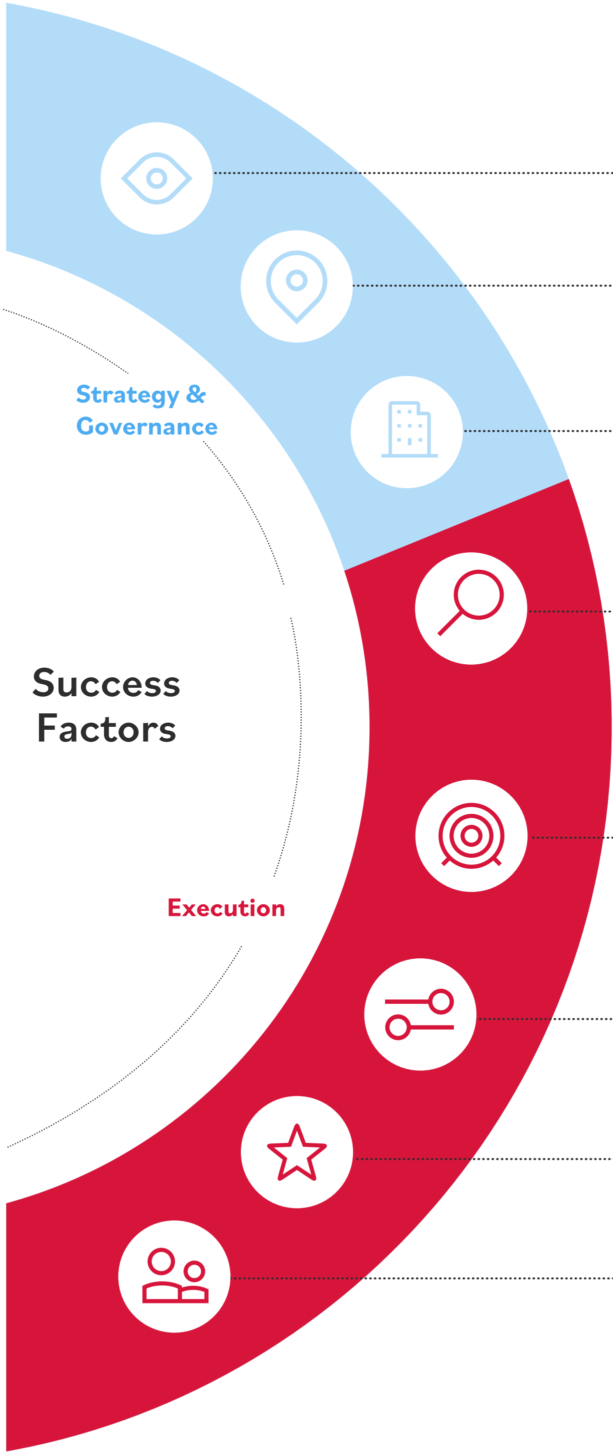
All successful companies demonstrated long term commitment by their Board and CEO, and which persisted through any changes of their CEO or Chair.

Lendlease took an approach of appointing their former CFO to lead their business and be responsible for growth in Asia. This meant that the executive and Board could provide a ‘light touch’ treatment, given that they had an experienced senior executive responsible for Asia, and who already had the trust of the CEO and Board.

Seek took an approach of investing with a 3-5 year timeframe, never trying to justify multiple or targets that would normally be imposed by the share market. They saw the challenge of getting the investment level right so that they were able to balance achieving the right economies with leveraging the local team and knowledge. They did this by acquiring minority stakes in local players and then growing these gradually until they owned the local players outright.

The chair of infant nutrition exporter, **Bubs**, has a strong personal knowledge of the Chinese business context.

Eight success factors for Australian companies entering Asia have been draw from the case study sample



1 Long-term Vision & Alignment

- The Journey will be challenging so ensure early alignment around the Vision - & a compelling 'Business Case'...
- ...But retain some flexibility about the precise sequence and timing

2 Where, When and How To Compete?

- Asia is a Complex Portfolio: Agree screening criteria & Prioritise Options
- Implement in Flexible Phases
- Identify distinctive, transferable, capabilities & invest in them early

3 Governance Model

- Build Asian Capability of Board: Specialist Sub Committee & Advisory Councils have value
- Plan Board meetings in the region
- Avoid distracting Group leadership by early creation of a high profile, 'silver hair', 'Face to Asia' = e.g. 'Chairman Asia' role to attend the frequent and important 'ceremonial' functions

4 Build Understanding of the "Asian Way"

- Distinct local 'flavours' but also some Pan-regional themes e.g., 'Contract may be the beginning of negotiations'....
- ...So early HR 'stock-take' of in-house Asia skills
- ...And begin tailored hiring, skill building, coaching

5 'Know Who' and 'Know How'

- Treat Relationships as strategic assets of the firm & rapidly formalise processes to identify & manage them
- Share 'Know How' skills with strategic partners as a 'soft' tool to strengthen relationships

6 Alliance Management Capability

- Alliances can be the most flexible way to selectively close capability gaps...
- ...So 'audit' - & strengthen - alliance management processes

7 Reputation and Image

- While large 'Asian' business networks are tight knit so define 'desired' image - and 'audit' current perceptions among key decision makers/influencers
- Mantra: 'Promise only what you can deliver and deliver what you promise...'

8 "Empower the People Closest to the Market"

- "Asia" is ever changing - and 'hard' data is hard to come by so review HR Model on both KPI's - and length of 'time in role' - to build both experience, and authority of local team...
- Seek-out- Asian-experienced staff internally
- Mantra: 'You don't know Who can play the violin until you ask'

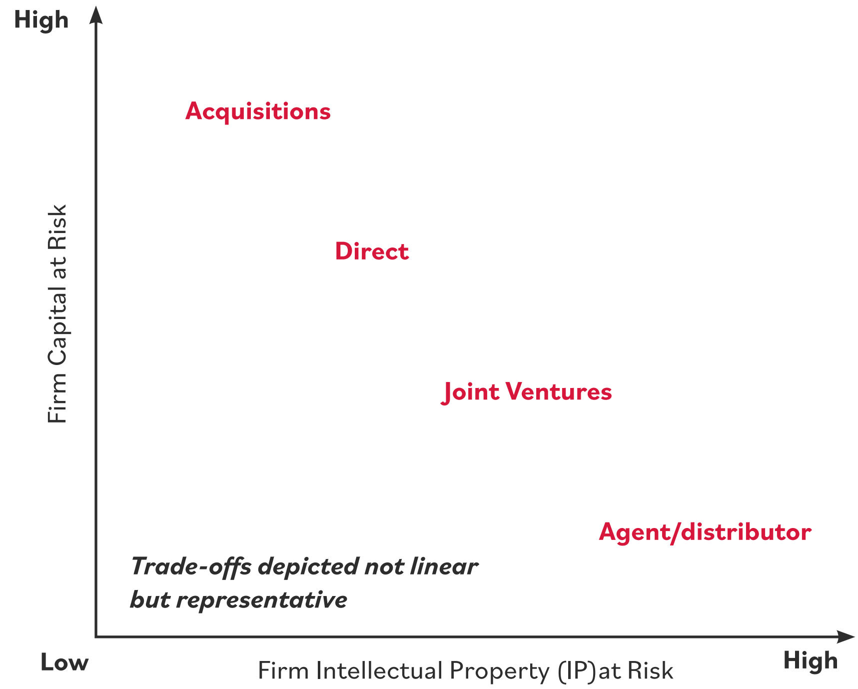
Source: Strategy&, PwC

We studied companies that had entered Asia and either withdrawn or had significant setbacks. In each of the cases we studied at least one or two of the 8 success factors had not been adopted. There are examples of companies that entered Asia without a knowing where and how to compete –the capabilities or market positions that led to competitive advantage in Australia were not able to be replicated in Asian markets or local competition was underestimated; some companies changed their commitment to Asia when Board and executives changed, sometimes because the original strategy was not seen as compelling; others chose the partners who did not have the same values or standards which inevitably led to conflict, distracting from strategy execution.

We also heard that institutional investors do not support the expansion of Australian companies into Asia. Investors have responded to this saying that they do not support companies investing where they do not have a competitive advantage.

A large market opportunity is not a reason on its own to enter an Asian market, a clear strategy supported by the 8 factors above are needed to capitalise on a large opportunity. Conversely the companies that have succeeded in Asian countries do have strong investor support for expansion in Asia.

Alternative operational Modes of Internationalisation



Source: Adapted from Alternative operational Modes of Internationalisation, Dr Gordon Perchthold, Singapore Management University

As well as following the eight success factors, successful companies have adopted different approaches to entering markets depending on their risk appetite and the investment needed. Where possible, lower upfront investment while relationships and market knowledge are developed will minimise the risk and reduce expectations for rapid returns.

We have identified four entry models.

Agent/distributor

The lowest cost-entry model with the benefit of the cost being largely variable. Selection of the right distributor(s) is essential. This approach is sometimes used to develop market knowledge and presence before building a direct presence or proceeding to acquisition.

A2 Milk Company entered the tightly regulated Chinese baby formula market in 2013, followed by entry to South Korea in 2018, in both cases using single distributors. In China, its chosen distributor was a government owned enterprise, China State Farm, which served to facilitate ease of access and reduced short-term risk.

While Infant nutrition producer, **Bubs**, has also used partnership with local distributors to access the Chinese market since 2017, it has partnered with multiple local retail distributors including, most recently, online behemoth Alibaba (which also now has a significant indirect equity interest in Bubs).

Joint Ventures

These have been used to leverage local companies' market positions and knowledge or are required by local regulations. They are often complicated because it is difficult to get complete alignment on objectives which can lead to tension and frustration.

Lendlease operates in Asia using combination of direct subsidiary investments and project specific JVs. It uses JVs with local government connected entities to strategically advance chances of winning high-value public interest projects as a foreign company.

With the decline of its domestic letter-carrying business, **Australia Post** has sought alternative revenue streams in Asian manufacturing and e-commerce, using JVs as its preferred entry method in China, where since 2005 it has partnered with several dominant local entities, including China Post, Alibaba, Aramex and China Direct Stores. Its partnership with the latter business enables Chinese shoppers to purchase goods in Australian that Australia Post then ships to China.

Direct

Provides the highest level of control but also requires a high upfront cost (usually a fixed cost) and long lead times because relationships and understanding need to be built.

Treasury Estate Wines entered the market through a distributor before pivoting to form direct relationships with Chinese retailers, e-commerce providers and wholesalers providing greater control over operations and how their brands are marketed and priced.

Natural health products producer **Blackmores** has used direct investment in subsidiaries to drive its success in diversifying and growing its revenue streams across Asia. Under CEO Christine Holgate (2008-17), it redirected its market focus from Australia to Asia, adding additional subsidiaries in Singapore, China, Korea and, most recently India. However, in other markets, it has also used JVs (Indonesia) and distributor partnerships (Vietnam, Kazakhstan and Pakistan).

As a means of accelerating market development and investment in Asian markets, **ResMed** has transitioned to a multi-channel (online and offline) sales model via a mix of direct operations and distributors.

Likewise, **Cochlear**, which first entered markets in Asia via distribution agents in the 1990s has subsequently pivoted to direct investment (via both distributor acquisition and subsidiary start-up) once market presence was established. It now has its own production facilities under development in China.

Acquisition

High upfront costs but comes with benefit of an established market position. Understanding the history and any liabilities acquired is critical, leading to longer due diligence process. Loss of key personnel in an acquisition can damage the business.

Seek used strategic acquisition of major market players to quickly enter and compete in an already competitive landscape (e.g. acquisition of JobStreet and JobsDB. Its entry approach has focused mainly on acquisitions, acquiring a minority holding in a #1 or #2 player initially to gain local market knowledge before increasing its stake to gain more control and influence.

It has targeted key market players facilitating entry to a competitive market and sought to contribute to, rather than control, acquisition targets – empowered those closest to the market and leveraged pre-existing networks. Seek initially entered China through acquisition, purchasing 25% of Zhaopin, China's No.2 job advertiser, in 2006. This share increased to 56% by 2011. Its subsidiary, SEEK Asia, which was launched as a JV in 2010 has subsequently become a wholly-owned subsidiary.

Bluescope Steel's initial move into Asia in the mid-1960s involved the creation of subsidiary operations in ASEAN countries. More recently, its preferred approach in Japan, Malaysia, China and India has been a combination of acquisition and JVs, including JVs with Nippon Steel and India's Tata Steel.

As the above case examples indicate, these models are not mutually exclusive, and many companies start with lower risk options and increase their exposure as their knowledge and experience grows. Some organisations utilise different models in different markets, and sometimes within larger markets.

A comprehensive risk management approach is an important component of any market entry strategy and Asia is no exception. Research by the Taskforce into successful and unsuccessful entries into Asian markets shows six important areas of risk:

Political, legal and regulatory

Political instability, increasing and changing regulation and uncertain legal processes are characteristics of many markets. As China's recent restrictions on imports of Australian primary products, including barley, cotton, wine, coal, sugar, timber and lobster, attests, regulatory whim can pose a major risk.

Treasury Wines has been faced with challenges around brand counterfeiting. They work closely with local authorities and industry partners to identify and enforce quickly. They also support consumers in making more informed purchasing decisions by providing QR verification labels across Penfolds releases and introducing signature bottles across select wines.

Bribery and corruption

Most companies face challenges in managing business practices that present serious reputational risks for the organisation. Paying bribes is not only illegal but is also a lazy business practice.

Competition

What advantages do local or international competitors have in the market - prices, relationships or other factors? How will this change when faced with a new entrant?

Dr Gordon Perchthold (Singapore Management University) observes that "the main challenge for Australian management, which has been acclimatized to operating in the context of limited competition within the Australian market, is that they have not yet learned how to 'survive in the jungle' that is Asia. Too often the motive is to find a quick path to revenue growth, rather than thinking of investing in a strategic platform. The initial business case always looks rosier than the reality and does not cater for things not going to plan, and so expectations are not set appropriately, and patience is lacking."

Market dynamics, capabilities and infrastructure

Markets and preferences can change rapidly, mechanisms for delivering after-sales service can be different to home markets and the capability to deliver these services may require development or re-invention.

Despite its solid success in accessing market share across Asia, shifting market dynamics continue to pose a risk for **Blackmores.** Changes in how customers shop have seen shifts across e-commerce and in-store. While revenues surged in 2015 due to significant demand via the opening of cross border e-commerce in China, including daigou sales, more recent years have seen a slowdown due to a tightening of regulations and professionalisation of daigu trade and overall increased competition as more foreign brands have launched in the market.

Relationships

Relationships are critical to success in Asia. But relationships are often opaque. Companies must seek to understand the motivation behind relationships and be cognisant of bribery and corruption risks that may arise.

Country specific knowledge

Success in one Asian country does not necessarily lead to success in another country. A specific country strategy (and in some countries an even more localised strategy) is needed along with a tailored risk management approach.

While **Lendlease** leverages in-country partnerships to build relationships, this requires robust due diligence regarding both prospective partners and clients.

Companies that have succeeded in Asia have taken country-specific approaches, have identified the criteria and requirements for success in advance, have fully understood and engaged their stakeholders and built meaningful relationships with them, and have managed expectations and risks once they have settled on a long-term strategy. They are also able to respond quickly and adjust strategy when markets and conditions change.

A more detailed discussion on how anti-bribery and corruption risks can be managed will be covered in our Final Report.

WHAT SUCCESS IN ASIA LOOKS LIKE: SHOWCASE EXAMPLES

Lendlease

A Strategy Built on Long-term Vision, Core Capabilities and In-country Partnership

Strategy and Execution

Lendlease has been operating in Asia since 1973 and has been involved in over 41,000 construction projects in the region. Its success is based on pursuing long-term growth opportunities arising from demographic shifts in Asia, namely the region's rapid urbanisation and an aging population: "Asia is a 10-15 year journey – don't go in if you are not going to commit for the long haul". Lendlease has an integrated global business strategy targeting 7 'gateway cities', including Singapore, Kuala Lumpur, Shanghai, Beijing and Tokyo.

The firm uses a mixture of joint ventures and direct investment in wholly owned subsidiaries in Asia, combined with project specific joint ventures. It leverages in-country partnerships to build relationships, an important factor given the complex political and public interests in large-scale developments. This requires robust due diligence regarding both prospective partners and clients.

Success Factors

The company has a clear long-term vision and focuses on developing a rich understanding of Asian ways, while avoiding the trap of treating the region as a homogeneous group. It builds strong in-country relationships with partners and stakeholders, including authorities and government officials, and actively manages alliances to ensure long-term success.

It recognises that understanding differences in markets and construction industry value chains within Asia requires agility and adaptability. Accordingly, it has targeted telecom infrastructure project management in Japan and development of aged care facilities in China.

Lendlease has also been extremely successful at leveraging and empowering local talent: "Our regional team has seasoned locals with experience in relevant markets (as opposed to ex-pats). It is important to know the business at a regional level, but also at a local level. You need a crisp local perspective to get things done."

Building brand trust is equally critical to gaining a competitive edge. To this end, Lendlease has sought consistently to be a good corporate citizen, focus on work safety, share IP and training and make a positive difference in the host location.

Also vital is having a healthy respect for the local competition: "It is also necessary to adjust your attitude from being the 'big gorilla' in Australia to a 'little fish' in Asia. You must respect the local competitors in Asia – they can be very big and fierce."

Challenges and Risks

Competing for nationally significant development work as a foreign enterprise necessarily involves political and legal risks. A related challenge is having to demonstrate that the firm has a clear competitive advantage over local businesses. Untargeted and broad international expansion has also delivered some hard lessons, with Lendlease being forced to scale back its international operations in the wake of the GFC to focus on key gateway cities in a drive to lift profitability.

Cochlear

Success by helping countries develop their treatment for people with profound hearing loss

Strategy and Execution

Cochlear entered Japan in the late 1980s and then expanded in Greater China, India, Korea and South East Asia in the 1990s. Initial market entry was by partnering with distributors in each country. In each of these countries Cochlear was the first company to offer cochlear implants. Therefore, the entry strategy was focused on developing the market by training surgeons, building awareness of the indications and benefits of Cochlear implants and very importantly educating governments. This approach is inherently a long-term approach. the path for care, the expertise and infrastructure all had to be developed. As markets grew, Cochlear opened offices in countries and slowly built its own employee base. These employees worked alongside distributors.

The distributors were good partners to grow the business in the initial stages. However, growth required reinvesting cash. Once the business searched a certain size some of the distributors preferred to take cash out rather than reinvest. At these points Cochlear, often replaced distributors with employee sales teams. These teams were hired locally, as were country managers, ensuring strong knowledge of local market conditions and practices.

Government funding is critical to the growth of cochlear implants and so building relationships with Government and providing information on the benefits of the therapy was needed to expand access and sales. Pricing and product configurations were also tailored to meet different price points. Giving trusted local managers a high level of autonomy with a very strict compliance framework has enabled local teams to be responsive to local market requirements, competition and customers. Cochlear has continued to invest in each of these markets over the last 25 years. This accelerated with the construction of factory in Chengdu, China starting in 2018.

Success Factors

Cochlear targeted the larger and more developed Asian countries first and progressively expanded across the region. Selecting the right distributor through appropriate due diligence was important. Cochlear invested alongside distributors in training and marketing as well as adding Cochlear employees. These employees enabled Cochlear to build knowledge of the local market, ensured Cochlear employees held key relationships and was a check on distributor performance and practice. This approach created strong local teams with deep market knowledge over time.

Challenges

Each country has different practices and healthcare systems so strategies had to be specific to each market. Distributor relationships are challenging, maintaining a balance of power between distributors and the company is critical to ensuring effective commercial negotiations with distributors.

When distributors have too much power by “owning” key local relationships they their power increases and they can extract better pricing. Cochlear is a global company and about 16% of revenue comes from Asia Pacific. It can be challenging to ensure enough priority is given to the requirements of Asian countries in developing the corporate strategy.

ResMed

Successful Transition from Franchising to Acquisition and B2C

Strategy and Execution

Pivoting from solely relying on 3rd party distributor franchising of its core sleep-disordered breathing and ventilation devices to setting up local operations and sometimes acquiring distributors has allowed ResMed to deepen its penetration of Asian markets. ResMed's initial success in Asia was in Japan where ResMed successfully partnered with two large local distributors to seed and grow the market. Japan is now one of ResMed's largest businesses globally.

In other Asian markets, ResMed typically started with a sole exclusive distributor then later expanded to a multi-distributor model. In order to manage multiple distributors and also protect the ResMed brand and IP, ResMed set up local teams in China, India, Korea and Singapore (some via acquisition of local distributors).

Around 10 years ago ResMed also set up its second manufacturing site in Singapore to complement its Sydney manufacturing operations and be closer to its Asian component suppliers. "Once you get to five to ten distributors in a market, then you need a local team there as well. We started with one or two employees, then grew to having five-plus, became a legal entity and set up our own warehouse."

ResMed's current preferred model in Asia markets, where, unlike western markets, consumers are not reimbursed for using its products, is to have a direct (B2C) relationship with the end-user: 'We prefer to control the entire pathway for our patients'. Building on this approach, it is now also using markets in Asia to trial product/service diversification and e-commerce innovation (e.g. digital marketing, cloud-connected devices, self-diagnosis, data analytics), with the aim of creating technology-enabled care services. It is also investigating how to leverage machine learning and AI to personalise care for patients.

Success Factors

ResMed targeted markets with strong demand due to rising middle class and investment in healthcare infrastructure, developing strong brand recognition in target medical device segments, with a focus on superior quality protecting it from threat of IP loss and lower cost local competitors.

In China, ResMed acquired a local medical device company in 2015 to expand into the "value segment" of the market. Its acquisition of local R&D and manufacturing capabilities in China through its subsidiary (Curative) has cemented ResMed's leadership position in this market by expanding the product range and allowing ResMed to compete head-to-head with local Chinese brands.

ResMed currently pursues a "two brand" strategy in China and is investing in new digital tools like mobile apps and e-commerce to reach more patients.

Underlying ResMed's success to date in Asia has been a willingness to experiment with commercial models and digital technologies, and take calculated risks: "Get something working, then scale it. And remember that success is not always correlated with the immediate financial investment. If something doesn't work, be flexible."

Challenges

ResMed's success in Asia hasn't been trouble-free. Local teams are given considerable autonomy but still must be overseen to maintain alignment with parent entity priorities. Thus far, unlike Cochlear, ResMed's medical devices are not covered by health insurance or government reimbursement in most Asian countries (including Australia).

Further, having operations across a growing number of Asian countries require a nuanced understanding of local cultures national healthcare systems and consumer/patient behaviour. Replicating strategies from the US and Europe have not necessarily worked for ResMed in Asia.

Seek

An Inorganic Approach to Growth in Asia

Strategy and Execution

After it had established itself as a leading employment marketplace in Australia, Seek sought growth internationally by focusing on emerging markets, including China and South East Asia. It recognised the favourable market dynamics in Asia, with significant regional economic growth, increased internet penetration and rapid urbanisation driving demand in the online employment classifieds sector.

Seek's Asian expansion strategy was to focus on gradual, staged acquisitions of leading 'jobs board' businesses to gain local market knowledge before increasing its stake to gain more control and influence.

Seek initially entered China through acquisition, purchasing 25% of Zhaopin, China's No.2 job advertiser, in 2006. This share increased to 56% by 2011. Seek also expanded into South East Asia through acquisition in 2008, purchasing of 23.1% of JobStreet, a top job advertiser across Malaysia, Philippines, Singapore and Indonesia.

In December 2010, Seek established a new subsidiary, SEEK Asia, with SEEK owning 69% and Tiger Global, Macquarie Capital and Consolidated Media Holdings owning the rest SEEK Asia then became a vehicle to acquire 60% interest in JobsDB, a Hong Kong-based business that had job ad websites in nine Asian countries, in 2010.

SEEK Asia then proceeded to expand its ownership of its Asian investments, taking 100% ownership of JobsDB in 2012 and JobStreet in 2014. Seek gradually increased its share of SEEK Asia between 2010 and 2018, until it eventually acquired 100% ownership in March 2018.

SEEK now operates in Asia through its wholly owned subsidiary SEEK Asia and majority shareholding in Zhaopin in China. In FY19 Seek drew over 50% of total sales revenue from its Asian operations and investments.

Success Factors

One of Seek's main foundations that provided them with a key success factor in Asia was in their relatively simple business model. They recognised what they were good at, and then stuck to this, proving their business capabilities in their home market first. This then put them in a strong position to value other similar businesses.

Seek's market entry and growth in Asia has been to invest in inorganic pathways as an approach to build their understanding of a market Their recognised acquisitions as investments in relationship building, respecting the locally acquired businesses and motivate them by a common vision for growth rather than pushing for productivity improvements. They foster an open leading and respectful culture with management, and recognised it was important to empower those who were closest to the market.

Seek's leadership also took a long-term focus on sustainable investment through gradual and strategic investments with a 3-5-year timeframe. This helped them to manage risk and avoid any share market pressure that would otherwise require the delivery of quick returns from the complex markets they participated in.

Challenges

It was always a challenge for Seem to get the investment level right, and then balance priorities around achieving economies of scale versus leveraging the local team and knowledge. They recognised that they could not just leave it to the local teams to make all the decisions, as this would leave a lot of opportunity on the table.

They also recognised that they could not just bring the same approach from Australia as this would mean they missed many of the market nuances.

Another challenge they increasingly face now is finding the right balance between autonomy to pursue local opportunities versus staying aligned with the rest of the group and investing in opportunities that have the potential to bring greater regional expansion. For example, determining which brand should line up with which market to avoid the potential for channel conflict or brand dilution. Also, where there could be opportunities to invest in synergies for the back-end to build scale and get a bigger "bang for the buck" on enabling capabilities or platforms.

In October 2019, the Business Council of Australia and Asia Society Australia together with knowledge partners PwC Australia and the University of Sydney Business School formed the Asia Taskforce of senior leaders from the business, education and government sectors to examine how Australian companies and organisations can increase their presence and position in Asia to ensure our continued prosperity and deliver progress for future generations.

This report refers to Asia as the countries of South East Asia, South Asia and North East Asia.

This Discussion Paper and other publications by the Taskforce can be found at https://asiasociety.org/australia/asia-business-taskforce

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