
# DKSH

## The E-Commerce Opportunity

THAMMASAT UNDERGRADUATE
BUSINESS CHALLENGE

2014

# THE E-COMMERCE OPPORTUNITY

***" Our successful transformation into a leading Market Expansion Services provider with a strong global brand and impressive track record is the result of the consistent implementation of our strategy for sustainable, profitable growth."***

- Dr. Joerg Wolle, President & CEO, DKSH Group

## 1. INTRODUCTION

In April 2014, shortly after Mr. Sanjay Guha was appointed Head Business Unit Consumer Goods of DKSH – the No. 1 provider of Market Expansion Services with a focus on Asia – one of the areas he is looking to explore is the e-commerce space. He believes that DKSH has a lot to benefit from this under explored platform. However, the question lies in how DKSH best leverage technology and e-commerce platform in its business starting with the Consumer Goods Business Unit[1].


***"Asia has been our home for over 140 years now."***

- Ed. A. Keller & Co. Ltd., Philippines

[1] Sanjay Guha, Head Business Unit Consumer Goods, DKSH, interview by author, Bangkok, June 6th 2014

## 1.1 DKSH 150 YEARS IN ASIA[2]

In the middle of the 19th century, Asia's vast opportunities encouraged three young and adventurous Swiss entrepreneurs to embark on a journey into the unknown. Wilhelm Heinrich Diethelm, Eduard Anton Keller, and Hermann Siber-Hegner followed the advice of their day, which was: "go east, young man". Independently of each other, they sailed the oceans and endured many setbacks like falling overboard into the sea or losing warehouses to the devastations of fire.

Little did they know that the entrepreneurial spirit with which they founded their trading houses would lay the foundations for decades of successful trade.

In 1865, Siber & Brennwald was established in Yokohama; in 1868, Eduard Anton Keller joined C. Lutz & Co. in Manila, which he acquired in 1887. Wilhelm Heinrich Diethelm joined Hooglandt & Co. in 1871 in Singapore, which he took over in 1887 and renamed it to Diethelm & Co. Ltd. The early days in Singapore when Wilhelm Heinrich Diethelm, for instance, was considered a 'Sinkeh' – a greenhorn – passed quickly and the fledgling enterprises soon began to grow.

Over the years they established flourishing companies that evolved into major players in South East Asia, China, the Asian Pacific region, and Japan. With a reputation as reliable business partners they earned the respect and trust of major international companies and local business communities alike. Having mastered the challenges of the 19th and 20th centuries, the Diethelm Group and the Keller Group formally joined forces in the year 2000. In 2002, Diethelm Keller came together with Siber-Hegner to create a global services company with a unique pan-Asian network: DKSH was born.

## 1.2 THE DKSH SUCCESS STORY

In each year since the merger of the Asia activities of Diethelm Keller with Siber-Hegner Holding Ltd. in 2002, DKSH has achieved uninterrupted annual growth. This major success story is built on the fact that DKSH totally re-invented the conventional business model of trading companies and created a distinctive new category: Market Expansion Services. The numbers are compelling: since the merger, net sales have more than doubled, EBIT increased fivefold while our footprint has expanded by 178%, now covering 680 offices in 35 countries. Moreover, in the years since the merger, more than 12,900 new jobs have been created. They are now ready to take on the next step and cement their position as the leading Market Expansion Services provider with a focus on Asia.

In order to actively manage its expansion, DKSH has carefully laid the groundwork for further growth and has constantly invested in its infrastructure with new distribution centers and a cutting-edge IT infrastructure. In addition, they have extended their network and continuously strengthened their leadership while attracting the industry's top people. All these measures, combined with the company's continuous strife for innovation, keep DKSH ahead of the competition and to make it known as the leading Market Expansion Services provider.


***"Fantree trademark stands for our long heritage of truly belonging to the places where we do business."***

- Diethelm & Co., Ltd., Thailand

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[2] DKSH Corporate Media Center - http://www.dksh.co.th/htm/671/en_TH/Almost-150-years-in-Asia.htm

DKSH, headquartered in Zurich/Switzerland, is one of Switzerland's top 30 companies ranked by sales and employees. DKSH's net sales reached CHF 9.6 billion in 2013 and the Group employs 26,700 specialized staff representing 57 nationalities. DKSH operates in 35 countries through a comprehensive network of 710 business locations in Asia Pacific, and 25 locations in Europe and the Americas.

DKSH (Thailand) Limited is a member of the DKSH Group, established in 1906 on the banks of Chao Phraya River. Today, the company is a leader in Market Expansion Services industry in Thailand. DKSH Thailand employs more than 10,000 specialists in Thailand at 201 locations across the country. Their services extend along the entire Market Expansion Services value chain, from sourcing, research and analysis, marketing, sales, distribution and logistics to manufacturing, fulfillment, and after-sales services of a diversified range of products. Through its industry expertise and unparalleled experience in offering Market Expansion Services tailored to the specific needs of its business partners, Thailand has evolved into the most important hub within DKSH's dynamic network. In the region, the Thailand operation serves as a role model in leveraging success stories to other countries.

## 2. THE MARKET EXPANSION SERVICES INDUSTRY[3]

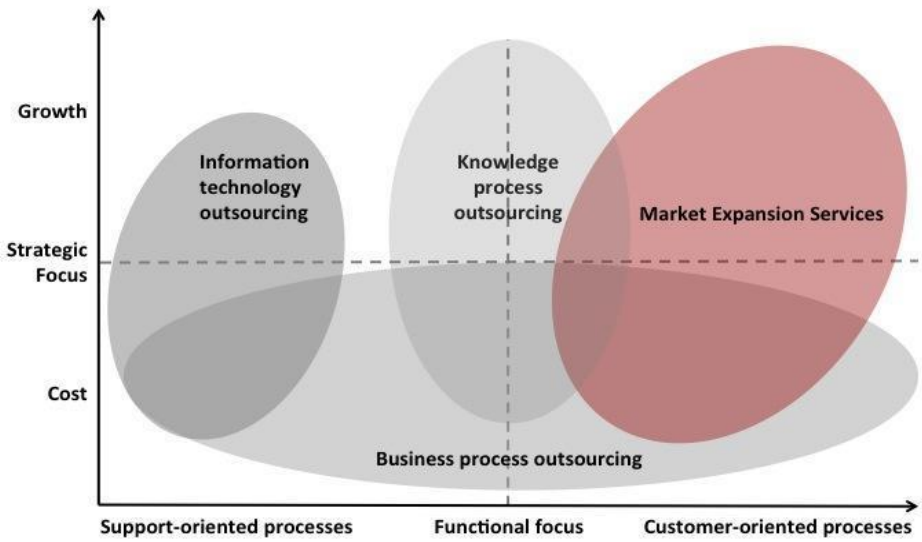
### "An emerging industry"

Market Expansion Services (MES), which is a part of the global outsourcing industry, is a highly attractive sector and promises substantial growth. A growing middle class, increased intra-Asia trade and the tendency of companies to focus on their core competences – these are the three megatrends shaping the attractive growth of the Market Expansion Services industry. Contrary to "conventional outsourcing" such as IT, payroll or accounting which are mainly focus on cost reduction, Market Expansion Services are aimed at top-and bottom line growth, increasing market shares, penetration and coverage as well as reducing fixed costs and complexity. But where does conventional outsourcing end and Market Expansion Services begin?


[3] DKSH Corporate Brochure 2014, Pg 13

## Conventional outsourcing breaks down into three categories:

1. Business process outsourcing involves outsourcing specific business process, such as payroll accounting
2. Information technology outsourcing involves outsourcing IT related processes, such as IT maintenance services, software engineering, and software testing
3. Knowledge process outsourcing involves outsourcing R&D, analytical tasks, legal services, and services in the area of market and/or critical research



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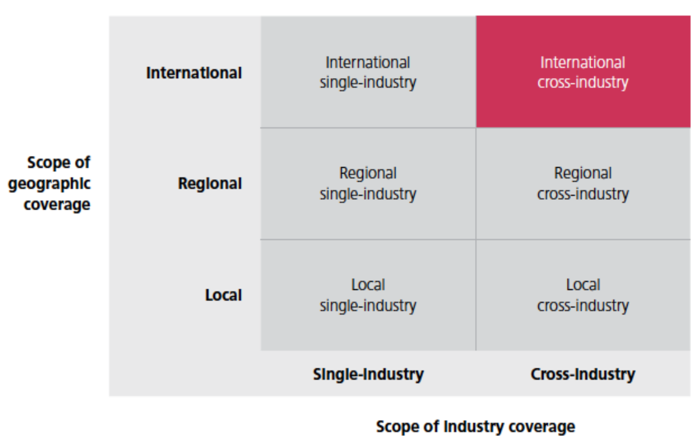
*Market Expansion Services: Premium position in the outsourcing landscape*

Companies engage Market Expansion Services providers like DKSH to help them gain access to new markets and enhance their position in the markets in which they are already present, by enabling them to understand local practices, market specifics, local regulations, legal issues and cultural differences as well as execute their marketing, sales, distribution and after-sales activities on the ground. DKSH assists in overcoming language barriers, gaining access to local customers, and providing deep market knowledge. Given the breath of services offered, MES providers add substantially more value than traditional outsourcing organizations and emerge as the optimal partner for growth and expansion.




*DKSH well-positioned as an international cross-industry Market Expansion Services provider*

[4] DKSH Corporate Brochure 2014, Pg 13

# 3. DKSH BUSINESS MODEL

At DKSH, the business partners are either clients or customers, depending on their position in the value chain and the services the company provide to them. DKSH's business model is centered on the company's role as the key link between clients and customers. DKSH help out partners in growing and adding value to their business and enable them to achieve lasting success. As a result of DKSH's position as the leading Market Expansion Services provider with a focus on Asia, the company benefit from economies of scale, unique cross regional and cross-country synergies and significant bargaining power with the trade.  Leveraging on DKSH's strong market presence, clients can capitalize on the superior commercial terms and conditions made available by DKSH. On the other hand, DKSH's scope and scale allows to provide customers a comprehensive portfolio of products and services.

Clients are manufacturers of fast moving consumer goods, luxury and lifestyle products, pharmaceuticals, consumers health products and medical devices, specialty chemicals and ingredients and advanced machinery or technical equipment that wish to sell their products in markets with high entry barriers. Strategically, they want to grow their business by increasing sales in existing markets, enhancing efficiency and margins, or by launching into new markets. DKSH offers Market Expansion Services to developed market players (clients from Europe and the Americas), and increasingly also for emerging market players (clients originating in Asia). DKSH supports clients in marketing, selling, and distributing their products, as well as providing after-sales services.

Depending on their business, the customers buy or resell DKSH's clients' products. DKSH sells and distributes the products to retailers such as supermarkets, department stores, mom-and-pop stores, luxury and apparel boutiques, doctors, hospitals or pharmacists, there, they are sold to end consumers. Strategically, they want to increase their market shares and revenue opportunities. DKSH supports customers in obtaining the best products, and brands at the best price, while providing them with knowledge and market insight.

*DKSH Business Model*[5]


[5] DKSH Corporate Brochure 2014, Pg 17

## 3.1 DKSH: A TRUSTED LINK

DKSH's clients today need to be able to know everything: the number and location of retail outlets, the shelf life and stock levels of their product, the latest trends influencing consumer behavior, the impact of price changes on consumers, and campaign strategies for advertising and marketing. Whether it is for determining advertising budgets, reducing storage costs or customizing products to customers' needs, accurate, in-depth and extensive market knowledge is imperative.

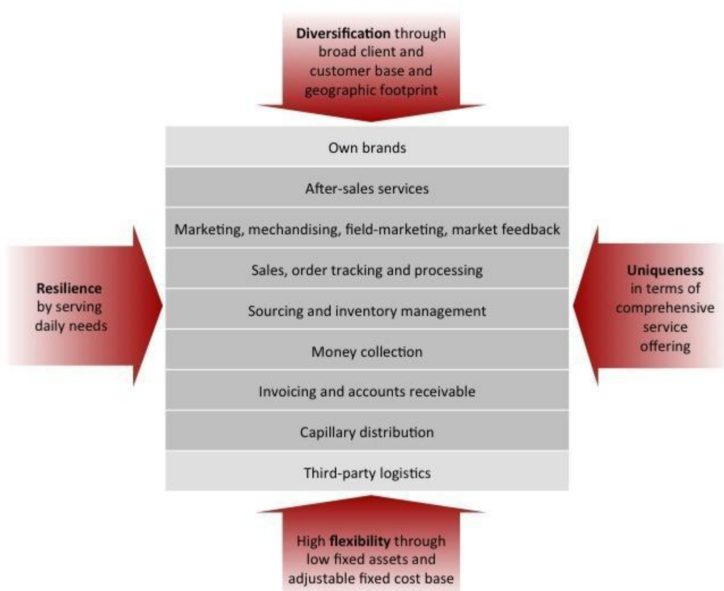
DKSH's deep understanding of customers' needs enable the company to translate clients' brand strategies into a local context with skill and precision. DKSH is the trusted link between clients and customers, guaranteeing the integrity of the value chain and ensuring their products successfully reach the right markets. Whatever the strategic objectives, DKSH provides them with access to all the knowledge, expertise, relationships, and on-the-ground distribution and logistics they need.

## 3.2 A RESILENT AND SCALABLE PLATFORM

DKSH long standing history, know-how and relationships in Asia, combined with unmatched pan-Asian distribution and infrastructure, makes it a truly unique player in the Market Expansion Services industry. DKSH operates throughout Asia across 710 business locations and offers the deepest capillary distribution coverage in the region. DKSH's four specialized Business Units (Consumer Goods, Healthcare, Performance Materials and Technology) combined with broad diversification in terms of industries, regions, goods and value chains; make its business model highly scalable and very resilient.

DKSH provides business partners with a tailor made and integrated portfolio of services along the entire value chain. The vast majority of the products DKSH handles is every close to the daily needs of the people in the markets the company services, which contributes to the resilience of DKSH's business model. DKSH benefits from the a low fixed asset and low fixed cost business model designed to provide it with high operational flexibility and the ability to anticipate changes in the market as they happen.

Leveraging a highly scalable platform and benefiting from network effects, DKSH caters to the expansion needs of business partners as we grow. With every additional client or customer, DKSH's services becomes more comprehensive and operations more efficient, which in turn helps the company to attract more business partners. DKSH's ability to reduce both complexity and cost while providing the benefit of additional market insights from end customers allows clients to focus on their core competencies to today's highly competitive market.

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[6] DKSH Corporate Brochure 2014, Pg 18

# 4. BUSINESS UNIT CONSUMER GOODS – UNCHALLENGED LEADER IN ASIA

DKSH's Business Unit Consumer Goods is Asia's leading Market Expansion Services provider with focus on fast moving consumer goods; food services and hotel supplies; and hair and skin cosmetics. For international and local companies, DKSH offers comprehensive Market Expansion Services to increase their brand awareness and value as well as their market share. DKSH's expertise and broad local knowledge allow the company to feel the market's pulse and respond quickly to the constantly changing trends in the areas of sourcing, marketing, logistics and after-sales-services.

[7]

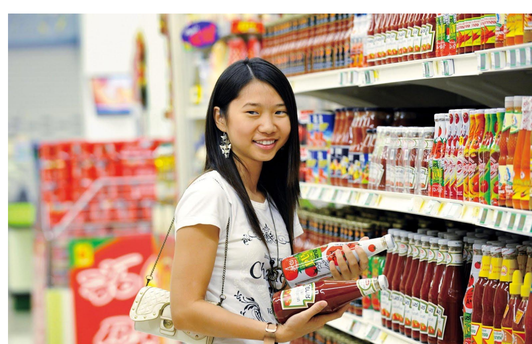
*"Our strength is our flexibility. We are never tied down to any one way of distribution, or to any set formula. We are geared toward fluidity of movement. We respond quickly to changes in order to take advantage of every market situation. Our warehouse infrastructure, our delivery services, our IT system, and our administrative backbone are capable of coping with all the requirements of our customers and suppliers."*

## 4.1 BUILDING LIFE-LONG PARTNERSHIPS

In the century since DKSH (Thailand) Limited set up its business in Thailand, DKSH's Business Unit Consumer Goods has played a significant role, providing opportunities for domestic and international companies to offer high-quality products to Thai consumers. Thailand's distribution structure is uniquely complex. This means that it demands a highly experienced and knowledgeable organization that is also a foremost specialist in retail distribution and consumer product marketing to successfully penetrate the Thai market.

DKSH is set up to handle all categories of fast moving consumer products in all channels in most countries in Asia, whether food or non-food products, ambient, chilled or frozen. DKSH maintain separate sales and marketing teams that are specialized by sales channel or category. For example, the company has separate teams to handle food products, non-food products, toys and stationery, home appliances, footwear, and sports equipment, etc.

When clients express their desire or ambition to grow or expand their businesses, DKSH is the partner that helps clients make better decisions at high cost efficiency and low risk. Profit from DKSH's sound knowledge of the requirements in the FMCG industry and its seasoned staff's specialized sales and marketing skills. DKSH digs deeper to address the complexity of the market to develop an understanding of the unique needs of all the different channels. DKSH has executives, sales and product managers, and sales representatives with the specialized experience and expertise to focus on and push sales across three broad channels: department stores, medium-sized retail stores and mom-and-pop shops. FMCG Business models are branched into Full Service and Third Party Logistics services that include importation, warehousing, co-packing, transportation, selling, marketing, merchandising, and back office services through well trained logistics, sales and marketing teams for both food and non-food products.



[7] "Services." *Consumer Goods*. DKSH Management Ltd./DKSH Holding Ltd., n.d. Web.

## 4.2 CLIENTS AND CUSTOMER SEGMENTATION IN BUSINESS UNIT CONSUMER GOODS

The terminologies used in DKSH are as follows: Clients refer to manufacturers/suppliers and customers refer to retailers. DKSH serves 5,500 clients and 500,000 customers in as many as 710 unique locations alone in the Asia Pacific region and 25 miscellaneous others in the Europe and the Americas.

Customers are branched into four segments: Modern Trade (MT), Traditional Trade (TT), Medical channels (MC) and Special Channels (SC). Examples of medical channels include pharmacies, hospitals; examples of special channels are restaurants, hotels, etc. DKSH has strong leadership in these segments and prides itself in their capillary distribution capabilities.

The interface between DKSH and their Modern Trade or Traditional Trade customers is based on the mentality that DKSH mobilizes its networks, resources and local expertise to support the growth and success of clients. Within Modern Trade channels, DKSH has key account teams that especially collaborate and interface with the bigger chain customers. These key account as well as general account teams works closely with the customers to ensure that DKSH clients' products are, among other retail activities, most attractively displayed on shelf and without shortage of inventories.

## 4.3 SERVICES OFFERED BY BUSINESS UNIT CONSUMER GOODS

DKSH offers companies integrated and tailor made Market Expansion Services along their entire value chain:

### Research and Analysis

**DKSH delivers in-depth market insight to help companies get to know their customers.** DKSH provides companies with in-depth market insight across all categories and markets coupled with unrivalled local knowledge. In addition, DKSH continuously brings companies closer to your markets by conducting systematic research and analysis including surveys, feasibility studies, and more. Ultimately, running a successful business is all about knowing markets and understanding customers' needs and desires.

### Marketing and Sales

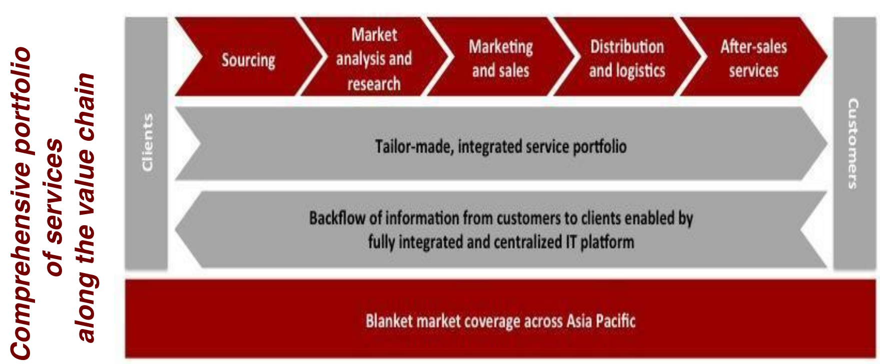
**DKSH increases brand awareness and value in Asian markets.** DKSH offers one of the most comprehensive marketing and sales coverage of consumer products outlets in Asia, serving all relevant outlets from the largest international hypermarkets to the smallest mum-and-pop shop. DKSH has tailored route-to-market models to suit local requirements and share best practices and tools across countries.

### Distribution and Logistics

**DKSH takes care of the clients' entire supply chain.** With a state-of-the-art infrastructure, DKSH has the capacities and the expertise to transport, store and distribute products efficiently and professionally, helping companies to deliver your brand-new, sensitive or fresh products rapidly to every corner in urban or rural Asia.

### After-sales Services

**DKSH offers after-sales services throughout the entire lifespan of products.** DKSH's highly-trained and educated after-sales service staff allows companies to focus on your business and provides clients and customers with reliable services after the sale.



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[8] DKSH Corporate Brochure 2014, Pg 19

# 5.DKSH STRATEGY FOR SUSTAINABLE, PROFITABLE GROWTH

DKSH's vision is to be known as the leading Market Expansion Services provider with a focus on Asia. Any companies thinking of growing their business in or with Asia should think of DKSH first. To accomplish this, DKSH drives a strategy for sustainable, profitable growth that continuously increases its market share and at the same time helps business partners to expand their business.

The cornerstone of DKSH's strategy is the continuous improvement of its successful business model. DKSH continues to what it does best by doing more of the same, more efficiently. The strategy consists of three main areas that enable the company to reach their vision:


***The DKSH strategy***

### Grow Existing Markets and Business Units

DKSH focuses on growing existing markets as well as existing Business Units (see next chapter) through organic growth, business development and by rolling out success stories across the region, complemented with strategic bolt-on acquisitions. Since DKSH has a history of nearly 150 years of doing business successfully in and with Asia, business partners can fully capitalize on the broad knowledge of local markets and culture, infrastructure, and leadership position in the region.

### Strengthen Service Offerings

DKSH continually strengthens and expands the range of service offerings across the entire value chain. To ensure the long-term success of business partners, DKSH constantly delivers more value-added solutions that give them a competitive advantage.

### Increase Operational Efficiency

DKSH continuously improves the efficiency of its processes. The quality of the services is based on best practices and standards throughout the entire organization. An efficient supply chain coupled with synergies across all Business Units and countries allow DKSH to fulfill the diverse requirements of the businesses it serve.

As a financially stable and dependable partner who has been at home in Asia for nearly 150 years, DKSH safeguard clients' and customers' business interests. DKSH has a network of experts and the ability to adapt to the businesses the company serves in any local market.

For partners, accessing these services and the related infrastructure from a single source results in lower cost, enhanced transparency and greater accountability. Working in the clients' and customers' interests, and possessing the expertise to provide strategic advice and on-the-ground distribution and logistics, DKSH makes things happen.

In the endeavor to create sustainable shareholder value, DKSH successfully continues the strategy implementation in 2013, which was evidenced by double-digit profit and net sales growth, and a strong return on net operating capital. Organic growth was complemented by two small bolt-on acquisitions in South Korea and Indonesia.

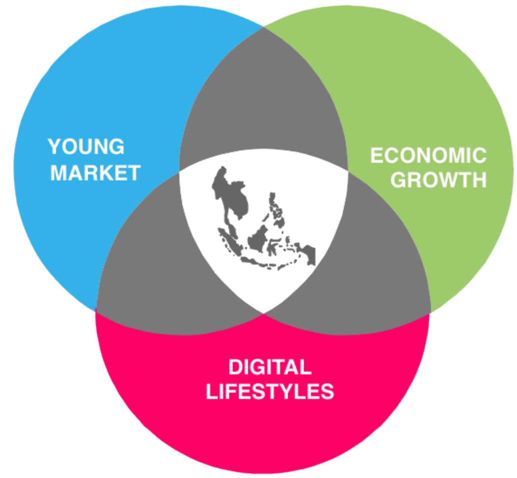
## 6. THE E-COMMERCE CHALLENGE – A STEP CHANGE?

Being a leader in the Market Expansion services, DKSH is constantly looking for ways to improve its operations and services[9]. Over the past decade, e-commerce has taken off especially in Southeast Asia. Mr. Sanjay Guha has identified this to be one of the key areas that DKSH should explore. The key question is how can DKSH leverage e-commerce in its value chain to better serve its customers and/or improve its services. The focus of this initiative will be on Business Unit Consumer Goods. If successful, it could be leveraged to other business units within the organization.

Currently, DKSH operates a few successful digital businesses and as such is open to all options strengthening their e-commerce footprint. DKSH is looking to explore and better pinpoint the role that e-commerce can play in different parts of its value chain.

## 7. E-COMMERCE IN SOUTHEAST ASIA[10]

Southeast Asia is one of the hottest growth regions in the world for e-commerce. Digital technology in the region is also booming, with double-digit growth rates of smartphone sales in 2011 as well as the world's highest usage of social networks such as Facebook, Twitter, and Instagram. Amidst this exciting landscape, e-commerce still remains a nascent opportunity, and is only beginning to take off. What took it so long?




***Factors affecting e-commerce adoption***

### 7.1 REASONS FOR SLOW E-COMMERCE ADOPTION

The first observation that comes to mind is that people there are too attached to their air-conditioned malls. Probably because of the need to escape the humid, tropical weather, 'mall-ing' is not just a favorite activity of Southeast Asians; it's deeply embedded into their cultural and social fabric. Some of the biggest shopping malls in the world are located in Indonesia, Thailand, and the Philippines.

The second issue is underdeveloped infrastructure. Two of the biggest Southeast Asian nations, Indonesia and the Philippines, are composed mainly of islands, so transportation even over short distances can be challenging. Roads are not well paved in many areas. Payment is also an issue, since credit card penetration is low and people still mostly rely on cash for transactions. Internet penetration has grown through the years but still remains low, with many people accessing the Internet in places not exactly conducive to shopping, such as Internet cafes or mobile phones.

[9] Sanjay Guha, Head Business Unit Consumer Goods, DKSH, interview by author, Bangkok, June 6th 2014
[10] Scott Si, atelier.net – Southeast Asia: The next big e-commerce market, 7th Feb, 2013

These hurdles will not disappear overnight, but it seems that the benefits are starting to outweigh the risks for investors. Not only is the region one of the most populous and fastest growing, it is also one of the youngest. Many companies are betting on this tech-savvy and increasingly wealthy generation of Southeast Asians as the next big market for e-commerce.

## 7.2 EARLY MOVERS

Largely untouched by Amazon and Ebay, e-commerce in the region bloomed in 2012 with the entry of German tech incubator Rocket Internet. It quickly launched 5 companies, including Lazada, an almost identical clone of Amazon, and Zalora, a Zappos clone. It was rewarded handsomely for being a first mover in the region. Swedish venture capital firm AB Kinnevik has invested 40 million USD into Lazada. JP Morgan put in an estimated 50 million USD into both Zalora and Lazada.

In C2C, a big player in Southeast Asia is Multiply. Originally conceived as a photo-sharing site in the US, it pivoted last year to become an e-commerce platform mainly catering to the Indonesian and Philippine markets. It now has over 200,000 merchants on its marketplace platform.

Group buying is also a big phenomenon in the region. The most successful one so far is Ensogo. Beginning in 2010 as a startup in Thailand, it has achieved 85% market share in its home market, as well as 60% in the Philippines and 50% in Indonesia. It has since been acquired by Livingsocial in 2011 after a bidding war with Groupon, and serves as one of the most inspiring startup stories in the region so far.

These players have largely been successful by adapting to specificities in Southeast Asia. Most of them operate on COD (Case-on-delivery) basis. Many also offer store pickup services as well as generous return policies. Group buying meshes well with the consumer behavior in the region. Since it's basically an online-to-offline trigger, people get cheap discounts online but still get to go to their favorite malls.

## 7.3 THE OPPORTUNITY: RISING DEMAND, UNTAPPED MARKET POTENTIAL

Compared to many other emerging market regions, Southeast Asia's e-commerce market remains relatively undeveloped. This is true for all the major e-commerce market segments, though more for some than others. Travel booking sites, for instance, are well established in Southeast Asia, and account for a large portion of e-commerce revenues in many markets. Many of the region's customer-to-customer (C2C) marketplaces also have large user bases. Business-to-consumer (B2C) online retail, by contrast, is only just beginning to take hold. Reliable market sizing estimates are not widely available, but based on comparisons between multiple sources, it seems that online retail represents a smaller share of overall retail revenues in Southeast Asia than it does in many other emerging markets, including China, Brazil and Russia.

In the B2C market segment, a major market gap stems from Amazon.com's muted presence in Southeast Asia. Although the e-commerce giant ships to many countries in the region (though not any of the CMLV countries), its shipping rates and delivery times are often non-competitive. Moreover, some of its flagship products, such as the Kindle, are not available for direct order in the region at all. It is still one of the largest e-commerce companies in the region, but is fast losing market share to local competitors that are more squarely focused on the needs of Southeast Asian consumer.

The largest emerging B2C player in the Southeast Asian e-commerce market right now is Rocket Internet, a German startup incubator that operates a large portfolio of e-commerce and other internet companies in the region. In 2013, the company raised hundreds of millions of dollars to expand its foothold in key Southeast Asian markets. The bulk of this money is going towards two of its flagship companies: Lazada, an "online department store" that resembles Amazon, and Zalora, which focuses on online clothing sales. Both of these companies have broad presence in multiple countries across the region.

Rocket is not alone in its regional push. Other global e-commerce leaders, including Japan's Rakuten and China's Alibaba, are also making an effort to localize to Southeast Asia. Meanwhile, many smaller companies are stepping up with ambitions to capture unfilled market niches, such as those offered by single product categories or individual market regions. Of the more specialized retailers, fashion sites gained the highest share of overall e-commerce investment, according to Tech in Asia, but other e-commerce sectors, including flash sales and food delivery sites, also pulled in double-digit millions in fresh capital.

E-commerce "services" companies, which provide operations support and other services to vendors, are also capitalizing on the current boom. So far, Thailand's aCommerce is the only one of these companies that seeks to build an end-to-end e-commerce platform for the entire region. Other companies, including Indonesia's Vela Asia and Singapore's Anchanto, focus primarily on their home markets.

Not all contenders will ultimately achieve profitability or sustainability, but general market conditions are good. For starters, strong economic growth across most of the region in recent years is putting more disposable income in the hands of more Southeast Asians than ever before. About 70 million people in Indonesia alone are likely to enter the middle class in Indonesia by 2020, according a recent study by Boston Consulting Group. Rising incomes in Indonesia and elsewhere in Southeast Asia will lift consumption, and many will turn to e-commerce for their newfound shopping needs.

Other socioeconomic conditions create fertile conditions for e-commerce companies. The region is home to young, rapidly urbanizing populations that show a strong affinity for digital hardware and media usage. Internet and mobile penetration is also increasing, and the region has some of the world's highest social media usage rates, including for leading services like Facebook and Twitter. At the very least, this gives e-commerce companies a powerful channel for connecting with potential customers. It also raises the possibility that social networks will themselves become a leading portal for online commerce.

## 7.4 THE CHALLENGES: MARKET FRAGMENTATION AND UNDERDEVELOPMENT

Despite all the good news, Southeast Asia's e-commerce space is currently underdeveloped for a reason. The region presents major challenges to e-commerce companies, particularly those that require the kind of massive scale necessary to support low-margin products. Some of the main challenges include market fragmentation, low ICT penetration, lack of consumer awareness, logistical hurdles and underdevelopment of the region's financial services sector. Let's explore each in turn.

### Market Fragmentation

Southeast Asia is a large, fragmented market; each country requires e-commerce companies to negotiate a different set of laws, consumer preferences and other complicating factors. Some might argue that it should not even be viewed as a region at all. Yet geographic proximity and other similarities between its various countries, however different in character, have prompted leading e-commerce companies like Rocket Internet and aCommerce to treat it as such, so it's probably fair to give the region-level challenges some consideration.

### Low Internet/Smartphone Penetration

For the most part, e-commerce only works when potential customers are online. Yet internet penetration in much of Southeast Asia remains low. According to 2012 data from ITU, internet penetration was below 40% of the population in every Southeast Asian country except for Singapore, Malaysia and Brunei. It was less than 20% in Indonesia, and in the single digits in the frontier economies of Laos, Cambodia and Myanmar.

Mobile commerce is gaining recognition as a promising frontier for Southeast Asian e-commerce, but low penetration rates form a barrier here too. General mobile penetration grew rapidly between 2008 and 2012, and now exceeds 100% in most markets, but many of these devices are basic phones that lack internet access. Smartphones, while widely deployed in Singapore, Malaysia and Thailand, constitute roughly 23% of phones in Indonesia and 15% in the Philippines. And these numbers refer primarily to urban dwellers–numbers are certainly much lower in the countryside.

The good news is that internet and smartphone penetration is growing fast, and for basic phone users, some companies are developing innovate payments methods that allow people to transact with mobile money. The bottom line, however, is that many people in Southeast Asia do not have sufficient access to the internet to make an e-commerce purchase.

## Lack of Customer Awareness

The lack of technology availability contributes to a secondary issue: lack of consumer awareness about what e-commerce actually is. First movers in the region thus face the challenge of educating the market about the benefits of e-commerce. Concerns about security and reliability could make this difficult. Online fraud is a big problem in many Southeast Asian countries, and it will take time for customers to get comfortable with the idea of trusting a faceless online service with their account information.

## Logistical Hurdles

Across Southeast Asia, underdeveloped or overloaded transit infrastructure, and in some cases physical geography, makes getting products to customers a major challenge in some markets. Urban hubs, “second cities” and rural backwaters all present their own unique challenges. In many of the region’s urban hubs, such as Bangkok and Jakarta, traffic can be a nightmare and slow down delivery times to levels that are unacceptable for customers. Crime, corruption and other security issues, such as government protests, can also disrupt delivery. In more remote areas, by contrast, the challenge is in developing a fulfillment system that can affordably put products in the hands of people who are spread out and live far from distribution hubs. Indonesia and the Philippines, each archipelago with thousands of remote islands, are particularly difficult to serve in their entirety.

## Underdevelopment of the Region’s Financial Services Sector

Another challenge for e-commerce companies in Southeast Asia is underdevelopment in the region’s financial services sector. Outside of highly developed hubs like Singapore, banking and credit card penetration rates remain low across much of the region, making it difficult for e-commerce companies to accept online payments and forcing them to accept less convenient alternatives. According to a 2013 study by Vela Asia, only about 50% of Singaporeans paid online for their e-commerce orders. And Singapore led the region by a wide margin–in Indonesia, Malaysia, Vietnam and the Philippines, less than 5% of e-commerce shoppers paid online in 2013. It is important to note that these figures include shoppers in C2C marketplaces, where online payments are less common. Ratios would likely be higher if marketplaces were excluded, but even so, many Southeast Asian markets are still less than fully ready for online payments.

In lieu of online payments, cash on delivery (COD) is a popular method for e-commerce vendors to transact with their customers, but it tends to be a more problematic means of exchange since it exposes retailers to the risks of loss, theft and nonpayment. Mobile payments, often linked to a device owner’s phone credits, also allow some under banked or unbanked individuals to transact with e-commerce vendors, but outside of countries like the Philippines where they already have traction, these options remain at the margins of online payments solutions today. They are unlikely to become dominant anytime soon, especially since legal and regulatory hurdles in many Southeast Asian countries prevent stakeholders in the financial, mobile and digital sectors from forming the kind of reliable partnerships that make online payments possible.

(For more information on payments, see APPENDIX 1. Online payments: Opportunities and challenges)

### 7.5 Overcoming the Challenge

With the sheer amount of potential income at stake, many internet companies are working to overcome the challenges of building e-commerce businesses in Southeast Asia. Yet the fact that there are so many contenders raises another challenge: competition. For the biggest online department stores, e-commerce tends to be a low-margin business, so market conditions favor large players like Rocket who can achieve scale quickly. Yet niche players might also be able to win big in smaller markets, perhaps by focusing on high-margin goods like branded fashion and beauty products.

At this point, it's still too early to tell how the e-commerce landscape will look a few years from now, but one thing is certain–Southeast Asia's e-commerce industry will continue to grow in 2014. Meanwhile, innovative solutions to the challenges discussed in this article will be discovered and deployed, enabling Southeast Asian e-commerce companies to serve a wider range of goods to a larger segment of the population than ever before.

## 8. E-COMMERCE IN THAILAND

There are four emerging social e-commerce trends we've seen in Thailand in 2013.

**F-commerce:** Now that Thailand has 24 million Facebook users, it's only natural that people are taking advantage of the crowded social network for things other than sharing. This trend is 'Facebook commerce', or f-commerce for short. In Thailand, f-commerce sellers often focus on women's products, ranging from accessories to clothes, skincare products to make-up. However, merely creating a page to sell something is so 2012; in 2013, merchants actually started using promoted posts and other types of Facebook advertising. This made the business a lot more social. This new trend – across Asia as a whole, not just Thailand – was also a chance for startups to offer services to these sellers. And so we saw things like Page365, Instapps, and Bentoweb emerge as services dedicated to building solutions for Facebook vendors in this region. Those all offers an analytics dashboard for sellers to monitor their customers' behavior, product requests, purchases, and view how items are being shared socially within Facebook. In some cases, these Facebook stores in Thailand are making over $100,000 per month in revenue.

**Instagram commerce:** is heartening news for Mark Zuckerberg, Thai people love Instagram as much as Facebook. There are about 1.4 million Instagram users in Thailand right now. This year, the most Instagrammed location in the world is a shopping mall in Bangkok. With the success of Instagram, people embraced the photo-sharing app and made it into a popular marketplace. Basically, instead of posting personal photos, some Thai people turn Instagram accounts into shops selling everything from clothes to vitamins. Of course, using Instagram as a marketplace is a global thing. But merchants in Thailand aren't doing it in the normal way – like using hashtags to promote items – and are instead slipping links into the comments of photos posted by celebrity Instagrammers. In Thai, it's called "fag-ran". Yes, it's spammy. So it's common to see celebrities pleading "Please don't fag-ran" on their Instagram profiles.

What's lacking in Thailand, though, is the tools that manage these transactions. Something that is similar to Statigram. That's something for regional startups to work on.

**M-commerce**: Mobile commerce is an undeniable trend across the region – but 2013 is when we saw it explode in Thailand. The m-commerce king right now is Line, the popular messaging app. Line is the platform that most regional companies choose for online sales promos. This might due to the fact that Line has 230 million registered users, of whom 18 million are in Thailand. That makes the country the second biggest Line user-base after Japan. Big brands such as online e-store Rakuten, Tarad.com have used Line for social commerce projects this year, and global names like make-up brand Maybelline joined in as well. Line itself joined in the m-commerce fun this year too. We can expect to see more brands joining this bandwagon next year.

**Specialist e-commerce**: "Find one thing that you're passionate about and go for it." That's a motto that many startups stick to. It has proved to be good advice for some specialist e-stores this year. In 2013, quite a few interesting new startups were born to tackle niche e-commerce areas. One good example is Pomelo Fashion which focuses on street chic fashion, bringing trends from NYC, Korea, and Japan to a Thai audience. Another is 500Trends, an e-commerce site that's a combination of

Instagram, Pinterest, and Amazon that only sells items that are up-voted. Also this year we checked out WhatsNew, a startup that wants to be the Quidsi of Thailand, spawning numerous new specialist e-stores. There are a lot of causes for optimism in 2014. This year we also saw huge interest in events like the CyberWeek sales blitz in Thailand, and strong growth for e-commerce related companies providing useful services to the industry, such as aCommerce and TrustedCompany. They're working on solving some of the remaining issues that held back e-commerce in Thailand this year, such as poor uptake of e-payments, and a lack of trust in online sellers.

## 9. LOOKING AHEAD

The bigger international players are taking notice. Ebay has ramped up its Southeast Asian efforts. Japanese e-commerce giant Rakuten opened its headquarters in Singapore last year, and is expanding to Malaysia, Thailand, and Indonesia. Startup incubators are sprouting left and right, eager to jump on promising startups such as AVA.ph, a premium fashion retailer based in Manila. The seeds have finally been planted, and there is no way to go but up.

The cultural diversity and infrastructure problems make Southeast Asia a very complicated market, but the untapped potential in this region of 600 million people, bigger than all the EU nations combined, is simply too attractive to ignore. Although it's always been known for its sunny beaches, it's only now that Southeast Asia is finally getting its moment in the sun. 2013 was a year of booming e-commerce in Thailand. Thanks to more 3G coverage, the 131 percent mobile penetration rate, and about 52 million Internet users in the country, more people than ever shopped online. In fact, the Thai E-Commerce Association expects that e-shopping and online businesses will have grown by 30 percent this year, up from THB 119.64 billion ($3.65 billion) spent in 2012. In Thailand, this boom was boosted by newer kinds of e-commerce, things that have evolved from more established channels such as general e-stores and consumer-to-consumer selling via forums.

According to Tech in Asia, investors poured over half a billion dollars into Southeast Asian e-commerce startups in 2013–more than 90% of all publicly disclosed investments in Southeast Asian internet startups that year.

International investors and local start-ups clearly see big potential in Southeast Asia's e-commerce market. Yet despite bold claims and rosy predictions, they're also aware of the major challenges that await those seeking to build a market in the region.

## 10. CONCLUSIONS

Mr. Sanjay looks up from his desk with research papers on the region's e-commerce opportunities and challenges. He knows that there is a big e-commerce market out there that is taking off. However, he is unsure if and how e-commerce will fit into the existing DKSH value chain. Is e-commerce a space that DKSH should venture into? If so, where are the opportunities that DKSH can leverage? What are the risks involved and can they be managed? And finally, would the returns be worth the investment and resources? All these are questions that he needs to get answered.

# Key financial figures

**Consolidated income statement**

| in CHF millions | 2013 | 2012 [1] | % change | % change at CER [2] |
|---|---|---|---|---|
| Net sales | 9,559.0 | 8,808.8 | 8.5% | 10.4% |
| Operating profit (EBIT) | 282.2 | 275.3 | 2.5% | 5.9% |
| Operating profit including gain from sale of property [3] | 309.8 | 275.3 | 12.5% | 16.7% |
| Profit after tax | 214.1 | 183.6 | 16.6% | 20.0% |
| Profit after tax including income from divestments [4] | 241.7 | 208.3 | 16.0% | 20.1% |
| EBIT margin (in %) | 3.2 | 3.1 | - | - |

**Consolidated statement of financial position**

| in CHF millions | 2013 | 2012 [1] | % change | |
|---|---|---|---|---|
| Total assets | 3,386.6 | 3,331.0 | 1.7% | - |
| Equity attributable to the shareholders of the Group | 1,277.2 | 1,153.7 | 10.7% | - |
| Net operating capital (NOC) | 1,078.6 | 1,105.9 | (2.5%) | - |
| Net cash | 214.4 | 56.2 | 281.5% | - |
| Return on net operating capital (RONOC) (in %) | 28.4 | 25.4 | - | - |
| Return on equity (ROE) (in %) | 17.9 | 17.3 | - | - |

**Earnings per share**

| in CHF | 2013 | 2012 [1] | % change | |
|---|---|---|---|---|
| Basic earnings per share | 3.57 | 3.16 | 13.0% | - |
| Diluted earnings per share | 3.53 | 3.09 | 14.2% | - |

**Other**

| | 2013 | 2012 | % change | |
|---|---|---|---|---|
| Specialists | 26,693 | 25,788 | 3.5% | - |

Restated to reflect the adoption of IFRS 11 and IAS 19 revised as explained in Note 2 of Consolidated financial statements DKSH Group

1 Constant exchange rates: 2013 figures converted at 2012 exchange rates

2 Incl. income of CHF 27.6 million from sale of property in Malaysia in 2013

3 Incl. income of CHF 27.6 million from sale of property in Malaysia in 2013 and CHF 24.7 million from sale of OLIC contract manufacturing plant in Thailand in 2012

# Consolidated income statement

| in CHF millions [2] | 2013 | 2012 [1] |
|---|---|---|
| Net sales | 9,559.0 | 8,808.8 |
| Other income | 67.2 | 44.4 |
| Goods and material purchased and consumables used | (8,166.9) | (7,469.4) |
| Employee benefit expenses | (532.2) | (519.3) |
| Depreciation, amortization and impairments | (43.4) | (42.7) |
| Other operating expenses | (579.8) | (547.9) |
| Share of profit of associates and joint ventures | 5.9 | 1.4 |
| **Operating profit (EBIT)** | **309.8** | **275.3** |
| Net finance costs | (1.7) | (13.7) |
| Gain on sale of shareholding | 2.4 | 24.9 |
| **Profit before tax** | **310.5** | **286.5** |
| Income tax expenses | (68.8) | (78.2) |
| **Profit after tax** | **241.7** | **208.3** |
| **Attributable to:** | | |
| Shareholders of the Group | 228.7 | 200.1 |
| Non-controlling interest | 13.0 | 8.2 |
| **Earnings per share for profit attributable to the shareholders of the Group** | | |
| Basic earnings per share | 3.57 | 3.16 |
| Diluted earnings per share | 3.53 | 3.09 |

The accompanying notes on pages 42 to 95 form an integral part of these consolidated financial statements.

[1] Restated to reflect the adoption of IFRS 11 and IAS 19 revised as explained in Note 2.

[2] Except for earnings per share (in CHF)

# Consolidated statement of comprehensive income

| in CHF millions | 2013 | 2012 [1] |
|---|---|---|
| **Profit after tax** | **241.7** | **208.3** |
| **Other comprehensive income** | | |
| **Items that may be reclassed to profit or loss** | | |
| Net gain on available-for-sale financial assets, net of tax of CHF 0.0 million in current and prior period | 0.2 | - |
| Net investment hedges, net of tax of CHF 0.0 million in current and prior period | 4.5 | 2.4 |
| Recycling of currency translation losses | - | 7.1 |
| Currency translation differences | (67.3) | (8.7) |
| **Items that will not be reclassified to profit or loss** | | |
| Remeasurement gains/(losses) on defined benefit plans, net of tax of CHF (2.3) million in current and CHF 1.5 million in prior period | 9.5 | (5.6) |
| **Total comprehensive income** | **188.6** | **203.5** |
| **Attributable to:** | | |
| Shareholders of the Group | 178.3 | 195.2 |
| Non-controlling interest | 10.3 | 8.3 |

The accompanying notes on pages 42 to 95 form an integral part of these consolidated financial statements. [1] Restated to reflect the adoption of IFRS 11 and IAS 19 revised as explained in Note 2.

# Consolidated statement of financial position

| in CHF millions | 2013 | 2012 [1] |
|---|---|---|
| Cash and cash equivalents | 324.5 | 251.4 |
| Trade receivables | 1,606.5 | 1,617.5 |
| Inventories | 818.5 | 841.6 |
| Prepaid expenses | 28.3 | 26.9 |
| Other receivables | 232.3 | 221.1 |
| Current income tax receivable | 6.7 | 3.8 |
| **Current assets** | **3,016.8** | **2,962.3** |
| Intangible assets | 139.3 | 130.0 |
| Other receivables | 2.7 | 3.5 |
| Property, plant and equipment | 127.6 | 143.7 |
| Financial assets | 22.1 | 25.0 |
| Investments in associates and joint ventures | 36.7 | 30.0 |
| Retirement benefit assets | 13.8 | 6.2 |
| Deferred tax assets | 27.6 | 30.3 |
| **Non-current assets** | **369.8** | **368.7** |
| **Total assets** | **3,386.6** | **3,331.0** |
| Borrowings | 59.9 | 114.3 |
| Trade payables | 1,563.9 | 1,503.8 |
| Current income tax liabilities | 23.7 | 34.1 |
| Other payables and accrued expenses | 304.4 | 341.3 |
| Current provisions | 2.3 | 3.7 |
| **Current liabilities** | **1,954.2** | **1,997.2** |
| Borrowings | 50.2 | 80.9 |
| Other non-current liabilities | 22.9 | 18.6 |
| Deferred tax liabilities | 18.9 | 15.5 |
| Non-current provisions | 2.9 | 4.1 |
| Retirement benefit obligations | 22.4 | 27.6 |
| **Non-current liabilities** | **117.3** | **146.7** |
| **Total liabilities** | **2,071.5** | **2,143.9** |
| Share capital | 6.4 | 6.4 |
| Reserves and retained earnings | 1,270.8 | 1,147.3 |
| **Equity attributable to the shareholders of the Group** | **1,277.2** | **1,153.7** |
| **Non-controlling interest** | **37.9** | **33.4** |
| **Total equity** | **1,315.1** | **1,187.1** |
| **Total equity and liabilities** | **3,386.6** | **3,331.0** |

The accompanying notes on pages 42 to 95 form an integral part of these consolidated financial statements. [1] Restated to reflect the adoption of IFRS 11 and IAS 19 revised as explained in Note 2.

# Consolidated statement of changes in equity

| in CHF millions | Share capital | Currency translation | Other reserves | Retained earnings | Total equity attributable to shareholders of the Group | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|
| **As of January 1, 2012** | **6.3** | **(118.7)** | **236.9** | **871.0** | **995.5** | **27.2** | **1,022.7** |
| Adoption of IAS 19 (revised) | - | - | - | (10.6) | (10.6) | - | (10.6) |
| **As of January 1, 2012[1]** | **6.3** | **(118.7)** | **236.9** | **860.4** | **984.9** | **27.2** | **1,012.1** |
| Profit after tax | - | - | - | 200.1 | 200.1 | 8.2 | 208.3 |
| Other comprehensive income | - | 0.7 | - | (5.6) | (4.9) | 0.1 | (4.8) |
| **Total comprehensive income** | **-** | **0.7** | **-** | **194.5** | **195.2** | **8.3** | **203.5** |
| Change in ownership | | | (2.7) | 2.7 | - | - | - |
| Capital increase for incentive plans | 0.1 | - | - | (0.1) | - | - | - |
| Share-based payment transactions | - | - | - | 13.9 | 13.9 | - | 13.9 |
| Treasury shares | - | - | - | 0.5 | 0.5 | - | 0.5 |
| Dividend | - | - | - | (40.8) | (40.8) | (2.1) | (42.9) |
| **As of December 31, 2012[1]** | **6.4** | **(118.0)** | **234.2** | **1,031.1** | **1,153.7** | **33.4** | **1,187.1** |
| Profit after tax | - | - | - | 228.7 | 228.7 | 13.0 | 241.7 |
| Other comprehensive income | - | (60.1) | - | 9.7 | (50.4) | (2.7) | (53.1) |
| **Total comprehensive income** | **-** | **(60.1)** | **-** | **238.4** | **178.3** | **10.3** | **188.6** |
| Capital increase for incentive plans | - | - | - | - | - | - | - |
| Share-based payment transactions | - | - | - | 5.5 | 5.5 | - | 5.5 |
| Dividend | - | - | - | (60.3) | (60.3) | (2.5) | (62.8) |
| Acquisition of subsidiary | - | - | - | - | - | 0.7 | 0.7 |
| Disposal of subsidiary | - | - | - | - | - | (4.0) | (4.0) |
| **As of December 31, 2013** | **6.4** | **(178.1)** | **234.2** | **1,214.7** | **1,277.2** | **37.9** | **1,315.1** |

The accompanying notes on pages 42 to 95 form an integral part of these consolidated financial statements. [1] Restated to reflect the adoption of IFRS 11 and IAS 19 revised as explained in Note 2.

# Consolidated cash flow statement

| in CHF millions | 2013 | 2012 [1] |
|---|---|---|
| **Profit before tax** | **310.5** | **286.5** |
| | | |
| **Non-cash adjustments** | | |
| Depreciation, amortization and impairments on | | |
| Property, plant and equipment | 32.1 | 31.3 |
| Intangible assets | 11.3 | 11.4 |
| Recycling of currency translation losses of business disposed | - | 7.1 |
| Share-based payment transaction expense | 5.5 | 13.9 |
| Gain on sale of tangible and intangible assets | (27.2) | (7.4) |
| Net finance costs | 1.7 | 13.7 |
| Share of profit of associates and joint ventures | (5.9) | (1.4) |
| Dividend received from associates and joint ventures | 2.6 | 1.0 |
| Gain on bargain purchase | (8.7) | (1.4) |
| Gain on sale of shareholding | (2.4) | (32.0) |
| Loss on remeasuring the previous interest to fair value | 0.3 | - |
| Change in provisions and other non-current liabilities | (2.1) | (3.2) |
| Change in other non-current assets | 4.5 | 3.3 |
| | | |
| **Working capital adjustments** | | |
| Increase in trade and other receivables and prepayments | (134.5) | (172.6) |
| Increase in inventories | (35.3) | (58.8) |
| Increase in trade and other payables | 164.7 | 185.2 |
| | | |
| Interest received | 1.0 | 1.0 |
| Interest paid | (6.6) | (8.4) |
| Taxes paid | (81.7) | (76.0) |
| **Net cash flows from operations** | **229.8** | **193.2** |
| | | |
| Proceeds from sale of property, plant and equipment | 37.6 | 12.3 |
| Purchase of property, plant and equipment | (35.2) | (47.7) |
| Proceeds from sale of intangible assets | - | 0.5 |
| Purchase of intangible assets | (2.8) | (5.8) |
| Proceeds from repayment of financial assets | 1.2 | 1.2 |
| Purchase of financial assets and investments in associates and joint ventures | (5.2) | (22.7) |
| Acquisition of subsidiary net of cash | (4.4) | (15.0) |
| Disposal of subsidiary net of cash | 3.0 | 39.4 |
| **Net cash flows used in investing activities** | **(5.8)** | **(37.8)** |

[1] Restated to reflect the adoption of IFRS 11 and IAS 19 revised as explained in Note 2.

| in CHF millions | 2013 | 2012 [1] |
|---|---|---|
| Proceeds from current and non-current borrowings | 108.4 | 388.7 |
| Repayment of current and non-current borrowings | (191.0) | (449.4) |
| Dividend paid | (60.3) | (40.8) |
| Net proceeds from net investment hedges | 4.1 | 7.6 |
| Dividend paid to non-controlling interest | (2.5) | (2.1) |
| **Net cash flows from financing activities** | **(141.3)** | **(96.0)** |
| | | - |
| **Cash and cash equivalents, as of January 1** | **251.4** | **192.2** |
| Effect of exchange rate changes | (9.6) | (0.2) |
| Net increase in cash and cash equivalents | 82.7 | 59.4 |
| **Cash and cash equivalents, as of December 31** | **324.5** | **251.4** |

The accompanying notes on pages 42 to 95 form an integral part of these consolidated financial statements. [1] Restated to reflect the adoption of IFRS 11 and IAS 19 revised as explained in Note 2.

# Segment information

## 2013 by Business Unit

| in CHF millions | Consumer Goods | Healthcare | Performance Materials | Technology | Other | Eliminations | Group Total |
|---|---|---|---|---|---|---|---|
| Net sales third parties | 4,171.1 | 4,254.1 | 770.1 | 363.6 | 0.1 | - | 9,559.0 |
| Net sales intersegment | 0.1 | 0.6 | - | 0.3 | 0.1 | (1.1) | - |
| **Net sales** | **4,171.2** | **4,254.7** | **770.1** | **363.9** | **0.2** | **(1.1)** | **9,559.0** |
| EBIT | 158.1 | 106.7 | 54.4 | 16.2 | (25.6) | - | 309.8 |
| Additions of property, plant and equipment | 16.0 | 11.9 | 1.5 | 2.6 | 3.2 | - | 35.2 |
| Additions of intangible assets | 1.4 | 0.5 | 0.1 | - | 0.8 | - | 2.8 |
| Depreciation and amortization | 17.3 | 12.5 | 2.0 | 3.3 | 8.3 | - | 43.4 |
| Investments in associates and joint ventures | 27.3 | - | 0.2 | 9.2 | - | - | 36.7 |
| Share of profit of associates and joint ventures | 2.2 | - | 0.2 | 3.5 | - | - | 5.9 |
| Total employees | 13,770 | 9,054 | 1,151 | 1,187 | 1,531 | - | 26,693 |

## 2013 by region

| in CHF millions | Thailand | Greater China | Malaysia/ Singapore | Other | Group Total |
|---|---|---|---|---|---|
| Net sales third parties | 3,489.1 | 2,622.5 | 1,980.8 | 1,466.6 | 9,559.0 |
| Non-current assets | 38.8 | 27.9 | 18.4 | 221.2 | 306.3 |

## 2013 country information

| in CHF millions | Net sales third parties | Non-current assets |
|---|---|---|
| Switzerland (domicile) | 144.2 | 138.6 |
| Malaysia | 1,512.7 | 15.6 |
| Hong Kong | 1,170.8 | 3.0 |

Non-current assets exclude financial assets, deferred tax assets and retirement benefit assets.
Net sales of an individual region or country are allocated based on the entities located in the respective country.

**2012 by Business Unit**

| in CHF millions | Consumer Goods | Healthcare | Performance Materials | Technology | Other | Eliminations | Group Total |
|---|---|---|---|---|---|---|---|
| Net sales third parties | 3,946.4 | 3,697.4 | 750.9 | 415.6 | (1.5) | - | 8,808.8 |
| Net sales intersegment | 1.0 | 1.4 | 0.1 | 0.4 | 0.2 | (3.1) | - |
| **Net sales** | **3,947.4** | **3,698.8** | **751.0** | **416.0** | **(1.3)** | **(3.1)** | **8,808.8** |
| EBIT | 161.0 | 81.9 | 58.0 | 21.9 | (47.5) | - | 275.3 |
| Additions of property, plant and equipment | 17.1 | 18.1 | 1.5 | 4.8 | 6.2 | - | 47.7 |
| Additions of intangible assets | 0.7 | 0.7 | 0.6 | - | 3.8 | - | 5.8 |
| Depreciation and amortization | 16.5 | 12.6 | 2.0 | 3.1 | 8.5 | - | 42.7 |
| Investments in associates and joint ventures | 21.3 | - | 0.2 | 8.5 | - | - | 30.0 |
| Share of profit of associates and joint ventures | (0.1) | - | 0.2 | 1.3 | - | - | 1.4 |
| Total employees | 13,903 | 8,267 | 952 | 1,248 | 1,418 | - | 25,788 |

**2012 by region**

| in CHF millions | Thailand | Greater China | Malaysia/ Singapore | Other | Group Total |
|---|---|---|---|---|---|
| Net sales third parties | 3,203.0 | 2,316.2 | 1,905.7 | 1,383.9 | 8,808.8 |
| Non-current assets | 45.5 | 29.9 | 27.8 | 204.0 | 307.2 |

**2012 country information**

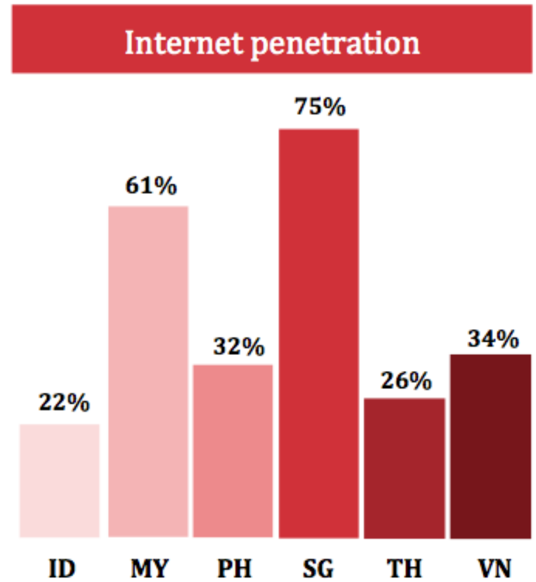
| in CHF millions | Net sales third parties | Non-current assets |
|---|---|---|
| Switzerland (domicile) | 126.6 | 120.8 |
| Malaysia | 1,455.1 | 24.8 |
| Hong Kong | 1,071.4 | 3.5 |

Non-current assets exclude financial assets, deferred tax assets and retirement benefit assets.

Net sales of an individual region or country are allocated based on the entities located in the respective count.

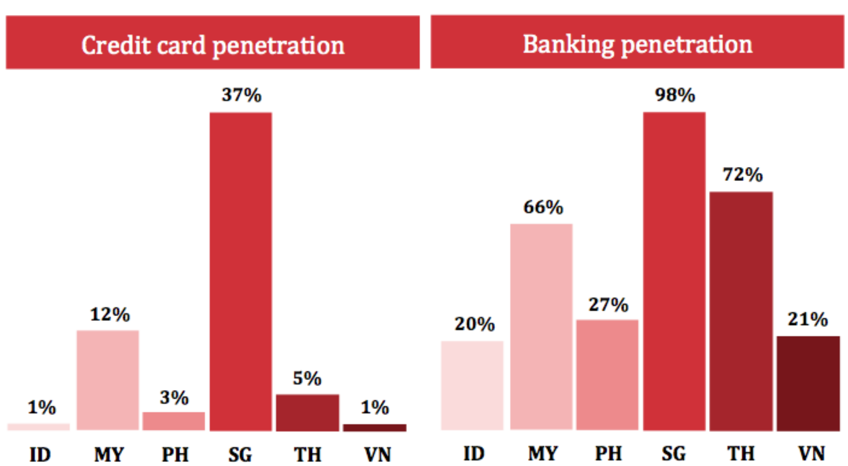
## APPENDIX 1. ONLINE PAYMENTS OPPORTUNITIES AND CHALLENGES[11]

Philippines leads Southeast Asia in mobile payment adoption. Rapid economic expansion, a young population, and low-cost smartphones and tablets are creating tech-savvy generations across Southeast Asia. Major e-commerce players such as Groupon, eBay, Rocket Internet, and LivingSocial have ventured into Southeast Asia, making significant investments into these markets. With increasing penetration of e-commerce into Southeast Asia, global payment companies such as PayPal are investing in the region. But as they do, stiff competition is being demonstrated from a number of local players such as MOL (Malaysia) and 2C2P (Thailand). MOL is now one of the biggest payment companies in Southeast Asia, with 60 million annual transactions, and yearly revenues over $300 million. 2C2P is a Thailand-based e-payment company with a smaller scale but already having expanded offices and operations to over seven other markets in the region. While the industry's potential is obvious, technology investors and global payment providers should be wary of rushing into these markets without understanding the cultural and regulatory differences of each country, which affect how merchants and consumers behave. For example, Philippines has a stronger acceptance of mobile payments while Malaysians prefer internet payment. A tailored strategy then, which considers the unique stages of each market's development, factoring in technology, infrastructure, consumer preferences, and regulatory environment, is far superior to a regionalized blueprint approach. Three key underlying infrastructure drivers needed to facilitate online payment are ease of internet access, mobile usage, and banking penetration.




*The Internet Penetration Rate corresponds to the percentage of the total population of a given country or region that uses the internet. Source: Internet WorldStats,2012
**ID: Indonesia, MY: Malaysia, PH: the Philippines, SG: Singapore, TH: Thailand, VN: Vietnam

Vietnam Internet access is instrumental to boosting online payment. In total, the six largest economies in Southeast Asia are home to an online population in excess of 160 million, representing internet penetration of 28 percent. Singapore leads the region with an internet penetration of 75 percent, while Indonesia has the lowest internet penetration at 22 percent. Across all the markets considered, urban populations have higher penetration rates than rural areas. For example, internet penetration in Vietnam's two biggest cities is over 50 percent while the nationwide rate is 34 percent. Mobile usage Important to expanding online payment options and seen as the future of the industry, mobile phones are widely used across the region. In addition to excellent mobile network coverage, mobile phone subscriptions often exceed 100 subscriptions per 100 inhabitants, indicating wide prevalence of dual-SIM and multiple device users. Only Myanmar has less – 11 subscriptions per 100. The rate peaks with Singapore at 153 subscriptions per 100.




*The banking penetration rate represent the percentage of respondents (age 15+) with an account at a formal financial institution
**The credit card penetration rate represents the percentage of respondents (age 15+) with a credit card
Source: World Bank, 2011

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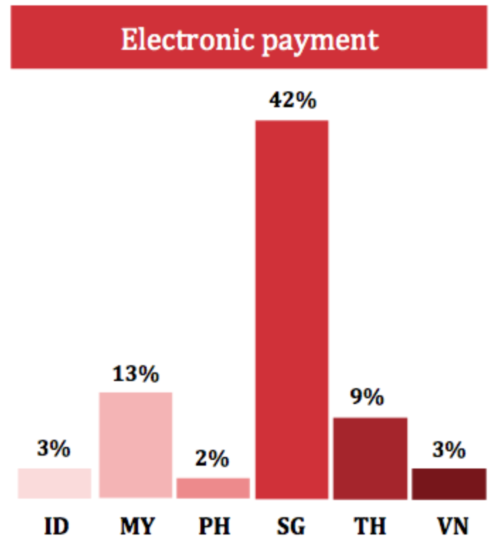
11 TechInAsia: How ready is Asia for Online Payments – By Hoang Nguyen – December 3, 2013

High banking penetration, especially online banking, can significantly speed up the acceptance of online payment. Though online payment is possible without a bank account, the use of debit and credit cards, as well as online banking to fund e-wallets, makes the online payment platform significantly more accessible. Most local banks now facilitate online banking and act as secure platforms to connect customers, suppliers and merchants for online transactions. Banking penetration varies across the region. While almost all Singaporeans have accounts at formal financial institutions, only 20 out of 100 Indonesian have them. Credit cards are also limited in usage across the region, with the exception of Singapore where credit card penetration rate is 38 percent and Malaysia with 12 percent while none of the other countries have percentages exceeding 5 percent. When considering rural areas across all markets, the percentages drop to nearly zero as banking and other formal financial institutions have little to no presence.

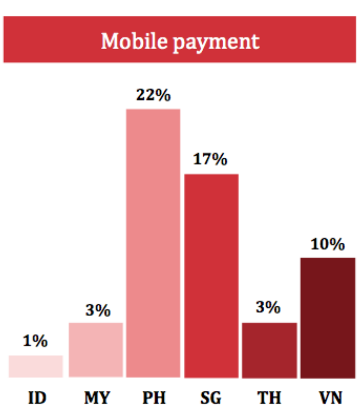



*Electronic payment represents the percentage of respondents (% age 15+) who used electronic payments (payments that one makes or that are made automatically including wire transfers or payments made online) in the past 12 months to make payments on bills or to buy things using money from their accounts.
Source: World Bank, 2011

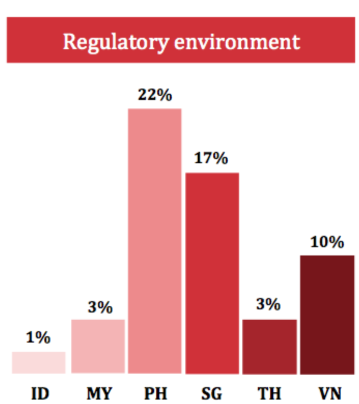
Consumer readiness measures how familiar and willing consumers are to using online payment. Even with the most sufficient infrastructure, online payment will not prosper without high levels of consumer readiness. The percentage of electronic payments is a proxy indicator for the country's readiness for online payment. Countries with higher electronic payment percentages are more likely to adopt newer and more innovative online payment services. Singapore leads the rest of Southeast Asia by a wide margin. Since banking penetration rates will require some time to gain traction in Southeast Asia, the growth of online payments will more heavily rely on mobile payment usage. Mobile payments allow consumers to transfer money using mobile devices, deducting from mobile accounts rather than bank accounts.

Philippines leads the region in mobile phone payments, surpassing even Singapore and far exceeding the rest of Southeast Asia. The country hosts two of the earliest pioneers in mobile money—Smart's Smart Money launched in 2001 and Globe's GCash launched in 2004. Since the launch of Smart Money and GCash, Filipino consumers have shown rapid uptake of the services used for a range of transactions, from remittances to bill payment. Vietnam ranks third in the region for mobile payment usage and Vietnamese consumers demonstrate high familiarity and willingness to adopt this channel. But limited support from the government and telecom companies has hampered innovation of the channel within the country. Consumers in Indonesia are not yet persuaded of the value of mobile payments. On measures of readiness with mobile payments, willingness to use them, and current usage, Indonesia lags behind its peer countries.

With so many interconnected parties involved in online payment, an effective legal and regulatory system is vital to promote the partnerships that are critical to the success of the service. A report from World Economic Forum (WEF) notes that Singapore leads the world in political and regulatory environment for information and communication technology (ICT) development. The extreme efficiency and business friendliness of its institutional framework as well as strong intellectual property protection lead to a business environment supportive of the ICT industry. The Philippines ranks the lowest among the six major Southeast Asian countries because of the burden of government regulation on businesses and lack of well-developed laws for ICT. For example, the country's Cybercrime Prevention Act of 2012, which aimed at criminalizing offenses conducted online, caused huge uproar among internet users for allegedly controlling rather than safeguarding them. The law was suspended one week after issuance. Each country is in different phase of readiness and thus needs a customized approach:




*Mobile payment represents the percentage of respondents who report using mobile phone to pay bills, receive and send money in the past 12 months.
Source: World Bank, 2011




*The Regulatory environment index measures variables related to legal and regulatory structures of a country including effectiveness of law-making bodies, law relating to ICTs, efficiency of legal framework in setting disputes, intellectual property protection, number of procedures to enforce a contract
Source: Global information Technology Report 2013

**Singapore**
Singapore is leading the region for readiness of transition to a cashless society. High banking and internet penetration, consumer readiness of cashless payment and fully-fledged legal system create opportunities for the development of online payment in this country.

**Malaysia**
Malaysia follows Singapore's trajectory but its consumers are slower to adopt mobile phone as a payment channel. High mobile coverage will facilitate the adoption of mobile payment if companies employ good marketing and customer education programs.

**Philippines**
The Philippines is faster than other countries in mobile payment adoption, a channel often popular where ICT infrastructure is lacking. But the country's regulatory environment is less developed leading to a lack of ICT development overall. Along with helping the government to foster regulations, companies can take advantage of consumer readiness to provide additional payment services.

**Vietnam and Thailand**
Vietnam and Thailand are both "in-the-middle" for online payment readiness when compared to neighbors. Stronger opportunities to expand mobile payment services to non-bank users exist in Vietnam because of higher mobile payment readiness. But in Thailand, consumers have not shown as much of a readiness to accept mobile payment, and companies will need to primarily focus on marketing to bank users instead.

**Indonesia**
Indonesia ranks the lowest for online payment readiness, receiving relatively low scores for all three indicators – ease of internet access, mobile usage, and online banking penetration. Companies investing into Indonesia will need to employ technology and marketing focused on groups of early adopters. Such a strategy may prove highly successful in the long run.

## APPENDIX 2. An example of a success story: Lindt & Sprüngli [12]

### Sharing success

DKSH's cooperation with Lindt & Sprüngli started in Hong Kong more than five decades ago and, over the years, was expanded to China, New Zealand and, now, Singapore. After more than 165 years of existence, Lindt offers a large selection of products in over 120 countries around the world, with six production sites in Europe, two in the US and distribution and sales on four continents. DKSH is just the right partner to make Lindt, one of the most innovative and creative manufacturers of high quality chocolate, the leading premium chocolate brand in select Asia Pacific markets.

### Challenge

While the US and Europe have matured as markets, Lindt & Sprüngli, like other companies, continues to turn to Asia for growth opportunities. Already a market leader with DKSH in Hong Kong, Lindt was looking for a partner to help it best establish their presence in Singapore and develop its full potential. As chocolate is frequently an impulse purchase and requires stringent quality standards, Lindt also needed a reliable partner with specific experience in merchandising, displays, and logistics management as well as in-depth knowledge of the local confectionary business to serve the high quality expectations of its premium chocolate brand.

### Approach

DKSH Consumer Goods expanded its long-term partnership with Lindt & Sprüngli to Singapore in 2013. We offered a full spectrum of Market Expansion Services, including marketing, sales, merchandising, distribution, logistics, and back office services. This allowed Lindt to immediately profit from fast-go-to-market due to a one-stop- shop offering of a set of integrated solutions and high visibility in multiple channels due to our local market and customer knowledge. Coupled with our experience in ensuring availability through an extensive capillary distribution network and high quality logistics facilities for highly temperature sensitive products like chocolate, we helped Lindt & Sprüngli capitalize on the Singaporean consumer's growing craving for premium chocolate products.

### Result

DKSH supported Lindt in successfully building its presence in Singapore due to our sales and marketing excellence, distribution and logistics efficiency, service innovation, and state-of-the art IT platform providing a constant backflow of market information. We look forward to continuing the growth of the Singaporean chocolate business with Lindt over the next years.

### Market Expansion Service: Experience and professionalism

An established player in the snacks and confectionary categories in Singapore, DKSH Consumer Goods brought a five-decade long partnership to new heights by providing comprehensive value-added service offerings. DKSH is a true partner helping its clients to achieve business growth in the long term.

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[12] DKSH Corporate Brochure 2014 Pg 23

# CREDITS

**CASE WRITERS:**

Supawat Likittanawong

Pakapol  Thangtongchin

Teresa Sangkavasi

**CASE PROOF READERS:**

Nichamon Asvaraksha

Sirada Sangthongsuk

**BOOKLET DESIGN:**

Supapit Rungruangpol

**VIDEOS & PHOTOS:**

DKSH (Thailand) Limited

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