



GROWING IN APAC

*How to grow successfully in the
world's economic powerhouse*



GROW WITH CONFIDENCE

The Asia Pacific region (APAC) is the world's most dynamic and represents a great opportunity for companies looking to expand globally. However, success is not an easy win. The cultural and economic diversity across the region means Swedish companies need to apply strategies that are agile and responsive to current market conditions.

As we have seen the shift of economic growth move from the West to the East, it has become crucial for many Swedish companies of all sizes to establish, broaden, or deepen their foothold in the region and take advantage of the growth potential.

Whether a company is considering establishing a local presence in a single country, setting up a hub-office in the region, or establishing a network across multiple locations, the situation is unique for every company. Each market should be carefully assessed to determine the best entry mode.

How to expand and in which markets is the most essential part of a company's internationalisation strategy. This report outlines the key aspects Swedish companies need to consider before they decide which markets align with their expansion plans. Business Sweden's teams across APAC have used their extensive knowledge of local conditions to identify six key areas for consideration.

- A** Customer proximity
- B** Access to specific competence
- C** Cost efficiency
- D** Closeness to supply chain
- E** Innovation potential
- F** Relevance as a regional hub

Often more than one factor will need to be considered before a strategic decision can be made. The factors a company needs to prioritise will be dependent on their strategy and business model. This is not always clear when entering a new market or looking to expand beyond an existing footprint. The following analysis provides a deeper understanding of these factors.



CUSTOMER PROXIMITY

Relationship closeness often translates into customer satisfaction and an increased likelihood of customer retention. Being physically close to your customers is an important reason for establishing a local presence in a certain country. When establishing in APAC there are several factors that can make closeness to customers even more crucial. The main drivers for customer proximity are:

- **Follow-the-customer motive:** This is a common reason for companies to internationalise, especially in a more remote region. Being close to your existing customer base enables you to quickly react to their demands as they internationalise, provide reactive service as their needs evolve, and it also positions you to reach out to new customers.
- **Product adaptation and aftersales services on-site:** If your business model is dependent on making final product adaptations together with your customers, or providing aftersales services on site, being close to your customers might be a necessity rather than a choice when expanding your APAC presence. Maintaining ongoing customer relationships is business critical, particularly for small to mid-sized companies where success can hinge on a small number of customers. Swedish companies usually benefit from being close to their customers in individual markets or hubs, removing the challenges of long travel time and remoteness to local conditions.
- **Local market requirements:** In some APAC markets, being close to customers is not only preferred but a requirement. For example, a number of countries have strict rules around tender eligibility, only allow companies based in the market to participate. In other markets, customers believe local interaction is fundamental to delivering (and receiving) a certain level of service.

SUCCESS STORY

AFTER SALES SERVICE SUPPORT PAVED THE WAY FOR SUCCESS IN INDIA

A Swedish company active within the environmental technology sector first made contact with the Indian market through the India Sweden Innovations Accelerator programme. The company was able to meet with different stakeholders within the local ecosystem as well as potential customers, which increased sales results.

Soon it became evident that after sales service was crucial, with clients expecting quick and efficient support. The company decided to handle this in-house while also holding smaller spare part stock in the country.

Local government was also a potential client, however to be eligible to participate in tenders, a local entity was required, This is often achieved by using a local partner, but the company decided to establish their own entity. To get staff on the ground quickly, the company used Business Sweden's Business Incubation & Operations (BI&O) Employment Service. Once the company had enough customers, a Private Limited Company was established for the purpose of import of goods, after sales service, and employing local staff.



ACCESS TO SPECIFIC COMPETENCE

From high-tech competence in South Korea, manufacturing skills in China, to outsourced services in India or the Philippines, APAC offers a wide range of skilled people. Access to the right competencies for your business can define where to establish in APAC. There is increasing competition for talent and leadership which are both critical if a company is going to achieve long-term sustainability and success in the region. The main drivers for access to competence are:

- **A certain technical skill is required:** Before deciding on a specific market in APAC, it is first essential to define the competence requirements for your business. A clear definition will influence your market expansion options and may contradict your initial wish list. In some cases, close proximity to a particular ecosystem or university might be needed to meet a specific technical skill requirement.
- **Scale:** The scale of your operations as well as how you plan on managing your talent can influence where you might position yourself in the region. Planning and understanding your needs early is essential. Whether you need to employ one or many highly specialised resources, or if you are going to outsource or manage talent in-house, your location should be able to meet these demands.
- **Language requirements:** Some markets in the region offer a highly skilled workforce with a high-levels of English proficiency, but other markets may not meet international standards. If cross-market communication and collaboration is critical to your team and overall business, market selection needs to consider language skills.

SUCCESS STORY

SUPPLY OF TECHNICALLY SKILLED WORKERS MADE INDONESIA THE MARKET OF CHOICE

A medium-sized company specialising in advanced product and systems development and aftermarket services chose to establish their repair hub in Indonesia.

After evaluating several countries based on factors including first access to the right competence, and also cost, logistics, domestic market, and size/potential, Indonesia was identified as the perfect location for the establishment of a regional hub to serve customers across APAC with hardware repairs. A PT PMA (Limited Liability Company) was established, allowing the company to employ local staff, import and export hardware, and carry out repairs.



COST EFFICIENCY

Sometimes the choice of location or relocation in APAC driven primarily by cost. Before evaluating different countries based on cost, it is important to clarify what part of the cost structure is most critical to reduce, for example product costs and labour costs and for what reason. The cost should be measured against factors such as logistics and closeness to customers.

A comprehensive comparison of countries and different factors should be made when evaluating overall cost. Which of the alternative markets will reduce costs or provide the lowest cost increase? Supply chain decisions such as establishing manufacturing or warehousing generally require a more complex site selection approach. The main drivers for cost efficiency being a factor for establishing in a market include:

- **Cost reduction:** This is viewed as a key reason for the market entry initially, for example relocation or sourcing or outsourcing of existing teams.
- **Local cost competitiveness:** In many APAC markets, cost efficiency is crucial if you want to compete with local businesses and establishment might be a key step in optimising sales and marketing costs for further growth.

SUCCESS STORY

MALAYSIA PROVED TO BE A VALUE FOR MONEY DECISION

A medium-sized Swedish company active within packaging solutions established their regional headquarters in Kuala Lumpur, Malaysia (a Private Limited Company, commonly known as Sendirian Berhad or Sdn Bhd.), to meet customer demand and explore market opportunities in the ASEAN countries.

The main factor for the decision of choosing Malaysia was the cost:

"We also consulted other companies which had chosen Malaysia. The final decision was between Singapore and Kuala Lumpur. There is a fair amount of bias against Malaysia back in Sweden; there is a view in Sweden of Singapore as being paradise on earth. However, compared to Singapore, Malaysia is a value for money decision. Here you get up to 90 per cent of whatever you measure in Singapore, but for a third of the cost."

Cost of personnel, office space, and closeness to customers were the main factors determining the choice of establishment.



CLOSENESS TO SUPPLY CHAIN

How important production is to your overall operations will influence how close you need to be to the supply chain. If your business relies on product development, quality control, and smooth international operations, supply chain proximity will be a defining factor. The main drivers for closeness to supply chain are:

- **Ensuring communication with production partners:** As production volumes grow, there is often a need for a local presence to ensure effective communication with production partners. Knowing when this becomes a prerequisite to meet standards and quality of your products should be a priority.
- **The need for a regional distribution centre:** Logistics play an essential part in supply chain management. To secure the supply chain many companies set up a regional distribution centre instead of engaging a third party to manage it.
- **Integrate sustainability cycle in production planning:** It has become increasingly important to take an holistic view of the sustainability cycle – from design, materials, and production through to transport and end of life/recycling.

SUCCESS STORY

TAKING CONTROL OF THE SUPPLY CHAIN IN CHINA

A global Swedish retail company started their production in the south of China. As the complete product is produced there, it became crucial for the supply chain to function efficiently (assembly, coordination between suppliers, logistics etc.)

Initially, a priority for the company was to have their own onsite employees stay close to the suppliers. However, as the production need grew, taking control of the supply chain and bringing parts of it in-house became important. Establishing a local company from a supply chain perspective quickly grew into an equally important sales and marketing function for the local Chinese market and later to an APAC office. After a pre-study outlining the different establishment options and their advantages and disadvantages, the decision was taken to establish a trading company (FIE).



INNOVATION POTENTIAL

Innovation is high on the agenda in APAC, and the region offers an opportunity to learn and think out of the box. Swedish companies should take the chance to experiment, pilot, and innovate. While the pandemic has been a catalyst for change and innovation with digital technology playing a key role in keeping society and the economy going, APAC was already at the forefront of deploying digital technology. Implementation of digital solutions was accelerated during lockdowns with companies across the region pushing out solutions to meet demand. The main drivers for considering innovation potential are:

– **Leveraging local innovation strengthens your overall business:**

Asia is a world leader in many fields and learning from these markets can give a Swedish company the extra edge to compete on the global stage.

Leveraging local innovation strengthens business by differentiating your products and/or services.

– **Knowledge of local business ecosystems keeps you ahead**

of innovation: A good understanding of the local business ecosystems is becoming increasingly critical in keeping up with, and even staying ahead of, the pace of innovation.

– **Access to new disruptive technologies:** Digitalisation and big data are powering new business models, and APAC is at the forefront of new technology across various industries. Tapping into and learning from these local companies will help Swedish companies improve their products and/or services, and also give them ideas on how to adapt their offerings to the APAC consumer.

SUCCESS STORY

INNOVATIVE GAMING CENTRE MADE SOUTH KOREA THEIR MARKET OF CHOICE

A Swedish gaming company visited South Korea multiple times and met with companies and other actors in the local ecosystem to learn more about the market.

The size of the domestic market (the world's fourth-largest market for video games), in combination with South Korea being an innovative gaming haven, was a factor when selecting South Korea as their APAC hub. The market enables the company to build local consumer insights for further product development.

A Stock Company was established – the most common form of establishment among foreign companies in South Korea.



RELEVANCE AS REGIONAL HUB

Establishing a regional hub provides scope to share resources and services to local operations. The business case for this approach is that allocating resources to one country might be difficult to justify, but economies of scale can make them practical at a regional level. Many companies see regional headquarters as a way of achieving this. The challenge for those adopting a hub strategy is to achieve the right balance between customisation and standardisation so that impact is achieved on operation and not trapped as a support function.

Among Swedish companies, the main reason for establishing a regional headquarter/hub office in APAC is to be close to customers and overall operations in the region, enabling a faster response time. The main drivers for considering relevance as a regional hub are:

- **Supports growing business in the region**
- **Closeness to target markets**
- **Facilitates and streamlines logistics**
- **Consolidates key functions in one place**
- **Trade finance and treasury functions**

From a corporate perspective, the choice of location for the regional headquarters will, for example, influence how organisations structure their operations, and where they anchor their corporate treasury centres.

SUCCESS STORY

ACCESS TO ECOSYSTEM AND SKILLED SALES STAFF – KEY FACTOR IN SELECTING REGIONAL HUB

A Swedish multinational company supplied their products and services across all industry verticals.

The overall decision to establish a regional hub was to be close to their customers and to expand the customer base, and to do so independently and not to rely solely on partners. Doing all this by being based geographically close and in the same time zone has its advantages.

The choice to establish their regional hub office in Singapore, a subsidiary (Pte Ltd.), was a result of the following factors:

- Access to an existing ecosystem in the market (eg regional distributors and integrators.)
- Access to sales staff with language skills and knowledge of markets in the region
- IP and the rule of law
- Logistics
- Government grants

MARKET ENTRY OPTIONS WHEN ESTABLISHING IN APAC

1. Partnering with a local company

Partnering with a local company is often the first step to entering a new market. Decide early on if you are looking for a partner or a distributor. Over-invest in educating your business partners – you need true ambassadors. No distributor can cover a complete market or all verticals, so investing in a multi-partner strategy is often necessary. A multi-partner strategy is often required.

2. Establishing a local presence

Setting up and operating a company in most international markets is expensive and time-consuming. The first question to ask yourself is: do I really need a legal entity in the market? The decision to establish your own legal entity is often driven by the previously outlined factors. Once the decision has been taken to establish a local legal entity, carefully consider alternative legal structures such as branch, representative office, LLC / Ltd / Pte Ltd, joint venture, and acquisition.

3. Utilising Business Sweden's Business Incubation & Operations Support

Working with Business Sweden so they manage the groundwork enables your company to focus scarce resources on your core business, shorten your time to market, and minimise risks.

Our BI&O services facilitate a rapid and seamless way to expand globally. We can help manage your local company establishment, provide you with workspace, and help with local staffing while also ensuring overall compliance with local labour law and common practice. Services may differ in different markets due to local rules.

We encourage you to connect with our local offices to ensure a complete understanding of the regulatory and compliance requirements before establishing a legal entity in APAC.



*We help Swedish companies grow global sales and
international companies invest and expand in Sweden.*

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