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Understanding Yi (義) - the subtle differences that can drive success in Asian markets



Despite the current financial turmoil, longer-term prospects for developing countries remain positive, and companies that can effectively access these markets have the opportunity to position themselves for significant growth. Woodward Partners recently spoke to Mr. NG Choon Peng, Regional General Manager of LEO Pharma Asia, about the factors that drive success when entering or expanding in Asian markets.

For many Western companies seeking to enter Asian markets, a local distributor or on-the-ground agent is often assumed to be the

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obvious low cost, low risk mode of investment. Many companies interested in entering a market are primarily focused on finding the one person that can help them generate immediate cash flows in that country and help them avoid making major costly mistakes.

However, there are significant risks to working with distributors. Often, distributors make little

investment in a company's products and sacrifice long-term growth in order to maximize short-term margins. Some distributors are more concerned about adding new product lines than supporting the ones they already represent. Some distributors lack deep knowledge of your specific market and companies often find it very difficult to set expectations for their distributors and manage their performance.

Woodward Partners recently spoke with Mr. NG Choon Peng, Regional General Manager for LEO Pharma. Mr. Choon is responsible for managing 15 countries in Asia for LEO Pharma. He has extensive experience working with distribution partners around the region.

WP: What are some of the challenges you have faced in working with distribution partners in Asia?

Mr. Choon: I have worked with many distributors over the long-term, and have well established relationships. Some of the challenges I have faced include ensuring that distributors are focusing enough attention on our products and dedicating an adequate amount of time. Convincing partners to invest in new products that come online has also been a challenge. And there have been times that I have encountered differences in how distribution partners manage and incentivize the sales staff that are representing our products in the field and have felt the need to step in to that process.

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WP: What suggestions would you give to those who are unfamiliar with working through distribution partners in Asia?

Mr. Choon: I would caution those who are unfamiliar working in Asia that the expectations of relationships are different.

WP: In what ways are they different?

Mr. Choon: In Asia, business relationships are based on a combination of contractual and, more importantly, personal relationships. There is an understanding of commitment to help each other in times of need once a relationship is established that goes beyond any formal agreement. The relationship is not merely a contract.

WP: Are the terms not important? Not followed?

Mr. Choon: By way of example let me tell you a story about a particular company and the difficulties they encountered in working with Westerners. There was a partner in Asia, who had worked with my company for many years. Mr K, who worked for a partner distributor, had helped start our business in this Asian country early in his career, had progressed through the ranks to become the head of our business for the distributor there. He had devoted a great deal of his career to us and helped grow our business in this Asian country over the long term. We had helped him get through the tough times during the Asian financial crisis.

I visited Mr K to discuss our business. The meeting with his staff went fine, but he seemed unhappy. I invited him to ride in the car with me on the way to dinner to talk privately. During the ride, he opened his heart. He was frustrated because he felt the company was not living up to its relationship. The relationship between Mr K and my company had in recent times been managed by a Westerner. He had felt for some time that we did not care about the relationship. The Westerner would not budge on some very small issues that were not in the contract. It seemed to Mr K that there was no longer a relationship

– therefore, there was no longer any context for working together.

At this point, the phone rang. I recognized the ring tone on his phone. It was the commercial jingle for one of our products.

As his call ended, we pulled up to a traffic light and stopped. He pulled out a small marker, carefully etched a character in the palm of his left hand, presented it to me and asked me, “Do you know what this means?”

I recognized the written character and said, “Yes, this is Yi (義)”.

“Choon Peng”, he said gravely, “we have lost this. I grew up with your company. I built my early career on your products. You all gave me much of my early training and helped me so much. We have built this business together. What has happened to our relationship?”

WP: What is the significance or meaning of this character, Yi (義)?

Mr. Choon: It means friendship, righteousness, brotherliness. It comes from an older meaning of deep bonding between warriors. To him, we did not have a real relationship anymore that enabled us to do business together. He could not count on us to help him. His commitment remained, however, and he felt alone and used.

WP: The expectations of the relationship between the Western manager and your partner were very different.

Mr. Choon: Yes, our Western manager had a very different view of the relationship. The transactional view of the relationship had created a great deal of tension.

WP: How can Western managers avoid this?

Mr. Choon: First of all, know how to align interests. For a Westerner, defining the terms of the contract is the way to align interests. This is no doubt important to both Western and Asian parties. But, it is only a starting point. Westerners are often surprised at how Asian partners appear unprepared for contract negotiations. To Westerners, Asians often seem unprepared to discuss in detail how the business will be conducted. To Asians, on the other hand, Westerners often appear too eager to try to win a

battle on every small point in order to extract as much value as possible for themselves. For Asians, the contract is the starting point – it establishes a framework and states intentions. The contract indicates that a relationship will be established and provides the context for the relationship. The contract is not the relationship. Defining terms to the level of detail that Westerns are used to may not protect your interests in the way you expect. Taking your case to the courts in many jurisdictions in Asia will not help you. Even as it is still important to ensure a contract is well-drafted, cultivating a good partner relationship is paramount to business partnership success.

Executives will be tested on their listening skills and their demonstration of a high level commitment. Senior management from headquarters needs to be visibly committed to the relationship. This includes listening carefully, paying attention and voicing appreciation for the partner. The partner will not expect senior management to be involved on a day-to-day basis, but they do expect senior management to listen, appreciate the interests of both parties, and be prepared to act in a way that is consistent with both parties' understanding of the big picture.

WP: What would you recommend to firms who are considering Asian markets and need to manage these relationships?

Mr. Choon: Most importantly, have someone close to the ground in Asia representing your interests – either someone physically in-country, OR someone who is out frequently on field visits. Distributors are managing their own business. They are concerned with maximizing margins and they look for products that will be a cash cow for their bottom line. This is understandable, but it can be difficult to ensure that your partners are paying enough attention to your strategic products. It is important to have the right people representing your interests – who know local business culture such as the body language, the different degrees of yes or no. It is critical to have a representative to fill the inevitable gaps in knowledge and expectations.

WP: Thank you, Mr. Choon, for taking the time to sit with us and share your experience and insights.

Avoiding The Pitfalls Of Setting Up Operations In Asia

The challenge for Western companies establishing or expanding operations in Asia, is to effectively manage their presence in Asia, while building the close personal relationships required to succeed. Many companies choose either the high risk, low cost option of using a

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local distributor, or the low risk, high cost option of setting up their own offices. Both options have advantages and disadvantages. Using a local distributor may be a cheaper option, but limits the opportunity to develop a deep understanding of the market. Setting up your own offices, involves high cost, but provides good opportunities to develop market understanding and build relationships.

An alternative option, often recommended by Woodward Partners and which has been utilized by Mr. Choon, is to appoint an on-the-ground representative experienced in establishing operations in Asia. If the representative is experienced in setting up distribution partnerships, they will help you structure your relationship with distributors, set targets and develop processes to manage the relationship effectively. More importantly, the representative can act as a conduit to obtain feedback information about the market and culture, while helping you develop the relationships to create a foundation for significant growth.