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Assessing Asia: Are you considering all the right risks?



Strategically assess the best opportunities for growth in Asia. Understand how your company can best capitalize on growth opportunities while quantifying the risks involved.

With the economic recession looming over company budgets and expectations, a comprehensive assessment of new Asian markets and a thorough understanding of the accompanying risks are even more critical than ever. When making the move to expand into Asian markets, managerial intuition is not enough. Many companies make the common mistake of deciding to enter a market based solely on financial quantitative analysis, ignoring many factors that are more difficult to measure but have a significant impact on success.

As Rob Salomon of the NYU Stern School of Business explains,

“Expanding abroad must be done from a position of strength. It is not the answer for all firms. So when a company considers entering a market, it must properly modify the estimated potential opportunities of the foreign market with the high costs and risks associated with the country’s actual conditions. But how does the company offset the risks of these political, economic, and cultural differences while adapting the business process to the foreign market? To succeed the company must first strategically quantify the softer side of risk to truly understand the costs of entry.”

Woodward Partners’ Acumen tool provides the critical ability to accurately assess overseas opportunities by measuring factors such as social, political, economic, cultural differences, in addition to the standard financial measures to provide a complete picture of the risks and opportunities of expansion.

A Hypothetical Situation

Your company considers Asia as a region to cultivate new revenue streams. You assign one of your managers to conduct a thorough strategic analysis of the major Asian markets and design initiatives for those markets that best match your current capabilities. Next, you conduct a rigorous financial analysis of those initiatives, carefully quantifying all of the increased risks that you will face in Asia. Finally, you develop robust budgets and action plans to implement your business development initiatives and manage the attendant risks.

That’s what you would do. That’s what you have always done... Right? Or is this process just a business school fantasy that only the largest, most deep pocketed companies can afford? For those who have put together an analysis, is the assessment truly comprehensive for each major decision? Have all the risks, from which recommendations were made, been properly identified?

The real world examples of market development in Asia are less idealized. More typically, countries are identified, partnerships are formed, and distributors are selected more on the basis of prior business relationships than upon careful strategic planning. A country portfolio analysis may have been performed. However, this analysis usually focuses on market size and growth rates without any rigorous consideration of the very real risks in international development.

The current economic climate demands a highly efficient deployment of resources to increase revenue and cut costs. Asia may seem to have tantalizing potential for increasing revenue, with its combination of large population and under-developed markets. However, your experiences in Asia and the stories

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you have heard about the market dynamics may make you uncertain about realistically increasing your sales and profitability by focusing on Asia.

With limited resources and limited market knowledge, is there a way to proceed in Asia that efficiently AND rigorously evaluates opportunities? There is.

A More Effective Approach

When investing in overseas markets, many firms overestimate the opportunities and underestimate the costs that exist. These mistakes are often costly. Risks to investment include a variety of factors such as fragmented markets, isolation from critical social networks, difficult political and institutional environment, and prohibitive cultural factors. Many of these considerations, such as those that are political, religious, or even technological in nature, are often hard to quantify and difficult to accurately measure with limited market knowledge.

Woodward has developed Acumen, a systematic approach to quantifying the risks associated with economic, political & cultural factors. When coupled with our deep experience in Asian markets, Acumen supports robust decision making for market entry, strategic investments, and other growth initiatives.

The Acumen model helps companies evaluate significant international investments by quantifying social, political, religious, economic, or technological factors which are normally not factored into investment analyses. Measuring critical risk factors will enable companies to develop a more robust evaluation of overseas investments, more accurately reflect key differences between markets, and invest with confidence.

Companies often ignore many of these risks because they are not readily quantifiable. This would seem to be the domain of only those companies that have the resources to apply very sophisticated and thorough quantitative analyses.

Our partner in developing Acumen, Prof. Rob Salomon of the NYU Stern School of Business, says that this tendency to ignore factors which are complicated and difficult to measure is more common than not – even in larger, well established companies.

“The difficulty of estimating overseas opportunities is largely due to a lack of quantifiable measures regarding social, political, religious, economic, or technological factors. These factors are critical inputs to the international investment decision, but are difficult to quantify, so they are often made based on managerial intuition.” According to Professor Salomon, “It is much easier to estimate demand where we know what a country’s population is, we know what their disposable income looks like, and we know what GDP per capita looks like. However, China is a collectivistic country and United States is an individualistic country. How do I factor that into my demand equation?”

The Acumen model draws upon a wide body of current research data to calculate robust risk adjustment factors. Using the model under the exclusive agreement, Woodward is able to conduct market analyses to help companies assess any market, to create sound forecasts of future cash flows, and help companies implement a comprehensive strategy supported by a complete assessment of the risks involved.

Your management team can draw upon Woodward’s experienced professionals, subject matter experts, and strategic tools – such as Acumen – to identify opportunities, design action plans, and implement new growth initiatives in Asia. We understand the importance of prudent action in Asia. Our team at Woodward Partners is dedicated to helping your company to develop new streams of revenue from Asia in a highly efficient and effective manner.

***Matt Mathias** is the US Director of Woodward Partners, based in US. He specializes in helping companies develop strategic and operational plans to achieve profitable sales growth in Asia.*

Woodward Partners is a management consulting firm that provides strategic assistance to help firms grow in Asia. Our updates reflect the recent findings Woodward Partners generates through in-depth interviews with key opinion leaders and analysis of market realities in Asia. Contact Woodward Partners for further information on how to navigate within the healthcare, life science industries in Asia. Please email Woodward Partners at inquiry@woodward-partners.com or phone +65 6377 3194.

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