A.T. Kearney

JWT

Countdown to 2015: Creating ASEAN Champions

With a new economic community around the corner, Southeast Asia is poised for massive growth. A solid brand and regional game plan will be vital.

Executive Summary

The Association of Southeast Asian Nations (ASEAN) encompasses 600 million people across 10 countries, with a combined GDP of $2.3 trillion. In two years, the ASEAN Economic Community (AEC) will come into effect to form a single market and production base with a free flow of goods, services, investment, and skilled labor. The AEC will be the fourth most populous bloc in the world behind China, India, and the European Union.

The AEC will be a game changer. The region's companies will face unprecedented access to markets—and unprecedented competition. Organizations that do not have a regional game plan, or understand how to build brands, will fall behind.

Everyone wants a piece of ASEAN. With limited growth opportunities elsewhere, Southeast Asia remains one of the world's few unsullied growth stories. ASEAN's population is projected to reach more than 650 million people by 2020, with half under the age of 30. By 2030, 51 percent of the population (not including Myanmar, Laos, and Brunei) will be in the middle class, according to the Brookings Institute. This young population is educated and technology savvy. And as its members move into the middle class, they will continue to want more products and services and will demand more from the brands they buy. They are also among the world's most optimistic consumers.

JWT and A.T. Kearney recently conducted an in-depth study of the AEC bloc and its impact. Our conversations with 50 corporate leaders, most from domestic companies across Southeast Asia, and leaders of key Asian and Western multinationals that operate here, show the AEC is high on their radar screens. Sixty-four percent say their organizations plan to enter new markets in the region once the AEC kicks in; 60 percent say they will expand their existing brands or product lines; and 24 percent say they will add completely new ones to their portfolio after 2015.

The big players are already scaling up their presence to capture new opportunities, as indicated by U.S. multinationals' plans for the region. In a recent American Chamber of Commerce survey, 90 percent of respondents expect their trade and investment to rise in ASEAN by 2015, and 73 percent say ASEAN's contribution to global profits will rise over the same period.[1] One big reason: Growth is slow back home, and ASEAN remains one of the brightest sparks.

Southeast Asian companies that plan ahead can emerge as regional champions. Years of growth have left many of the region's companies cash rich compared to their Northeast Asian or Western peers. Forward-thinking Southeast Asian CEOs are putting that cash to good use, snatching up competitors at home and across the region. The first half of 2013 saw 183 merger and acquisition (M&A) deals worth $27.1 billion, up 10 percent by volume and 6 percent by value over the same period in 2012, according to Mergermarket. Most of these were in-country acquisitions, and the bulk of the cross-border activity consisted of outbound deals initiated by Southeast Asian companies expanding outside their home market.

Companies across Southeast Asia are going to have to work harder to defend their home turf against a growing number of global and regional competitors. Many domestic players in this region have historically focused on their home markets, where they often enjoyed minimal competition. Many more have created scale through mass production of low-cost goods, with little thought to building real brands. Of the companies we looked at with annual revenue under $100 million, nearly 40 percent of leaders concede that their top-selling product does not have a clear brand idea—or has no brand idea at all.

[1] *ASEAN Business Outlook Survey 2014*, American Chamber of Commerce Singapore

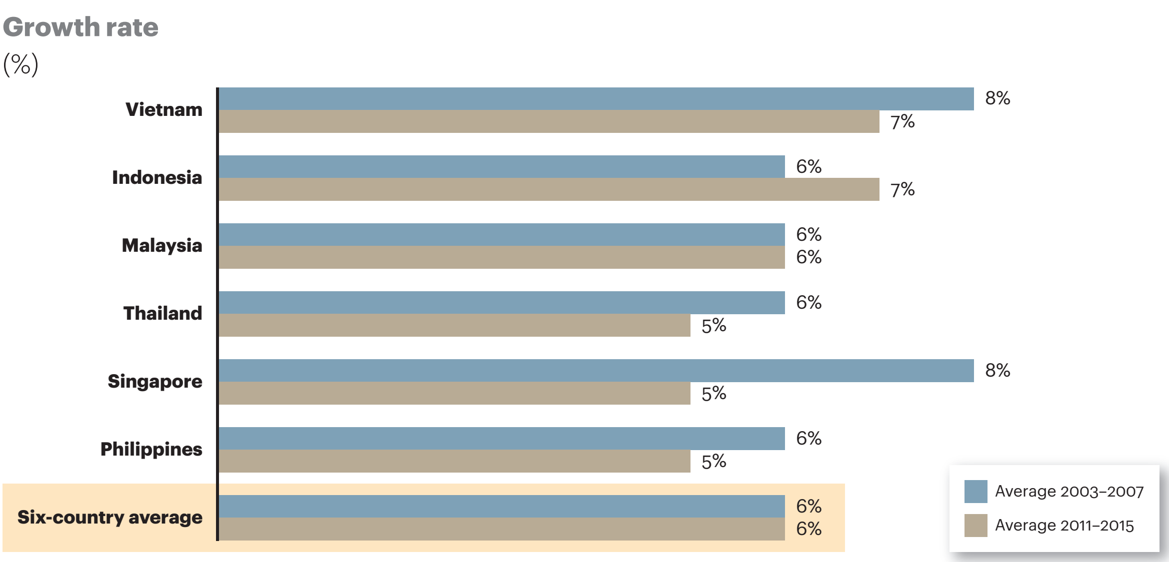
To succeed beyond 2015, forward-thinking players will change gears now, adopting a regional mindset and making the switch from selling products to managing brands as they enter new markets, engage new consumers, and tackle new competition.

The game is about to change—and soon. With the AEC just two years away, organizations that have built solid brands with a regional reach will be best positioned to emerge as winners in ASEAN's new era.

The ASEAN Growth Story

Countries in the Association of Southeast Asian Nations (ASEAN) have enjoyed robust growth for more than a decade, marred only by a short-lived blip during the global financial crisis (see figure 1). The current cloudy economic outlook in the United States and Europe will have an impact here, but ASEAN countries are still expected to continue to perform well, supported by high consumer confidence, domestic consumption, urbanization, and growing intra-regional trade.

Figure 1
The six major ASEAN countries are seeing robust growth



Note: ASEAN is the Association of Southeast Asian Nations; percentages are rounded.
Source: Organisation for Economic Co-operation and Development (OECD) Development Centre's medium-term projection framework in the *Southeast Asian Economic Outlook 2010*

Domestic demand will continue to be buoyed by the burgeoning middle class. Consumption accounted for 53 percent of GDP in ASEAN countries in 2012, which is higher than the 44 percent in the BRIC countries (Brazil, Russia, India, and China). This demand helped sustain growth and will continue to help counter sluggish exports as the global economy slows.

The region's population is notably young. Generation Y consumers, ages 15 to 29, account for 27 percent of the ASEAN population—higher than China or Russia.[2] These young consumers

[2] "The Potential of ASEAN Revisited," *SERI Quarterly*, April 2013

are also wired and highly connected. Indonesia's mobile-phone penetration is 109 percent, and 81 percent of the Vietnamese use social media to make purchasing decisions. Bangkok is the Facebook capital of the world. There are 50 million Facebook users in Indonesia and 30 million in the Philippines, ranking these countries fourth and eighth in the world. This has changed the way the region's consumers learn, share, and interact with brands, creating endless opportunities for local champions to connect with local consumers.

ASEAN's consumers are among the world's most optimistic. The Nielsen Global Consumer Confidence Survey released in October 2013 found that Indonesia and the Philippines (pre-typhoon) were the most optimistic countries in the world; Thailand and Malaysia also rank in the top 10. And they are happy to spend on higher-value items. A rise in the minimum wage in Indonesia has boosted disposable income, prompting consumers to trade up to premium brands, according to Nielsen.

The long-term outlook is upbeat. Standard Chartered believes urbanization alone could triple ASEAN's per capita GDP and help it outpace global growth for years to come.

Historically, the regional opportunity has been confusing because of the large number of countries with different cultures at different stages of development with different needs. The AEC will go a long way toward making the ASEAN opportunity a more viable and interesting story.

The AEC's bold vision is to form a single market where movement of goods, services, skilled labor, and capital across the ASEAN countries are unhindered and free of tariff and non-tariff barriers (see figure 2). The AEC will help ASEAN become more dynamic and competitive by creating a single market and production base with an open, market-driven economy.

Figure 2
The vision of the ASEAN Economic Community

Free trade in goods	• Eliminate all tariffs • Remove non-tariff barriers, including subsidies, restrictions, and sensitive industry classification • Create simplified, harmonized, and standardized trade and customs processes and procedures
Free trade in services	• Facilitate cross-border interactions, subject to domestic regulations • Eliminate intra-regional trade restrictions, and expand liberalization in services, especially in financial services, transport, tourism, telecommunications, and professional business services
Free flow of skilled labor	• Manage mobility limited to only people engaged in trade in goods, services, and investments, subject to domestic regulations • Expedite issuance of work permits and other related documents
Free flow of investment	• Open up all industries for ASEAN investors with limitation to some sensitive industries • Harmonize and streamline investment policies and procedures • Increase support among governments
Freer flow of capital	• Strengthen domestic capital markets through better market access and increased market liquidity • Create progressive capital account liberalization, and standardize capital market's rules and regulations • Connect ASEAN's individual capital markets on a common platform

Note: ASEAN is the Association of Southeast Asian Nations.
Sources: *ASEAN Economic Community 2015: Opportunities or Threats?* by the Bank of Thailand; A.T. Kearney analysis

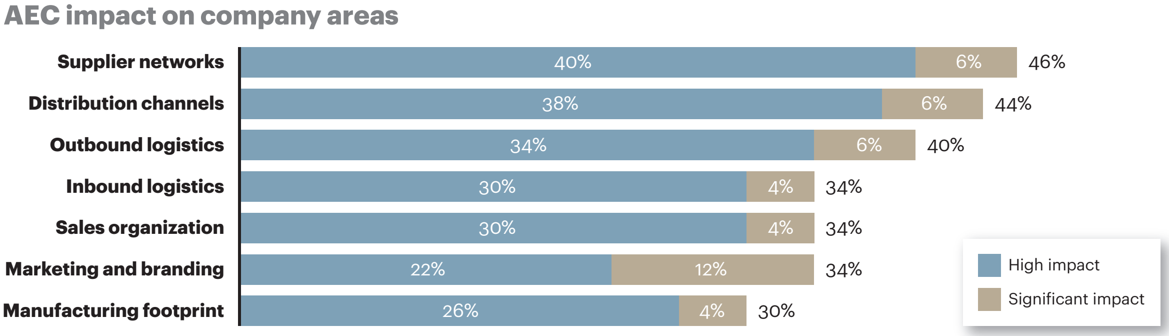
The AEC is underpinned by a number of agreements, including the ASEAN Free Trade Agreement, which has been reducing tariffs in stages since 1992. ASEAN has also ratified free trade agreements with China, Australia and New Zealand, South Korea, Japan, and India. More will come. And the ASEAN Banking Integration Framework is scheduled to come into effect in 2020, liberalizing the region's still-protected banking sector.

From our conversations with corporate leaders, we know that the AEC is high on the agendas of companies across the region (see sidebar: About the Study). Sixty percent of those interviewed for our study say their organizations plan to enter new markets in the region once the AEC kicks in. Most (58 percent) believe the AEC will have a moderate to high impact on their business, while 20 percent believe it will have a significant impact. And they are optimistic about the changes it will bring, with 97 percent saying the impact will be positive. Increased demand for products and services, a larger talent pool, and reduced tariffs and restrictions to trade are driving this optimism.

Most believe that the impact of the AEC and its free-trade initiatives will be felt by 2018, especially for supplier networks, distribution channels, and outbound logistics (see figure 3).

Some executives doubted that all the facets of the AEC will kick in exactly on deadline in 2015. Whether or not the AEC comes into full effect and precisely on schedule is beside the point.

Figure 3
The AEC is expected to have far-reaching effects



Note: AEC is the ASEAN Economic Community.
Source: A.T. Kearney and JWT Association of Southeast Asian Nations (ASEAN) Leadership Study, 2013

About the Study

Between July 14 and September 22, 2013, A.T. Kearney and JWT surveyed 50 C-suite executives using SONAR, JWT's online research tool, and conducted in-depth interviews with key respondents to learn what they think of the ASEAN Economic Community and how it will impact their business. Participants include chief executive officers (32 percent) and chief marketing officers (18 percent). About a third of the companies are fast-moving consumer goods firms, and 14 percent are from other retail industries. A variety of other industries are also represented, including telecommunications, media, and technology (8 percent), and financial institutions (6 percent). Three-quarters of the participants work for companies headquartered in Southeast Asia, with the remainder coming from Europe, North Asia, North America, and South Asia. Gross annual revenue of the companies ranges from less than $50 million (31 percent) to just under $20 billion (3 percent).

Economic integration is inevitable. Firms that want to capitalize on this new opportunity need to adopt an international mindset and move their goalposts, from winning within national boundaries to winning within regional boundaries.

Preparing for 2015: Early Movers Expand Regional Reach

Competition is heating up. Smart Southeast Asian companies are jockeying for position as regional players by snapping up competitors on their own turf and across the region. They are not waiting for the AEC to kick in to get a piece of the ASEAN growth pie. They're moving fast now.

Hello Axiata, the Cambodian subsidiary of Malaysian company Axiata Group, acquired Latelz Co.'s Smart Mobile phone brand in Cambodia in December 2012, merging the two to create the nation's second-largest mobile operator. The market had nine mobile companies. Axiata's CEO said the market was primed for consolidation and wanted to be an early mover, creating scale and scope to secure market leadership. Thai billionaire Charoen Sirivadhanabhakdi kicked off 2013 with Southeast Asia's biggest takeover, acquiring Fraser and Neave Limited, the leader of Singapore and Malaysia's soft drinks market, for $11.2 billion. The deal adds popular brands and distribution networks to Charoen's Thai Beverage Public Company Limited, which also brews Chang beer and makes spirits, instant coffee, and energy drinks. In June, CP ALL, controlled by the Charoen Pokphand Group, bought Bangkok retailer Siam Makro for $6.1 billion, the largest domestic takeover.

Companies such as Maybank and CIMB Group of Malaysia, Bangkok Bank of Thailand, DBS Group, OCBC Bank, and United Overseas Bank of Singapore are already making headway regionally even though the ASEAN Banking Integration Framework is yet to be ratified.

ASEAN companies are on the prowl. In 2011, they were on a regional shopping spree with more than half the M&A deals being cross-border transactions. Last year, however, they shopped closer to home. The M&A activities across all major ASEAN markets in 2012 were driven by intra-country deals, except for Vietnam, with Malaysia remaining as the most active market (see figure 4 on page 7). Energy, utilities, and mining have seen the most consolidations, followed by the financial industry (see figure 5 on page 7).

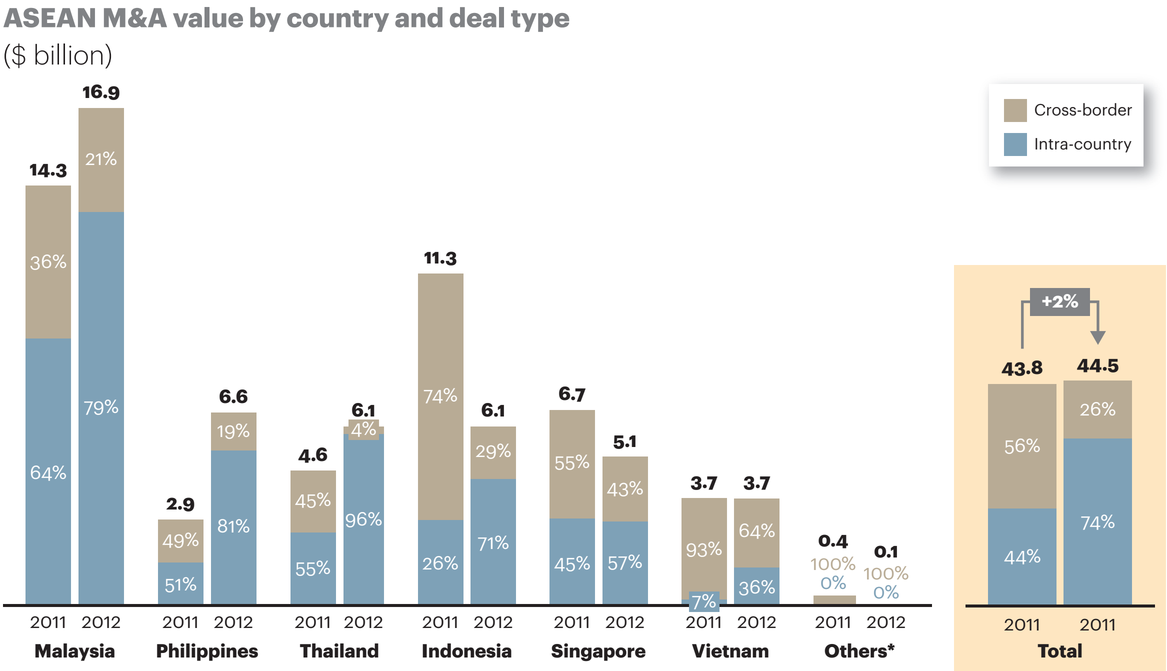
They are also investing heavily in their regional operations. Overseas foreign direct investment (FDI) from within the region increased by fivefold from $84.5 billion in 2000 to $495.7 billion in 2011, according to the ASEAN Investment Report. In addition, some ASEAN countries' annual outward FDIs have consistently exceeded inward FDI in recent years. The gap in the flow of outward FDI is also narrowing between the largest regional investor (Singapore) and the other ASEAN countries—a sign of increasing cross-border play by ASEAN companies.

Are Southeast Asian Brands Ready for AEC?

Sixty percent of executives in our survey say they plan to enter new markets in the region once the AEC kicks in, and 60 percent plan to expand existing brand or product lines after 2015. An additional 24 percent say they'll create new products once the AEC is implemented. Companies are going to need solid brands to both enter new markets and defend against all this fresh competition.

Figure 4

Malaysia has been an active market for mergers and acquisitions



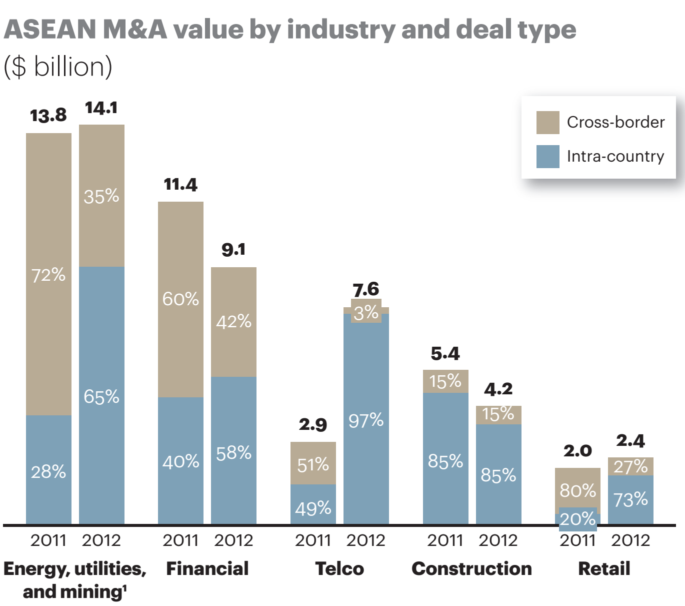
Note: ASEAN is the Association of Southeast Asian Nations.

*Others includes Cambodia, Laos, Brunei, and Myanmar.

Source: Dealogic

Figure 5

Most consolidations are in energy, utilities, and mining



[1] Includes oil and gas

Source: Dealogic

Quite a few Southeast Asian companies successfully embrace the competitive value of a brand. AirAsia pioneered affordable air travel in Asia, Singapore Airlines sets the bar for the world's full-service carriers, and CIMB Bank aims to be ASEAN's bank (see sidebar: Malaysian Bank Aims to Come Out on Top). In every market, local champions understand that a brand idea creates an emotional connection and long-term relationship between a product and a consumer—and it sets their product apart.

For many more Southeast Asian companies, branding has not been top of mind. While all of the big players in our study (with more than $1 billion in revenue) think their top-selling product has a clear brand proposition, nearly 40 percent with revenue under $100 million concede that their top-selling products do not have a clear brand idea—or have no brand idea at all.

Southeast Asian manufacturers have historically focused on mass-market production, creating scale with low-priced products. Many executives still don't appreciate the power of branding and, as a result, don't hold the brand up as the best way to connect with consumers.

When it comes to advertising, domestic companies tend to spend the bulk of their marketing budgets on tactical ads to drive sales, investing less on brand campaigns to build emotional connections and affinity with consumers. This is particularly true for mid-sized and smaller companies. The larger companies spend more than half of their budgets on brand campaigns, but the companies under $100 million spend 70 percent of their marketing budgets on tactical ads and less than one-third on brand campaigns.

Southeast Asian CEOs and chief marketing officers want immediate business results but sometimes fail to grasp the bigger picture. Low prices and tactical ads can drive sales and even scale—until the next guy comes along with a lower-priced product. Indofood, the world's largest instant noodle manufacturer, knows this all too well. Indofood's popular Indomie brand of instant noodles had a lock on its home market in Indonesia for years—until Wing's Group,

Malaysian Bank Aims to Come Out on Top

When Malaysia's CIMB looks to the future, it is betting on strong growth within ASEAN and the steady move toward integrated markets. The banking group, currently the fifth-largest lender in Southeast Asia, hopes to be one of the top three by 2015. After many successful mergers and acquisitions, the company plans to continue on this path to become an ASEAN champion. CIMB has also made many moves beyond its borders to Australia, China, Taiwan, and even the United Kingdom, among other countries, with its recent Royal Bank of Scotland corporate finance businesses acquisition in 2012.

CIMB was a relatively minor bank until 2005, when it acquired Bumiputra-Commerce Group, a large Malaysian lender. In 2008, it grew its presence in core regional markets through two back-to-back moves, merging its Indonesian unit with PT Bank Lippo and acquiring Bank Thai PCL. Today, CIMB has operations in Malaysia, Indonesia, Cambodia, Thailand, Singapore, and Brunei with 1,105 branches throughout ASEAN. The company has applied for banking licenses in Laos and Vietnam and has its eyes on acquiring more businesses in Thailand and especially in the Philippines, the only major regional market that remains untouched by the CIMB footprint.

CIMB is focused on becoming a pan-ASEAN bank and is busy building up its businesses to hold strong against its competitors and meet the needs of the post-AEC consumer base. There will likely be more deals in the works during the lead-up to the 2015 economic community—and for good reason. To date, about 30 percent of CIMB's earnings come from non-Malaysian operations, according to Citigroup. The bank has posted record profits in several of the past five years, and its market capitalization surged to $14 billion from $3.3 billion between 2005 and 2010, making it one of the region's fastest-growing banks.

a local conglomerate, decided to get in on the noodle game in 2009. Wing's launched Mie Sedaap, a competing product, at a lower price point and promoted the brand with extensive marketing campaigns. Indofood lost 15 percent market share virtually overnight. The company commands 70 percent of the market, but still has not won back the share it lost to Wing's. In a recent report on Indofood, HSBC Global Research attributed the loss to "low customer brand loyalty."

Companies across the region face fresh competition from both younger, marketing-savvy local competitors and international brands. Consider the fate of Komix, an Indonesian cough syrup brand that created a new market when it released a line of inexpensive cough syrup in dose-size packets with ads focused on price and practicality. When Vick's, a better-known global brand, released a competing product, Komix's sales plummeted.

Thailand's Coca Suki restaurant chain, which introduced a distinctly Thai version of hotpot-style sukiyaki to the market in 1957, has been overtaken in the past few years by a slew of new local competitors that invest more in marketing to woo consumers. MK Suki, known for its quirky, upbeat television commercials and Internet viral videos, has trammeled Coca Suki, which doesn't really advertise. In fact, Coca Suki only has a few branches left and is virtually unknown among young Thais.

"Our products will be distributed across borders more easily. Therefore, we have opportunities to sell our product everywhere."

— Marketing director, Asian fast-moving consumer goods company

Being the first, the cheapest, or even the most innovative often doesn't make you number one, and even more rarely does it keep you there. No Southeast Asian brand knows that better than Singapore's Creative Technologies. The company invented the MP3 player in 1999, more than two years before Apple launched the iPod. Creative Technologies later successfully sued Apple, cementing its place in history as the inventor of iPod's famous user interface. Yet being first off the block didn't matter. Creative Technologies invested little in marketing and failed to build its brand, creating ads mainly for trade magazines that were, for many years, designed in-house. Apple, a branding expert, set the pace, and the rest is history.

Many executives in the region continue to focus on product and pricing, failing to understand that product differences and price promotions are not unique. Brands are.

They are also missing an opportunity to create value. On average, brands contribute more than one third of shareholder value, and companies that boast strong brands outperform the stock market, grow faster during boom times, and are better protected from the adverse effects of an economic downturn. WPP's annual BrandZ study, carried out by Millward Brown Optimor, examines the impact of brand-building on the financial health of companies. The BrandZ Top 100 Strong Brands Portfolio, with a diverse set of companies that have brand contributions of more than 30 percent, shows that these companies appreciated an impressive 58 percent between 2006 and 2013, substantially outperforming the S&P 500, which gained only 23 percent over the same period. And during the 2008 global financial crisis, BrandZ's Top 100 Strong Brands suffered significantly less and recovered faster than the S&P 500.

If companies want to move up the value chain, having a strong brand is crucial, particularly in an age of commodities, fierce competition, and rapidly advancing technologies where tangible product differences can be replicated within a brief time frame. As marketing guru Philip Kotler says, "The art of marketing is the art of brand building. If you are not a brand, you are a commodity. Then price is everything, and the low-cost producer is the only winner."

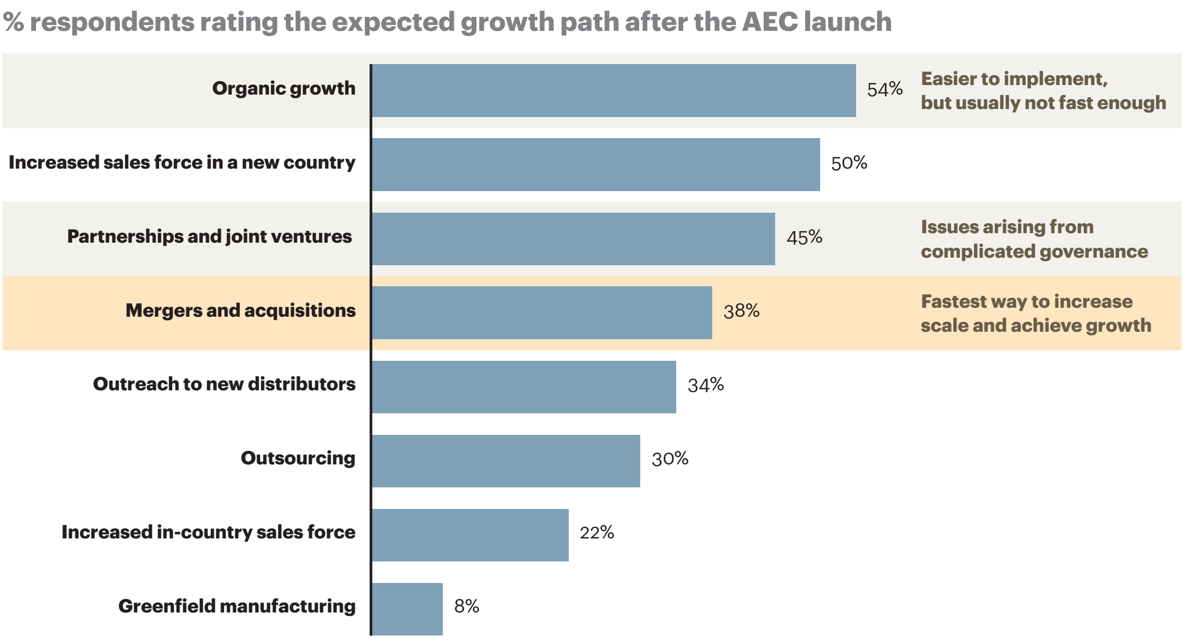
An Action Plan for ASEAN

Southeast Asia has three kinds of companies:

- **Those that get it.** These firms grasp the opportunity the AEC presents and are doing something about it.
- **Those that are indecisive.** These are generally the local champions that understand change is afoot but don't know how to protect themselves or how to make the most of the AEC.
- **Those that lack ambition.** These companies don't grasp the changes that are coming. They will be crushed by the competition or become targets for acquisition.

When asked how they expect to grow their business once the AEC is implemented, executives cite organic growth as the main strategy, along with an increased sales force in new markets and partnerships and joint ventures. However, about four in 10 companies are considering M&A as a way to expand regionally in order to deal with more intense future competition (see figure 6). Indeed, we expect interest in M&A to spike once the AEC kicks in, both among acquisitive Southeast Asian companies and Western companies looking to ASEAN as a new source of growth.

Figure 6
Many executives see consolidation as a fast way to grow in the AEC



Note: AEC is the ASEAN Economic Community.
Source: A.T. Kearney and JWT Association of Southeast Asian Nations (ASEAN) Leadership Study, 2013

It will soon be an eat-or-be-eaten world. The indecisive local champions will need to accept and embrace change, as they will face stiff competition from a growing number of new regional players over the next few years. The old strategy of simply appointing a distributor will no longer be enough. What's needed is a presence in these new markets with expertise on the ground to make complex choices on brands, products, manufacturing, supply chain, and distribution. And with competition comes consolidation, particularly in the region's more fragmented, emerging markets that are crowded with players.

Capitalizing on the AEC will require having a regional strategy, and M&A should be a core part of the game plan to leapfrog competitors and gain access to new markets, technologies, brands, and resources. M&A is also a good part of a defense plan. Acquiring attractive local targets not only speeds up growth but also prevents competitors from gaining a similar foothold.

Most CEOs in our study cite "the need for scale to deal with more intense competition" as the main reason for increased M&A activities in their industry. Four in 10 plan to engage in some consolidation post-AEC. Regional and international multinational corporations seeking to enter the region expect to carry out more M&A activities in Indonesia, Thailand, Vietnam, and Myanmar.

However, it's not enough to simply expand. Those with regional ambitions would be wise to invest in building strong brands to woo consumers, stave off competitors, and move up the value chain. Those that plan to remain domestic players might need to rethink their strategies to defend their home turf against regional and multinational rivals eyeing ASEAN.

It is not too late. There is still a window to review strategies ahead of 2015. In particular, we recommend two moves:

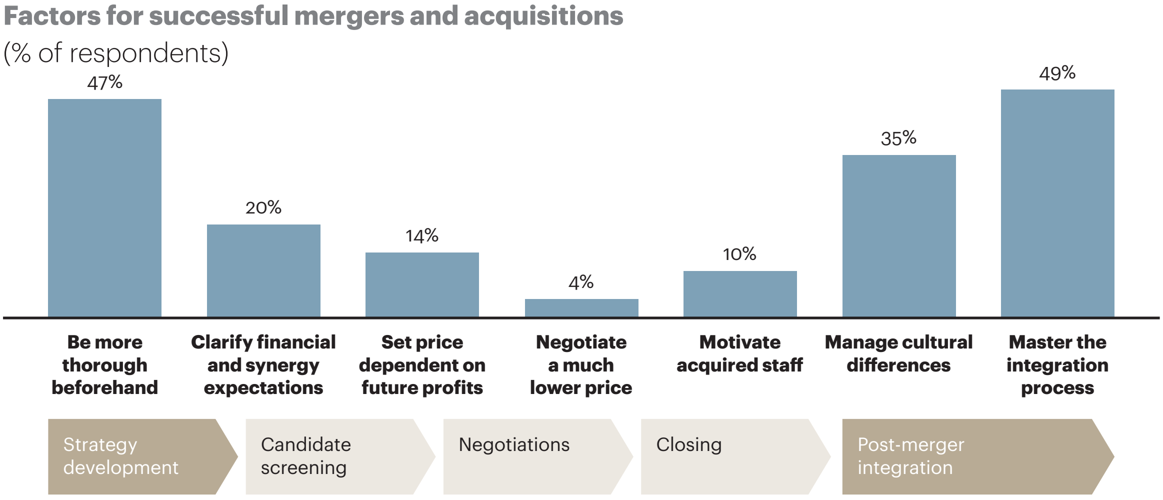
Have a growth strategy that includes M&A

Southeast Asian companies are positioned to carve out a place as regional champions. ASEAN is home to a diverse set of consumer markets with a wide range of income levels. The variety of ethnicities, languages, and cultures impacts consumer tastes and preferences. We believe the region's fragmented markets will give rise to a series of subsegments at different price points. Global cola brands, for example, could dominate national or regional soft drink sales, but local soft drinks that cost less and come in flavors that appeal to local tastes will dominate specific segments. Local brands can be tailored to suit different swathes of the region, with a brand idea that provides variations on a core theme. Southeast Asian companies with strong consumer insight have an edge in ASEAN's segmented markets. Consolidation will play out along these segmented lines, giving rise to local champions that dominate different price points or subcategories. Southeast Asian companies that start planning now can make tactical moves that will put them ahead of the curve.

M&A is a risky business, particularly in this region. Previous A.T. Kearney studies indicate that only 29 percent of companies worldwide see an increase in aggregate profitability while 57 percent see a decline after an M&A event. That figure drops even lower in Asia: only 24 percent of Southeast Asian mergers delivered the expected benefits. The risk increases as companies venture across borders. Cross-border M&A are hard to pull off because of a host of factors, including culture clashes, poor communication, and lack of local market know-how. Reaping the full benefits of M&A will require a plan for how to do it better.

Many companies go into M&A without any preparation, resulting in botched deals or expensive and chaotic acquisitions. In an A.T. Kearney global study of successful M&A, a clear upfront strategy is cited as one of the two most important drivers of M&A success; 47 percent of respondents cite the need to be more thorough beforehand as opposed to just 4 percent who rate "negotiating a much lower price" as a factor behind success (see figure 7). The other important element is successfully managing the post-merger integration.

Figure 7
The best consolidations begin with clear strategies



Source: A.T. Kearney global study of successful mergers and acquisitions

Few companies in ASEAN have the experience to execute M&A. But executives new to the game have time before the AEC kicks in—and planning ahead in three areas will increase the chances for success.

- **Build a sound strategy and plan for M&A.** Many executives think about M&A only after an investment banker has thrown an opportunistic deal their way. We advocate a more methodical approach. Put a framework in place to determine whether M&A is right for the company, and create a mechanism to track and screen candidates methodically. Determine which of several merger strategies will best achieve the goals, and then build expertise in that area.
- **Scrutinize the risks, and conduct proper due diligence.** Performing a thorough due diligence before an acquisition is crucial to clarify strategy and synergy expectations and uncover hidden issues.
- **Establish a post-merger integration plan.** Integration doesn't happen by itself. It requires detailed planning every step of the way. From insights gained performing post-merger integration for major Southeast Asian companies, A.T. Kearney has identified best practices that drive successful integrations, including communicating, focusing on customers, and addressing cultural issues. It is a good idea to map a step-by-step post-merger plan to take advantage of synergies during the first year.

Focus on marketing and branding as a point of differentiation

A brand is a long-term relationship between the consumer and the product. Successful brand ideas are a fusion between a consumer insight and a unique brand offer, and they define the long-term identity of the brand. Products are easy to replicate, but brands are not. A brand idea represents what your product stands for, sets it apart from competitors, and makes consumers think of it as a distinctly different kind of product. The brand idea has the power to build an emotional connection that goes beyond the functional benefits of a product (see sidebar: Insurance Company Tackles Grave Topic with Humor).

It's not a tagline or a campaign idea. Kit Kat's brand idea is "Champion of Breaks." It's simple, powerful, differentiates the brand from other chocolate bars, and demonstrates the unique value Kit Kat brings to the table. It also sparks creativity and consistency; the brand's marketing communications can take many different forms, and campaigns can be tailored to appeal to different kinds of consumers—but the brand idea remains consistent. If you can't define your brand idea simply and succinctly, you probably don't have one.

While most executives we interviewed say they have a clear brand proposition, a notable number were not able to state what it was. Others gave a reply that isn't exactly a brand idea, such as "provide nutrition," "good value," and "friendly service." These qualities could be part of a brand offer, but it's not a clear statement that differentiates the product from competitors. These conversations indicate that many companies across the region don't have a true grasp of branding.

Becoming market leaders will require amping up your marketing muscle in the lead-up to the AEC, both to better deal with competitors and to better connect with the region's fast-changing consumers. The leaders will make the strategic shift from selling a product to marketing a brand, which requires a shift in thinking from selling merchandise and reducing costs to creating and managing brands.

Consider how the Malaysian household appliance market is evolving: GfK reported recently that the 21 percent rise in small domestic appliance sales over the first seven months of 2013 was largely driven by a surge in demand for higher-end models. As Southeast Asia's economies

Insurance Company Tackles Grave Topic with Humor

When building a brand, the first step is to find an insight that sheds light on a gap in consumers' lives that your product can help resolve and then crystallize what makes your product unique or special. A brand idea is born from the confluence of a consumer insight and a unique brand offer.

JWT created a brand idea for Muang Thai Life Assurance that helped this upstart challenger break the lock that the two dominant Thai and global insurance companies had in Thailand:

- **Insight: The sayings "sabai, sabai" (be happy) and "mai pen rai" (take it easy) are both a philosophy and way of life in Thailand. Thai people are buying more insurance, but they find the whole subject depressing. Many prefer to avoid the topic altogether.**
- **Unique brand offer: life insurance that provides security for tomorrow and supports joyful living today**
- **Brand idea: insurance that makes you happy**

Muang Thai launched quirky ads that use humor to tackle the somber topics of critical illness care and planning for your family's security after your death.

The company also created the Muang Thai Smile Club, providing policyholders with reward points for fun activities from movies and spa treatments to sports and family events.

Funny ads that promote the Smile Club juxtapose the idea of owning life insurance with having a good time.

The brand and its ads stand apart in a market where most insurance campaigns talk about security, reliability, and caring for loved ones in a serious or emotional tone. By staking new ground, the company has dramatically increased its market share and won awards for its advertising.

continue to mature, more consumers will move into the middle class and start to buy higher value-added products and near-premium brands. Consumers buy commodity items because they are cheap; but when it comes to spending real money or buying products that matter, they will go for a known brand.

The time is ripe for Southeast Asian companies to create regional brands. A separate survey of 2,400 Southeast Asian consumers conducted in July by JWT finds that Southeast Asian consumers believe it's "their time." Most believe Southeast Asia is about to peak and is on the precipice of a new era. There's an overwhelmingly positive feeling about the region and about ASEAN.

What's more, consumers are open to buying local brands. About one-third of Southeast Asian consumers prefer to buy products made in their home markets, while a surprisingly small number (10 percent) think imported products are more reliable. Although only 20 percent feel "very positive" about Southeast Asian brands and products, 63 percent say they feel "somewhat positive"—an open window for aspiring regional brands.

> "Our brand is a key asset. It allows us to charge a premium price and makes it easier to introduce or cross-sell new and more innovative products. This is a huge advantage over competitors."
>
> **— CEO, Thai retailer**

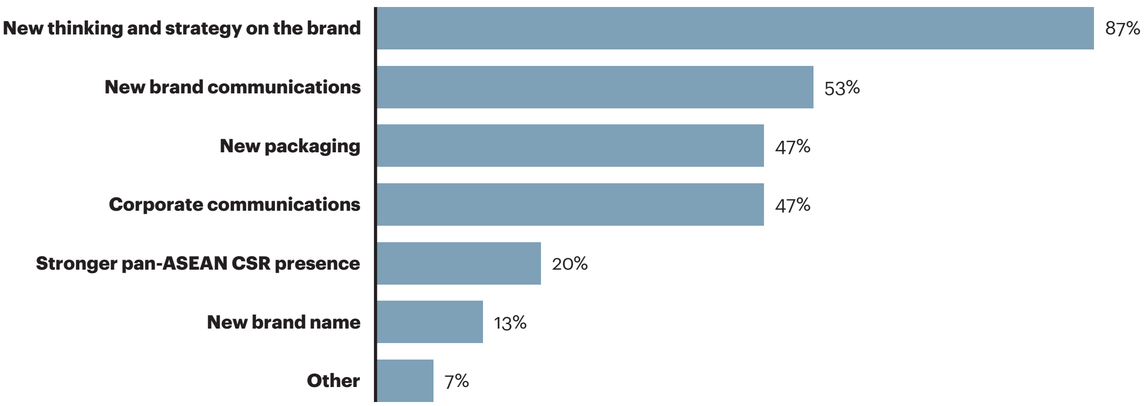
Although the region is home to different cultures, religions, and levels of affluence, the JWT survey reveals a strong sense of shared values. While consumers do not necessarily feel "Southeast Asian," they do feel they have much in common with their ASEAN neighbors. Six in 10 Indonesians, for example, think Thailand has a similar culture, seven in 10 Filipinos say the same of Malaysia, and six in 10 Thais say Singapore is culturally similar. The figures are higher for countries that share borders. Companies can capitalize on these common motivators to build a brand idea that travels across the region and create communications that resonate with consumers across ASEAN.

Yet, most Southeast Asian companies with regional ambitions have a lot of work to do. JWT's consumer survey finds that awareness of Southeast Asian brands outside their home markets is low, apart from a few brands such as Singapore Airlines, Air Asia, PETRONAS, Tiger, Proton, and some of the region's bigger banks. And many consumers worry about the quality of products from neighboring markets. What's more, many domestic brands are developed with purely the local market in mind. Their brand idea, and even the name, might not travel across borders.

Executives in our study, both local and global, know this is something they need to work on. One-third say they will need to change their marketing and branding strategy post-AEC to better engage with consumers in other Southeast Asian markets. Those who say a rethink is in the cards believe they need to change their brand ideas to better connect with consumers from other cultures and demographics (see figure 8 on page 15). "One proposition might not suit different markets," explains one CEO. Others cite the need to stand out against the competition and be "relevant on a regional level."

Figure 8

A new brand strategy is considered the best way to engage consumers



Notes: These responses were derived from participants who selected "New thinking and strategy on the brand." This does not reflect the complete pool of survey participants. CSR is corporate social responsibility.

Source: A.T. Kearney and JWT Association of Southeast Asian Nations (ASEAN) Leadership Study, 2013

Southeast Asian brands that capture the region will be primed to go global. They have a historic opportunity to develop their brand's identity and build up regional scale—both are crucial for aspiring multinationals.

"Significantly larger firms with greater resources that establish a presence in countries we operate in will pose a significant competitive challenge for local outfits like us."

— CEO, Malaysian marketing company

There is a lesson to be learned from Chinese companies that built scale with low-cost products but fell short on branding. They failed in global markets, and in some cases, are even struggling back home. Consider Li Ning, the footwear brand started by one of China's most famous athletes. Li Ning's mass-market strategy made it a market leader in China, and Li Ning aimed to topple Nike at home and overseas. The company expanded rapidly after the 2008 Olympics in a bid to cash in on the fresh interest in sports and opened a store in Portland, Oregon, in 2010 as a U.S. entry point. But branding and strategy proved to be stumbling blocks. Li Ning's "L" logo looked remarkably like Nike's swoosh, and its slogan "Anything is Possible" was similar to Adidas' "Impossible is Nothing." In 2010, Li Ning tweaked its logo and changed its slogan to "Make the Change." But American consumers didn't know what Li Ning was or what the brand stood for. Meanwhile, many Chinese consumers perceived Li Ning as an imitator. Poor branding, excess inventory, and a declining economy took a toll. The company posted a $318 million loss in 2012 and shut down its Portland shop that year.

Asian companies that have become globally recognized—Toyota, Honda, Samsung, and Uniqlo—tackled foreign markets both with an expansion plan and a clear brand position.

10 Ways to Capture an Immediate Impact

The most crucial considerations in the countdown to the launch of the AEC are the following:

1. **Recognize the larger market.** The region's economies are growing, and the population is becoming more affluent thanks to rising income, greater employment, and more credit. Collectively, ASEAN countries have more than $2 trillion GDP, making it the fifth largest market in the world. Consumers, although diverse, are connected by culture and values and take pride in local products. Create a clear brand proposition and deliver on quality, and there will be plenty of scope to build a strong following across the region's consumers.
2. **Appreciate and embrace change.** The push toward the AEC will only hasten progress toward a more open and unhindered market, which will increase integration in the region. The focus so far has largely been on home markets, where many have enjoyed minimal competition, years of profits, and rapid growth—and are cash rich. Now the push to expand beyond national boundaries is inciting strong regional players. (Outward FDI from the region increased more than fivefold from $84.5 billion in 2000 to $495.7 billion in 2011.)
3. **Understand that regional champions will rule.** The writing is on the wall. More than half of the M&A deals in 2011 were cross-border transactions. With a level playing field, it will soon be an eat-or-be-eaten world. In our ASEAN study, most leaders cited the "need for scale to deal with intensified competition" as the main reason to engage in M&A. Build solid brands with regional reach to be in the best position to grab a dominant share of this newly enlarged market.
4. **Prepare a regional game plan.** The old world of simply appointing a distribution line will not be enough to become a regional player. Operating in new countries will require making complex choices on marketing and branding, products, supply chain, and manufacturing.
5. **Increase scale through M&A. Integration will happen.** Companies will move fast to acquire competitors to gain access to new markets, technologies, brands, and resources or as a defensive maneuver. To build scale through M&A, adopt a methodical approach.
6. **Build marketing muscle.** Now is the time to create a regional brand, as consumption is about to surge and local consumers are feeling positive about the region's outlook and about ASEAN. Being first or selling cheaply doesn't mean you'll remain a market leader. Become more savvy and sophisticated in your marketing and branding.
7. **Move up the value chain.** ASEAN consumers are spending more on higher value items. Products cannot command a higher premium unless they have a clear brand idea.
8. **Take a page from the winner's book.** Global companies and big regional players spend half of their communications budget—if not more—on brand campaigns. Start investing more in brand communication, and stop focusing solely on tactical ads.
9. **Don't get lost in translation.** As we head toward the AEC, approach product innovation and brand development from a wider perspective, beyond your own territory.
10. **Next stop, the world.** Forward-thinking players that capture the region will have a strong foothold to go global.

A New Age for Southeast Asia

Southeast Asia is entering a new era, and ASEAN companies are poised to take their place as regional champions. As the region continues to grow, opportunities abound. The AEC will boost the ASEAN growth story, and those that have an international mindset and are ready for change will not only stand to benefit from the opportunities, but will also be able to defend against new foreign competitors.

A.T. Kearney

Soon Ghee Chua
Managing partner Southeast Asia, Singapore
soon.ghee.chua@atkearney.com

Vikram Chakravarty
Partner, Singapore
vikram.chakravarty@atkearney.com

JWT

Bob Hekkelman
Southeast Asia CEO
bob.hekkelman@jwt.com

About A.T. Kearney

A.T. Kearney is a global team of forward-thinking partners that delivers immediate impact and growing advantage for its clients. We are passionate problem solvers who excel in collaborating across borders to co-create and realize elegantly simple, practical, and sustainable results. Since 1926, we have been trusted advisors on the most mission-critical issues to the world's leading organizations across all major industries and service sectors. A.T. Kearney has 58 offices located in major business centers across 40 countries.

About JWT

JWT, the world's best-known marketing communications brand, has been inventing pioneering ideas for the past 150 years. Headquartered in New York, JWT is a true global network with more than 200 offices in more than 90 countries, employing nearly 10,000 marketing professionals. JWT consistently ranks among the top agency networks in the world and continues to be a dominant presence in the industry by staying on the leading edge—from producing the first-ever TV commercial in 1939 to developing award-winning branded content today. JWT opened its first office in Asia in 1929 and today employs more than 3,800 people in 53 offices across 18 countries in the region. JWT's parent company is WPP (NASDAQ: WPPGY). For more information, please visit www.jwt.com/asiapacific.

For more information, permission to reprint or translate this work, and all other correspondence, please email: insight@atkearney.com.