

HUAWEI IN INDIA  
Return of the  
Dragon

INDONESIAN CONSUMER  
109 Million Babies  
Can't Be Wrong

BRAZILIAN COMMERCE  
Can Mobly Survive  
Its Own Success?

# Emerging Markets Insight

**MIRAE ASSET**  
Building on principles

BY MIRAE ASSET FINANCIAL GROUP  
Q2 2014

SPECIAL INTERVIEW

# JIM ROGERS

**"I WILL BE PUTTING MY  
MONEY IN THE AREAS  
WHERE THE CHINESE  
GOVERNMENT IS  
PUTTING ITS MONEY."**

UBER-INVESTOR JIM ROGERS  
EXPLAINED WHY HE IS STILL  
BULLISH ABOUT CHINA, NORTH  
KOREA AND AGRICULTURE.



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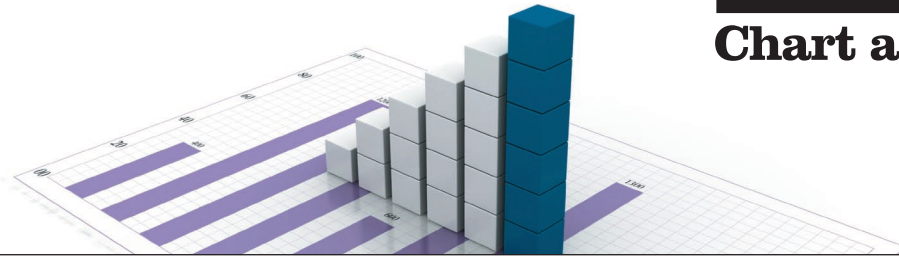


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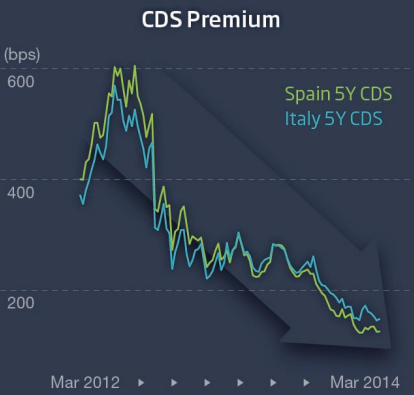
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## LOWER CREDIT DEFAULT SWAP PREMIUM SIGNALS RECOVERY FOR ITALY AND SPAIN



Spain and Italy are now winning back the trust of global investors. The dropping CDS (Credit Default Swap) premium for the benchmark 5-year treasuries of both Spain and Italy indicates that investors may pay less to hedge credit risks on corporate or sovereign debt.

Source : Mirae Asset Research  
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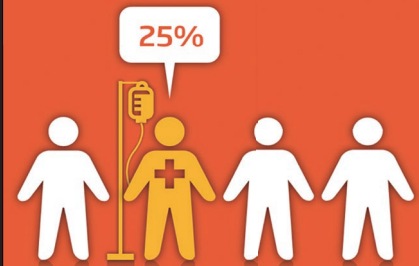
# LOOKING FOR PATTERNS

Numbers worth remembering. You can find more at "Chart of the Day" in our iPhone app, *EM Experts*, that provides unique info-graphics about emerging markets, or follow us on Twitter (@emexperts).

## US BABY BOOMERS WILL RAISE DEMAND FOR CANCER TREATMENT



1 in 4 people aged 55-74 have cancer (2010)



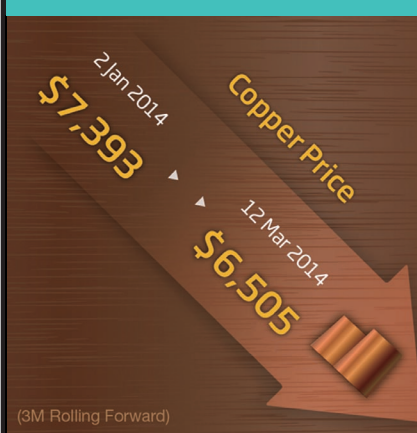
In the US, the age bracket between 55 and 74 showed the highest percentage of new cancer cases in 2010. The market for cancer treatment is expected to post rapid growth very soon, as the last baby boomers will reach the age of 55 in just five years.

## MARKET SENTIMENT IN CHINA REDUCES FIXED-ASSET INVESTMENTS



Recently, China has been seeing a rapid drop in fixed-asset investments including capital equipment. The main reason behind this is the weak market sentiment, which was affected by the recent default of Shanghai Chaori Solar Energy, the first-ever Chinese company to default on its on-shore corporate bonds.

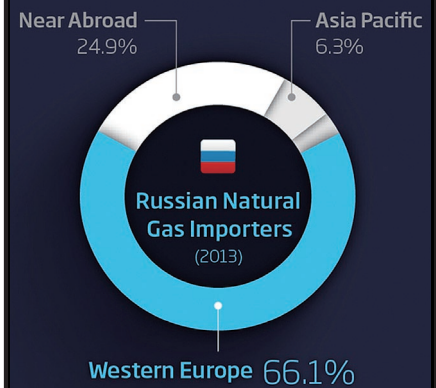
## CHINA'S FIRST BOND DEFAULT DRAGS DOWN COPPER PRICES



(3M Rolling Forward)

China's first-ever default on a domestic bond has led to consecutive days of copper selling. Copper is widely used as collateral for loans in China, but the recent default has signaled a reassessment of credit risk across the nation.

## RESTRICTION ON RUSSIAN NATURAL GAS MAY HURT EUROPEAN IMPORTERS



The recent Crimea issue may lead to economic sanctions on Russia, such as restrictions on natural gas exports. However, this can also have a negative effect on the European region, as Europe is highly dependent on natural resources produced in Russia.

# CHINA, NORTH KOREA AND AGRICULTURE

We asked Jim Rogers why he thinks these are the biggest investment opportunities now.

## PROFILE

### Jim Rogers

Uber-investor Jim Rogers has never been afraid to put his money where his mouth is. So bullish is he on the future of Asian markets, he moved to Singapore with his family in 2007. Rogers' career in finance started on Wall Street in 1966 with Dominick & Dominick, and from there, he went on to co-found the Quantum Fund with George Soros. In 1998, he formed the Rogers Commodity Index, which reflects his belief in the future of agricultural investments. Along the way, Rogers has written six books expressing his unorthodox but undeniable successful views, the latest being *Street Smarts*.



Western debts continue to rise. The US is now the largest debtor in the history of the world and the debts keep rising.

**Then, let's talk about some countries in Asia. Even if China continues its relatively strong growth, there will be outperformers and underperformers. In which sectors or industries, in particular, can we find investment opportunities?**

Read the results of the recent Plenum in Beijing. They listed the areas they will emphasize and support for the next couple of decades. It is all there. It is a perfect and simple guideline for investors. I will be putting my money in the areas where the Chinese government is putting its money.

**Recently you've mentioned that we "should get on the next plane to head to Myanmar or North Korea." As a legendary investor, your investment view that North Korea is one of the most promising investment spots in the world is spreading widely in Korean society at the moment. Can we see your "reunification within 5 years" scenario as one of your "right direction but wrong timing" cases?**

Of course, anything can happen.

**There exists a certain consensus among Korean people that, given North Korea's economic exclusivity and strengthened totalitarian regime, the reunification will take far more than five years.**

I have no idea if I am right, but I do know the "consensus" is hardly ever right.

**Once reunified, what will be a new growth engine for the Korean society?**

North Korea has nothing, so new investment there will help Korea boom. They do not have anything. Look around your life. They have none of what you have and they want to live like you do. There are huge natural resources there with an educated, disciplined, cheap work force right on the Chinese border. Rason is the furthest north

**While the global economy is witnessing the aftermath effects of US Fed tapering, you were warning about the risk of "quantitative easing." What is your view on the Fed's recent tapering of its stimulative easing program? Is this a step into right direction?**

There should never have been QE 1 or QE 2 or QE3, but since they made those mistakes, yes, ending it is a step in the right direction.

**With Fed tapering, should recent significant disruption in emerging markets assets be considered inevitable and necessary?**

Yes, and there are going to be more disruptions. This is the only time in history that the four major central banks have been printing huge amounts of money. The world has been floating on a giant artificial sea of liquidity. The whole world is going to suffer as the artificial sea dries up. There is no way to avoid it.

*I have no idea if I am right, but I do know the "consensus" is hardly ever right.*

**Are there any good measures to minimize the aftermath of Fed tapering?**

The only "good" is getting rid of an absurd policy which should never have started in the first place.

**While the emerging markets are suffering from higher volatility, positive views on the fate of developed markets are gaining. However, you are still positive on the growth potential in Asia, especially China, as we can find in your recently published book *Street Smarts*.**

Yes, but nothing goes straight up. Asia and China will have plenty of problems in the future even though the future is here. The US had many, many problems as it rose, but it still did well in the long run.

**Do you still believe economic power is shifting from the West to the East?**

Yes. The largest creditor nations are now in the East while the debtors are in the West.

ice-free port. The Russians have just renovated the railroad into Rason so the Trans-Siberian Railroad can now move goods from Asia to Europe much faster. Rason will boom as will the whole area.

**Will reunification contribute to solving or, at least, alleviating the low growth and aging problems South Korea is confronting?**

I think so. It will be extremely good for all of Korea and will alleviate many problems. South Korea also has a huge shortage of females which unification will help.

**What is your future perspective and current view on South Korea? That country has been faltering for the past 2 to 3 years with the local property market slowing.**

It will not be strong for a while partly because South Korea's major customers are slow and partly because Japan has been and is debasing its currency. Yes, there was a bubble in property which has to clean out still.

**You have stated your position that careers producing real goods, like farming, will be stronger than degree-required jobs in the next generation. However, the RICIA (Rogers International Agriculture Commodity Index) tells a different story. It has continued to slow down since July, 2012.**

That was the past. That was just the past couple of years which has little to do with the "next generation." I am talking about "the next generation."

**What makes you believe the future of the agriculture industry is bright?**

The world has been consuming more than it has produced for a decade so inventories are near historic lows. But worse still, the world is running out of farmers. The average age of farmers in the US is 58; in Japan 66; in Australia well into the 50s; the oldest in recorded history in Canada. The highest rate

of suicide in the UK is in agriculture since it has been a terrible business. Millions of farmers in India have committed suicide. The old are dying and retiring. There are few young people coming into agriculture. More people in the US study public relations than study agriculture. Prices must rise to attract labor, capital and management or we are not going to have any food at any price. The fact that it is down is one of the reasons I am bullish for the next generation! In fact, it is down over the past 16 years which is the point!

**You are well known as a legendary investor with an outstanding ability to analyze market trends. Were there certain experiences or training you had on Wall Street which helped develop and improve your investment insight?**

Perhaps growing up in a small town with not much money made me skeptical of a lot of what I heard on Wall Street. Perhaps seeing some of the world up close. Perhaps studying philosophy which taught me to think and to realize that things can always have a different meaning. Perhaps studying history which taught me things are always changing no matter how much people might think that what is happening today will always be the case.

**You live in Singapore with your family based on the strong belief that having your daughters learn Chinese is one of the best education opportunities you can offer as a parent. You also wrote several books to give them practical advice regarding successful living and investment. As a parent, what kinds of legacies do you think we have to leave to our children?**

Everyone has their own priorities. I want my girls to be educated. Then I want them to experience and understand the world. I want them to be curious and skeptical. I want them to think for themselves, to be independent, and to question the conventional wisdom. Last, I want them to beware of boys.







# AMAZON JOINS CHINA'S CLOUD-SERVICE MARKET

As the largest cloud-service supplier in the world entering the Chinese market, Amazon will face enormous challenges from localization.

By Ji Yongqing

The fact that the "shark" Amazon is entering the China market has stirred its counterparts at home and abroad.

On Dec., 18, 2013, AWS (Amazon Web Services) announced it would enter China soon, which would be its 10th national market globally. On that day, Andy Jassy, the

Senior Vice President of AWS, visited Beijing, signing a Four-Party Memorandum of Understanding (MOU) with the Beijing Municipal Government, the Ningxia Hui Autonomous Regional Government, and CBC Partners. AWS will provide public cloud service to Chinese clients by cooperating

with CBC and utilizing the infrastructure and resources of Beijing and Ningxia.

### Face-off

Previously, as a result of policy restrictions on public cloud services, only Windows Azure, the public cloud service launched by





Microsoft, managed to land China by cooperating with a local company, 21ViaNet Group, Inc. However, it seems that Amazon has a more powerful background. In fact, Amazon at present is maintaining its leading position in the field of global public cloud service. According to a report released by John Dinsdale, an analyst at the market research company Synergy, the total revenue for the fourth quarter of 2013 for AWS will exceed \$700 million, which is 15% more than the sum total of all its competitors, including Microsoft, IBM and Salesforce. In June, 2012, Amazon managed to sign a cloud-service contract with the CIA worth \$600 million, beating traditional IT champion IBM.

On the same day that AWS announced its entry to the China market, Microsoft announced that Lenovo had become the first Chinese strategic partner of Cloud OS, allowing Lenovo to offer service to its clients using the Microsoft cloud platform. Before this, Ke Wenda, president of the Microsoft Cloud business department at 21ViaNet Group, Inc., announced that 2,000 companies in China were using Windows Azure.

The leading company of China's public-cloud market, Ali Cloud, a subsidiary company of Alibaba Group, adopted a price-reduction strategy to deal with the entry of AWS into the China market. Also that same day, Ali Cloud announced the prices of all its public-cloud products would be reduced by up to 50%. The next day, Ali Cloud further released a preferential plan designed for its longtime customers: Customers who have used Ali Cloud ECS/RDS for consecutive 10 months will obtain 10% discount for re-subscribing; for 22 consecutive months, a 15% discount was offered.

Before entering the Chinese market, AWS had already won a group of Chinese firms. At the release conference, Jassy revealed that thousands of Chinese companies had used the service offered by AWS in other regions (including America, Europe,

South America and Asia) and were satisfied with it. Included were Xiaomi, Qihoo 360, TCL, TIENS, Netqin, FunPlus Game, Kingsoft, Mobo Tap, Hisense, Lightinthebox, Papaya Developer, Madhouse, DerbySoft, Sungy Mobile Limited (a 3G portal operating company) and other well-known Chinese enterprises. "It is only AWS that has the ability to provide its global users with reliable infrastructure and service for rapidly



***Before entering the Chinese market, AWS had already won a group of Chinese firms.***



connecting the world. There were over 100 million downloads by users five months after our app store was formally launched using AWS public-cloud service. The AWS platform has not only helped us increase the downloading speed by 30%, but also reduce our capital cost to zero," said Li Yongbin, the director of the IT infrastructure department at Xiaomi.

AWS has already targeted the firms mentioned above as its first customers in China, including the multinationals that have been the customers of AWS abroad. At the

beginning of 2014, these companies will be invited to use AWS4 and operating their applications on the AWS cloud-service platform. Starting Dec. 18, other enterprise customers and software developers were able to apply for a limited preview of AWS within China through Amazon's related websites.

"We have submitted our application to AWS, but we haven't been approved yet. According to my experience using AWS service overseas, AWS is more developed and more stable and offers better service," said Han Zuli, technical director of Huxiu.com. As a news website, huxiu.com encountered the rigorous challenge of rocketing traffic last year. Previously, huxiu.com had been primarily constructed on the Ali Cloud platform.

**The Biggest Challenge**

AWS has not released prices for its public-cloud service in China, however, its prices in the American market are slightly higher than those previously set by Ali Cloud. But with the recent sharp price reduction by Ali Cloud, the price difference between the two has widened. "Actually, our price strategy has remained the same, as does our price strategy in China. One feature of our service is in our scale. We are expanding our business scale in China, which will definitely create the scale benefits that we will eventually transfer to our customers," said Ariel Kelman, the global marketing director of AWS at Amazon. He seemed to suggest that AWS will not adopt a low-price strategy and may consider price reductions only after user size has gradually increased. This strategy is different from the radical moves designed for the American market, where AWS public-cloud service accounts for the largest market share. When competitors like Google adopted a strategy of price cutting, Amazon followed suit.

In fact, for AWS Amazon, it is not the price but the localization of products and





service that poses its biggest challenge. "Ali Cloud understands Chinese users better than us, and their whole interactive process and product mix are most needed by the Chinese customers," said Han Zuli. Previously, almost all overseas Internet giants, such as Yahoo, Google and eBay, encountered big setbacks in China. The largest e-commerce business of Amazon did not develop smoothly: Although Amazon managed to enter China through acquisition of joyo.com, as of the first half of 2013, Amazon (China) only accounted for 2.3% of the B2C Internet market share in China; it is ranked 6th, far behind local competitors like Tmall.com and JD.com.

Those who are already AWS customers for overseas public-cloud service will still face challenges when they start using AWS service in China. Ariel Kelman, global marketing director of AWS Amazon, suggested that those customers need to set up an account in China, but AWS would not be responsible for their data transfer; thus they would have to turn to other service suppliers for data backup, transfer and technical transcoding work. This also indicates that Amazon will not establish a sizable cloud-service team dedicated to the China market. Instead, Amazon will provide standard products and service basically similar to those deployed in the USA. Moreover, Amazon will need to structure a better ecological system by cooperating with its partners in order to meet the more personalized demands of its enterprise customers in China.

The Dec. 18 press conference showed that Amazon was well prepared. In order to tackle the problems related to infrastructure, Amazon has already rented data centers from network infrastructure suppliers in Beijing and is preparing for the establishment of a large-scale data center in the city of Zhongwei in Ningxia Province by cooperating with the CBC Partners. In light of the extremely high cost of interconnection and



***In order to tackle the problems related to infrastructure, Amazon has already rented data centers from network infrastructure suppliers in Beijing.***

interworking services offered by China's two largest broadband operators (Telecom and Unicom), Amazon has cooperated with two local technology companies, SINNET and ChinaNetCenter, which will offer speed-up service for CDN, guaranteeing users' experience of network usage. Moreover, Amazon has also cooperated with local partners such as Cloud GO TECH, Bamboo

Cloud, BAMBOO TECHNOLOGY, ChinaNet-Cloud, Hitachi Consulting (China), and Neusoft, along with with its global partners such as Accenture and Cap Gemini, to develop more personalized products and service for Chinese customers.

Where there is competition, there is motivation. The entry of Yahoo, Google and eBay into China has stimulated the competitive force of local Internet companies in China, as will AWS.

"As a significant supplier of cloud-computing service, AWS is entering China and will thus drive the development of other Chinese companies, which benefits the more benign development of the China market," said Liu Hongtao, Vice President of ChinaNetCenter which was the Chinese partner of AWS.

# THE X FILE OF LIANG JIANZHANG

BAT might have changed into BATX, and Ctrip could have been the X. However, it missed the opportunity. In this enormously competitive segment, will Ctrip become too “heavy” or come out on top?

By Qin Shan Photos by Deng Pan

## Chinese Business

Will James Liang succeed after he came back to Ctrip (Nasdaq: CTRP)? The answer is awaited in earnest just 10 months after he resumed the position of CEO for Ctrip.

Ctrip is now immersed in the common dilemma encountered by traditional top dogs: It has enjoyed a monopoly position in the segment of online travel. You can imagine this when you are sitting in an aircraft with 200 seats, 30 or 40 of which have been ordered through Ctrip. The company has accounted for a 50% market share of online travel, enjoying a certain degree of hotel “price negotiation power.”

The company in a monopoly position always faces challenges from other companies. For instance, the vertical search model for travel represented by Qunar is becoming a threat to Ctrip’s OTA (online travel agent) model; eLong (Nasdaq: LONG), which has long been the second largest OTA, is concentrating on a single-business breakthrough in order to shake Ctrip’s monopoly position. The bulk of online travel apps have been burgeoning with the boom in mobile Internet, and each of them seems like a subverter of Ctrip’s model. Moreover, Internet magnates like Baidu and Tencent have already joined the value chain through acquisitions and share purchases. With the increasing growth in this segment, Ctrip has lagged far behind the newcomers. In 2011, Ctrip’s OTA market share fell below 50% for the first time. Other competitors are showing their fists to the quondam No.1, seeking to replace it at the top.

### PROFILE

#### Liang Jianzhang

He is one of the co-founders of Ctrip. He has served as the chairman of the board since August 2003, and resumed the role of CEO in March 2013. Prior to founding Ctrip, he held a number of technical and managerial positions with Oracle Corporation from 1991 to 1999 in the US and China, including the head of the ERP consulting division of Oracle China from 1997 to 1999. He is known as James Liang in the US.





At that time, Ctrip was busy buying travel companies and exploiting travel lines, investing enormous resources in offline businesses, increasingly becoming “heavy” in its business structure, while seeming to be closed to the growth of mobile Internet. In 2011, Ctrip’s revenue growth rate fell to less than 20%, down from 45% the previous year.

### **“Unhappiness Due to Bad Business”**

But now James Liang is back. He was gradually forgotten by many when he left Ctrip to pursue studies in the US in 2006. Today, most Internet tycoons who are being talked about rose to fame after him. However, James Liang remains the same as before, with a low voice, calm expression and slow motion.

When asked “What living figure do you admire the most?” most people would not give an answer like, “the father of my son,” but James Liang did. His principle for social interaction is to be true to himself, straightforward, genuine and low key, but not deliberately modest. He does not even think it necessary to say something to fill any embarrassing pauses in conversation.

James Liang is one of the few Chinese entrepreneurs who have not been kidnapped by their own companies. Ctrip is like his child, so he pays more attention to “unhappiness due to bad business” than to “happiness because of good business.” When he decided to leave Ctrip in 2006, he believed that the online travel segment would not change and that he should do something more interesting. Therefore, after obtaining his Ph.D. in economics, he started to make his voice heard as a scholar in the area of population policy.

“Success never seems to be difficult to James. Many colleagues believed that we would succeed after he came back, even though such a belief is groundless,” said an employee of Ctrip privately.

While successively implementing Ctrip’s

wireless, open platform and price war strategies within a short time, James Liang started to adjust the organizational structure of the company, establishing a model of internal startup teams, in the hope of “waking up the giant” who had been asleep for so many years.

One can see from the paragraphs that follow that James Liang’s management at Ctrip has been more successful than those of his counterparts. There are two reasons for this: James Liang is an outstanding thinker, with the ability to quickly capture the essence of things, and he remains the core innovation engine of the company. He is able to offer clear and quantifiable instructions on anything from strategies to

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### ***James Liang is one of the few Chinese entrepreneurs who have not been kidnapped by their own companies.***

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KPI indexes, resulting in a highly efficient resource flow at the company, improvement in the managerial effectiveness of many teams, and more prompt and flexible strategic moves than its competitors.

Although logical thinking is a common trait of most talented entrepreneurs, James Liang has another trait that differentiates him: He enjoys the absolute trust of his employees from all departments, a large number of whom have worked at the company for 10 years. This is a quality which perhaps few other companies enjoy. James Liang is the absolute soul of the company, which offers him great authority when it comes to making personnel changes.

Although he was away from Ctrip for a long time, he has undoubtedly put his stamp on the company.

Financial statements from recent years at

the company suggest that it has indeed rapidly climbed out of a swamp. In the recently issued financial statement for the third quarter of 2013, total net revenue was \$240 million, an increase of 31% year on year; profits reached \$48 million, an increase of 58% year on year; and net profit was \$59.7 million, an increase of 92% year on year.

James Liang was not surprised at this performance and is full of confidence in the future of the company: Total trading volume for the domestic online travel market in 2012 was \$27.6 billion, which accounted for less than 10% of the total domestic travel market. By 2020, this proportion might increase to 50%, with the online travel market experiencing explosive growth. “In the future, per capita tour expenditure will exceed per capita consumption via e-commerce; the online travel segment will enjoy a leading position in the e-commerce industry, and Ctrip would be in a position that makes it equal to today’s BAT or an international company,” said James Liang, in a flat tone and mood, sounding like he was stating a fact rather than setting an objective.

Thanks to his insight and the systematic and theoretical knowledge he obtained from his study of economics in the US, James Liang is confident in his judgment of the basic development trend for the online travel segment. “I am sure about the basic trend for this segment, but I am not sure about some of the new models.”

However, he is, in turn, interested in the uncertainties. Compared with the segment seven years ago when he left Ctrip, today’s market is 10 times larger, and the number of competitors 10 times larger. They are all outstanding enterprises which have survived severe competition. But he is not at all worried about this situation. On the contrary, he is pleased because he was able to understand the situation more rapidly than most other entrepreneurs. This is a game of



intelligence which he started to play secretly by himself when he was still in his teens.

**Restructuring genes**

James Liang actually resumed his work at Ctrip by starting a price war. From that point, he set about transforming the company's "Internet gene."

A price war was not a new thing. Cui Guangfu, the fourth CEO of eLong, another listed company in the OTA segment, decided to change its strategy by paying more attention to hotel reservation service. He expected eLong to surpass Ctrip in this area. It was eLong that started the price war in 2012. At first, however, Ctrip refused to play along, sticking with its elaborate differentiated service.

The result of the price war was quite dramatic.

"The financial statements for both companies indicate that Ctrip has maintained a steady growth rate of 20%, and eLong a sharp growth rate of 60%. At this stage it was a fight for higher market shares. As a result, the hotel reservation business of Ctrip slid "to the edge of the cliff over the last several quarters," said Wei Changren, an analyst at Jinlv Consulting. "The leader of a market enjoys many advantages. There is generally a profit-loss point for all hotels," Wei Changren said. "When an OTA like Ctrip or eLong accounts for 30% of the total reservations of a hotel, it seems as if the OTA is gripping the neck of the hotel; it will hold a strong hand in its negotiations with the hotel, which will strengthen its relative advantages and competitive power," continued Wei Changren. Moreover, eLong has obtained support from Expedia (the largest OTA in the world and also the largest supplier of hotel reservations) and from Tencent. Once it achieves this single-business breakthrough, it will have more advantages in its negotiation with shareholders.

After James Liang came back, he resolutely decided that Ctrip would join in the price war. However, because the company



The goal that reservations through mobile will account for 50% of total reservation is a challenge for Jiang Hao, CEO of Ctrip Wireless Business.

***"I am sure about the basic trend for this segment, but I am not sure about some of the new models."***

had been protected from such storms for a long time, the price war seemed very "bloody" at the time.

At Ctrip, it was unimaginable to start talking about joining in the price war. Some colleagues were doubtful when James Liang mentioned it once again. "The price war will reduce our profit. Won't it pose a great threat, especially in the stock market?" he

was asked

However, everyone at Ctrip was aware of the necessity of the price war—"although everyone is still unsure of the levels and manners of the price war," said Jiang Hao, CEO of Ctrip Wireless Business.

James Liang started to convince those who were in doubt. "Ctrip is the largest in the segment, with a better service system, higher market share and good control over costs and process. At the end of the price war," he continued, "if it is service that will retain the customers, an approach that Ctrip will not give up, then we still win. Moreover, our process, efficiency and financial figures also indicate that our costs have



## Chinese Business



"It is the ability that matters a lot. The more abilities you have, the more responsibilities you will take on." Ye Yaming, the vice president of the technology department.

been well controlled and that our operating ability is the strongest. Thus, we have the ability and the advantages to win a price war. And we are able to survive a long price war because we will still earn money when other combatants are losing money."

### Price War

Finally James Liang managed to persuade the others, and Ctrip officially joined the war. In July 2012, at a board meeting, he announced that the company would invest \$500 million (almost equal to Ctrip's total revenue in 2011) in support of its price-cutting activities. "The best way to deal with irrational competitors is to use irrational methods," said James Liang. "Our

rivals have enjoyed advantages from the price war. However, once we start to fight back strongly, they will suffer. We are much stronger than our rivals in terms of surviving a price war."

James Liang's strategy left eLong in the red. The price war is continuing. A critic's recent analysis was this: "Now eLong can't think about a better way to deal with the present situation; they are just waiting to see how long they can sustain the price war."

The large-scale price war has kept everyone at Ctrip alert, and their huge investment has made them realize the severity of the war. The actual battlefield is on the Internet. As most of its orders are obtained

through its call center and not online, Ctrip is mocked and not considered to be a real Internet company. Transforming Ctrip into more of an Internet company is not difficult for James Liang to imagine. In the beginning, the founders of the company planned to engage in the online travel business but later were forced to develop the call center. At that time, James Liang became aware of an important reason behind a defect in the service: All of its telephones were fully occupied during a certain hour every day, making it impossible to answer any additional calls from customers. This problem was settled after the acquisition of a hotel reservation company-Beijing Hai'an.

James Liang explained at the time: "Many businesses of Ctrip are indeed not Internet-based, but we don't care about that. We are interested in this segment, and we have certain advantages in Internet business."

Now, it is hard to detail the "advantages in Internet business" mentioned by James Liang back then. However, employees who work on the traditional offline businesses in Ctrip soon found quickly that their leader's critical thinking is different from others'.

James Liang wanted to introduce more standardized processes and indexes to the company to achieve his goal. And he wanted to make some changes in the thinking of over 10,000 people.

For instance, he attended a meeting held by the travel product department, discussing package tours. The products of this department are the most complicated packages, including air ticket reservations, hotel reservations, and travel lines and receptions at destinations. Compared with offline travel products, online travel products also involve services like reservations, customer service and satisfaction assessment. The senior vice president of Ctrip, Guo Dongjie, explained that the company had previously adopted a traditional evaluation system, which includes metrics for resource utilization, customer satisfaction,

gross margin and market share for business managers. But James Liang created a new metric—package tour rating. Generally speaking, the package tour involves many unexpected elements which are not controllable, such as sudden cancellation of flights by airlines, and reservation changes made by hotels. Thus failures of package tours are normally allowed.

"At that time, I had just come back and was getting reacquainted with the various businesses at the company", James Liang said. "If a customer fails twice in reserving a package tour, he will never come to Ctrip again. So this should be quantified into figures, which will be added to the indexes of performance assessment for the managers who are in charge of travel lines. This is customer value, which is generally calculated by the revenue created by the managers. For a listed company, its market cap includes the PE values and the loss of customers."

Guo Dongjie was very impressed with James Liang's different approach. James Liang paid more attention to the process indexes than to the results generally adopted in assessing traditional offline products. For him, customer value is more important. He is able to quickly find out which parts need more work and which KPIs need more detailed explanation. At the beginning, Guo Dongjie thought not all the changes were necessary, but after he saw the data analysis, he started to believe what James Liang was saying. This was a big surprise for Guo Dongjie, who had previously worked for traditional travel companies.

### Personnel Management

For Ctrip, it was inevitable that it would make changes in its personnel structure. To any Chinese company, such changes are sensitive and inevitably lead to resource overconsumption and waste.

Canceling some ground marketing teams did not affect the smooth transition of Ctrip as a whole. In its business structure, the

wireless business was separated out to become a new division on the basis of the original divisions—air tickets, hotel reservations, commercial travel as well as sightseeing and vacations. Moreover, there are seven subordinate departments and many teams which are starting their own businesses within Ctrip. The former directors of the senior departments were also replaced during the process of structural readjustment.

Such large-scale transformations challenged James Liang's management ability. However, he was able to deal with it easily and flexibly—even if he sometimes mentioned that his management ability was being overestimated.

Although James Liang is considered the absolute authority on Ctrip, he realizes the urgent need to import Internet talent who

***"The best way to deal with irrational competitors is to use irrational methods."***

can understand his views and cooperate with him better. Because they are assessed by the same standards used for investment corporations, each division at Ctrip targets its own competitors in the APP segment.

James Liang occasionally was critical about a person's capacity for inner innovation after a promotion. "Although he was promoted from management director to CEO, his thinking remains the same as before," James Liang said.

"He doesn't know how to use his authority correctly, asking for my suggestions on everything, or at first blocking a new strategy or idea just because of limited budget. All of these are wrong. In my opinion. He should persuade me more actively and take the initiative to support his new programs. It is not that a matter is not my thing anymore if other departments have finished with it, or this has no solution because it

could not be changed originally. We should actively [challenge] others, or do the work by ourselves if others cannot do it well, or at least help promote changes being made by other departments."

James Liang said that he needed to patiently guide his peers to change themselves. To enhance the company's competitive power, he started to recruit those who left Ctrip to start their own businesses

Yang Tao, who left a few years ago to start his own business, was invited back along with his team and was appointed senior vice president of the tour and vacation department. "James encourages his colleagues to start a new business inside Ctrip. Instead of bearing trials and errors internally, it is better to recruit former staff back that have had practical experience in startups," Yang Tao said.

Zhou Zhou had worked at Ctrip for 10 years before he left, following in Yang Tao's footsteps to start his own business. His experience in a startup gave him experience in the real hardships and cruelties of doing business. "With an idea and investment money in hand, the process of achieving an idea through spending money is difficult to be understood or felt if someone has not practically done it before," Zhou Zhou said. Zhou Zhou is now the CEO of a new department for handling ground tours. His major rival is Tongcheng in the area of ticket reservations for scenic-spots.

Zhou Zhou is doing well in starting up a new business within Ctrip. "I mostly imitate James in the manner of thinking and doing work," Zhou Zhou said. He has read James Liang's book, *Too Many Chinese?* "His thinking has a pattern: Are there too many sheep, too many cars and too many people? I am very familiar with this logical reasoning," Zhou Zhou said.

Few companies repeatedly discuss innovation, but James Liang does. He has developed a system to explain the definition of scientifically pursuing perfection and which approaches are not scientific. To a new



company, being focused brings efficiency. Most startups lack money before going to market or lag behind their competitors before they are successful.

Take the ground handling department, for example. It is responsible for tickets, catering and skiing, among other services on offer to its clients. Maybe you set a goal like "offering the most professional ground handling," which may take five years to realize," Zhou Zhou said. "At the beginning," he continued, "a founder may think that it is better not to develop all the programs in the first year, and instead start with the business of scenic spot tickets. However, it is always in the sixth month that the founder gets interested in the skiing program, and the opportunity to exploit it appeals to him as well. Then there is a high possibility that the founder will develop the new program immediately. Ninety-nine percent of new

companies in the world are driven by such impulses."

Zhou Zhou said he needed "independence and freedom" to start a business inside the company. He analyzed the advantages and disadvantages of Ctrip, explaining them this way:

"I inherit two advantages at Ctrip," Zhou Zhou said. "One is its service process and its QA process, because they should be the best in the tourism e-business; the other is its ability to handle a huge number of orders with very tiny error rates. This ability was acquired by dealing with a large number of orders for hotel and air-ticket reservations over a long time. I am engaged in the sales of scenic spot tickets, so it is important and urgent for me to obtain the ability soon, which is the Ctrip gene.

"Moreover," Zhou Zhou continued, "I must enjoy freedom in two respects. The

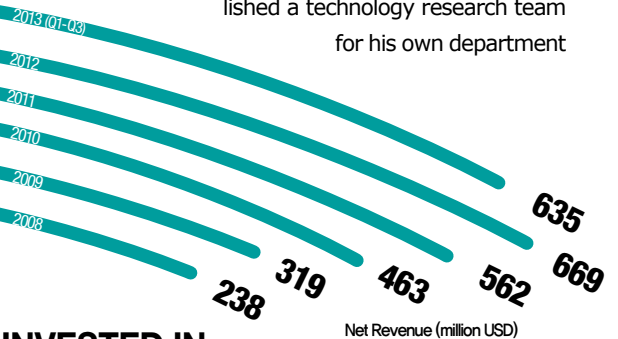
first is my own incentive system for my team, which will make my team feel the risk of rigorous punishment and the happiness of high rewards, which will deprive my team of the sense of comfort that comes with a big company. The second is the authority I need to deal with price wars. When I decide to lose money to fight back, the board of directors should support me with adequate money. This was impossible for the former department managers."

Zhou Zhou has found his own way to persuade James Liang: "You must have something to show your complete thinking process, in which you have done the defining, measurement, analysis and improvement. In a word, it should be "a process James could understand."

Although the final authority of each department is the same, the process and efficiency of persuading James Liang are different. Zhou Zhou has already established a technology research team for his own department

### COMPANIES CTRIP BOUGHT OR INVESTED IN

Source: China Entrepreneur



**2009** ↓

**ez Travel**  
The largest travel portal in Taiwan

**2010** →

- Wing On Travel**  
Travel Company in Hong Kong
- Guzhen.net**  
Travel information provider and consulting firm

which is equipped with a dedicated marketing fund and marketing channels.

Meanwhile Zhou Zhou faces severe competition from Tongcheng, whose scale is 7 to 8 times larger than those same business lines at Ctrip. His plan is to catch up with and surpass this rival during 2014.

Ye Yaming is another type of person sought by James Liang. Ye Yaming was previously an employee at eBay. When he met James Liang in the US for the first time, they talked about superficial things that Ye Yaming cannot recall anymore. At present, he is the vice president of the technology department in Ctrip.

He was appointed vice president directly by James Liang, which leaves him in an awkward situation sometimes. "The number of my direct subordinates is less than 20; half of them were recruited by me, and many of them have studied abroad," said Ye Yaming. "Some old colleagues asked me, 'What should we do after you have introduced the newcomers?' Moreover, there is an interesting thing in Chinese companies: A manager generally cares about how many subordinates he has. If the number of his subordinates is reduced from 50 to 20, he will think his authority has been weakened.

But in my opinion, if a man does not have the ability to manage 20 people, he is definitely not the proper one for managing 50. So it is the ability that matters a lot. The more abilities you have, the more responsibilities you will take on."

Sometimes, colleagues will report the conflicts taking place in the technology department to other senior directors and even to James Liang but not to their direct superior. For such problems, "If I don't mention it, James will not ask me about it first. But when I talk about this with him, he will offer his suggestions," said Ye Yaming. The assessment rule he obeys at Ctrip is "first, being beneficial to the company, second, to the organization, and finally to personal development."

Ye Yaming is clearly aware of the fact that he is not yet rooted at Ctrip. His plan is first to adapt himself to the company and then to exert his positive influence upon it. Meanwhile, his technology team has been increased from 100 to 1,000 members.

**Can Ctrip Be Defeated?**

If you ask entrepreneurs, "What area do you think is the most complicated in the business world?" Although the answers you

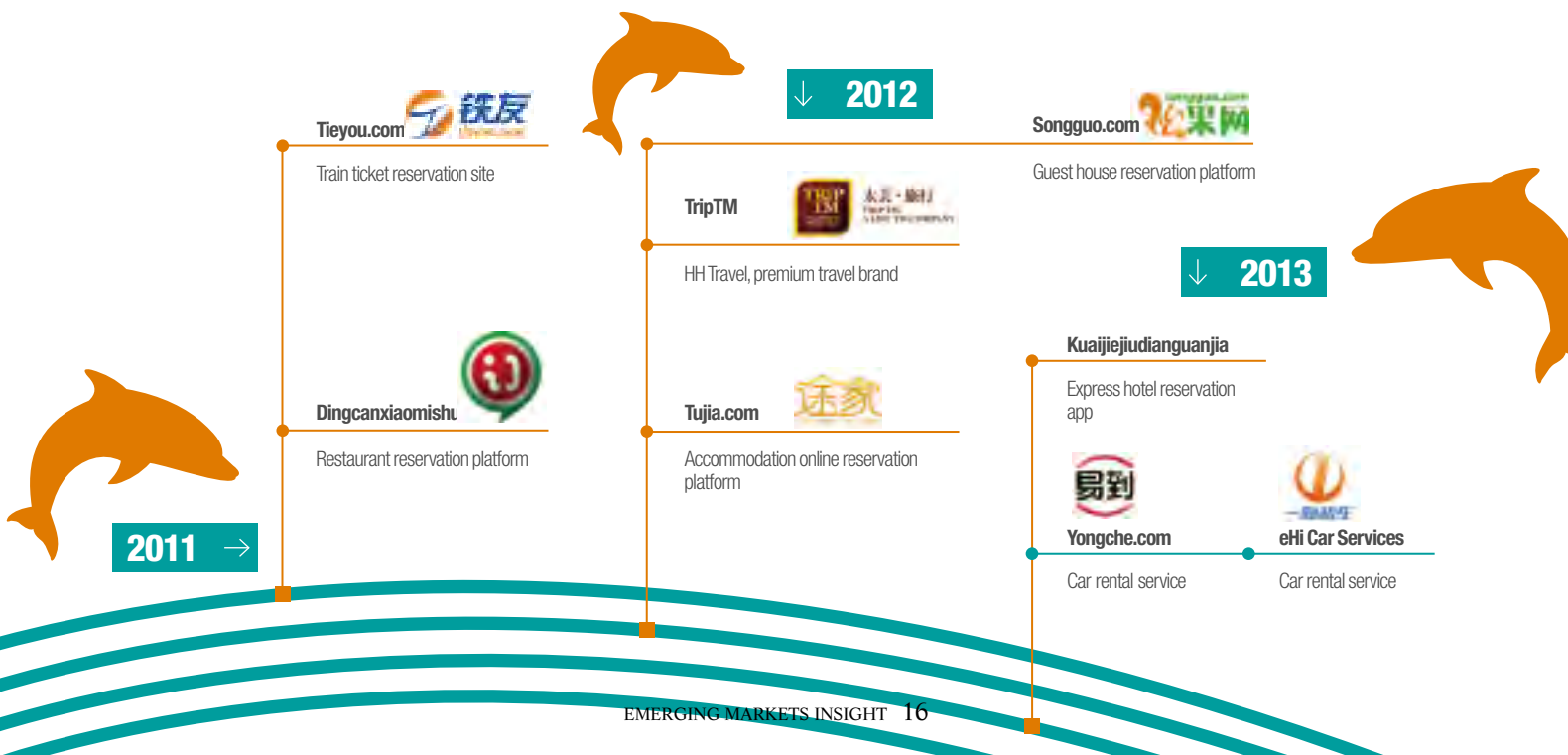
get will vary, they must be about the most difficult challenges the entrepreneurs face.

James Liang's answer is: You must stay alert to the increasing upgrade of the segment and the increasing uncertainties, catching every opportunity, or you will be overtaken.

He considers it to be a new world with tenfold speed, tenfold opportunity and tenfold competitors.

How to better distribute resources under the conditions of varying markets and various opportunities? It is a riddle that all entrepreneurs must solve and also a key to deciding the destiny of their enterprises.

Before James Liang came back, Ctrip was not completely ignorant of the changes in the market, but like many other companies it had hesitated to make any movement. The wireless business department was previously just a virtual framework, comprising members who had been transferred from the market, hotel reservation and technology departments. But soon they realized that speed was very important in the Internet business and that opportunities were easy to miss due to bad communication. Therefore, the wireless business was spun off to become a new department; its subse-



quent progress surprised all the managers. Now, mobile Internet is becoming the core reservation platform, with a peak-value proportion of over 40% of the total hotel reservations being made by mobile phones, surpassing those made via PCs or call centers. James Liang announced the end of the OTA model and the start of the MTA (Mobile Travel Agent) model once the 40% ratio was steadily maintained.

More difficult decision-making lies in strategic investments which cannot bring short-term returns. James Liang's strong support of scenic-spot ticket services indicates his strategic deployment.

The scenic-spot ticket services have been discussed intensely in recent years, because of their low profit and uncertainty about the sustainability of their revenue.

"In China, the grades of scenic spots are 1A-5A, and 4A and 5A scenic spots create more than 60% of the revenue. Most of them are state-owned and public resources. What's more, the trend suggests that more and more scenic spots will be free of charge in the future," said Guo Dongjie. "If Ctrip invested a lot of resources in this business, it would get nothing from it once the scenic spots are free of charge."

You might come to a different conclusion by looking at it from another angle. "Scenic spot tours are easy to be located, can be booked at any time and are paid onsite. Those features determine if the scenic-spot ticket service is a product of high demand and high quality which can meet the requirements of customers," said Zhou Zhou.

James Liang's wireless strategy makes him pay more attention to this business. He has deployed adequate labor from the sales group and technology group to the product group. "If he had not promoted this business, it would have been far from the top of our agenda if we were only calculating its gross profit," Zhou Zhou said.

Once the business of scenic-spot tickets is promoted as a strategic product within

Ctrip. Zhou Zhou believes its rivals will be defeated, even if the competition has not begun: "This product is even simpler than air tickets or hotel reservations, and its volume is larger," he said. "Those features will be revealed on the basis of Ctrip's advantages. Rivals should not blame Ctrip even though they have failed in this field. Suppose I was a member of a rival company, I would think that the business is monopolized by Ctrip, as there seems to be no solution for challenging it."

"Travel e-commerce is easy and simple, as it contains a large number of orders, requiring cost controls and high efficiency and creating revenue by selling a large quantity of products at low prices," Zhou Zhou said, adding, "It is believed that it can

### ***James Liang argues that OTA, representing the commission model, is the mainstream model as well as the best model in the tourism industry.***

be conducted in many ways, but the fact remains, in my opinion, that only the one who adheres to the above-mentioned rules is the best. Therefore, a rigorous process contributes to handling a large number of orders rapidly and accurately. This is the most important thing."

#### **Customer Value from Another Angle**

In 2000, when James Liang was appointed CEO of Ctrip, he established the customer service system, the inventory management system, the clearing system and other internal processes, as well as the management system. At that time, James Liang imported the Six Sigma quality management system designed for manufacturers in the company, resulting in an essential change in the service quality of the call center and other departments. From then on, Ctrip sharply reduced its order error rate

and greatly raised the accuracy rate of its consultation and the speed of order handling, thus obtaining a good reputation in the segment. All these became the company's competitive advantages.

Ctrip is trying to shed the constraints that are common for large companies, becoming more active and moving rapidly. "Before, service quality and customers' complaints were the important things which should be taken into account initially," James Liang said. "Risk assessments must be conducted first on innovative products, thus the company tended to be conservative. But now we have learned to think of customer value from another angle. For example, if the price competitive force is fixed as the main goal, everything which supports it must be done. The next is to check the effect and data, and then to improve the management," he said.

He has set this goal for the wireless business: Reservations made through the mobile phones will account for 50% of the total reservations. "This goal is very challenging. It is radical for such a large company to transfer such a large trading volume to a new business," said Jiang Hao, CEO of the wireless business.

"It is calculated that 5 to 10 years from now, at least 70 percent of reservations will be conducted through PCs and mobile phones, and 20 percent through the call center. My question is: What if Ctrip could account for 10 percent to 20 percent of this 70 percent? If yes, it will not be a problem for the company to maintain a top position," James Liang said.

This year, Ctrip has already conducted investments and acquisitions at a higher rate in order to buy more time. At the end of last year, the company invested in such ventures as Yidao car rentals and 1hai car rentals. According to a statement, Ctrip's investments were focused in three fields: the first is tourism service companies that have a connection with Ctrip's major businesses; the second is the companies



engaging in new business models (e.g. online reservations through mobile phones); the third is overseas service companies involved in sightseeing and recreation. In the past two years, the company has successively invested in lvping.com, tujia.com, songguo.com, xiaomishu.com, Life TM Group and VeryZhun.

Some new Internet companies rely much more on Ctrip than they might have imagined. Take TuJia, for example. Its CEO, Luo Jun, first gave up its alliance with Baidu because the cost was too high. Later Luo Jun turned to Ctrip and suggested it purchase shares in TuJia, which would provide it with capital and resource investments from Ctrip. Tujia supplements Ctrip's efforts in the short-term rentals business; Ctrip also brings a large number of orders to Tujia, and has promised not to set foot in related business areas

### The Future Trend for Online Travel

Since coming back, James Liang has set three strategies: acquiring more market share via price wars, dominating in the mobile Internet business through its wireless strategy, and pursuing its open platform strategy (i.e. introducing more products into Ctrip and promoting Ctrip products to portals with large traffic).

The statement that the vertical search model will surely affect and eventually replace the OTA model came under question once Ctrip promoted its products to its rival Qunar.com; Qunar then began to buy hotel products directly, setting foot in the OTA business.

"Online travel products are very complicated. All other online travel models will finally turn to products like ticket reservations and personal tours. For example, the Internet companies engaged in selling advertisements online will finally turn back to the OTA model when they are worth \$8 million or \$16 million and encounter bottleneck problems," said Wei Changren.

In James Liang's opinion, the future



development trend for online travel lies in the recreation or leisure market. Indeed, many new models have prospered, but all models must essentially meet customers' requirements about tour reservations, including information acquisition. This may be achieved through the call center, PCs or mobile phones. The winner will be the one which has the best service and offers the best experience to customers.

James Liang argues that OTA, representing the commission model, is the mainstream model as well as the best model in the tourism industry. In markets with a

developed price system, the vertical search model is only a supplement to the marketing channels.

Speaking of the Internet leaders who have started to enter the online travel segment, James Liang believes that they are far behind Ctrip. "It will be a good thing for the whole tourism industry if the Alibaba group considers the tourism business as its new growth source. Ctrip has accumulated many more resources and much more experience in the tourism industry, so they will be a long way in front of BAT's efforts to catch up with Ctrip," he said.



# OLAF KASTNER

## THE “FIRST PERSON TO TRY A TOMATO”

2014 will be a significant year for BMW in China. 10 years after it first came to China, it is facing a new challenge. We talked with Olaf Kastner, the president and CEO of BMW Brilliance about the future of the electric car and the Chinese market.

**By Ji Yongqing**

On Nov. 20, Olaf Kastner, the president and CEO of BMW Brilliance Automotive Ltd. (hereafter referred to as BMW Brilliance), made a somewhat “risky” decision. As a German, at the release event of the first model, 1E, of the JV-owned brand Zinoro, he made a 10-minute speech in his limited Chinese. It was indeed a risk for him. However, he cared more about the hidden message delivered with this move, which is the localization strategy that BMW Brilliance is actively pursuing.

In 2013, BMW Brilliance celebrated its 10th anniversary. On one hand, the Zinoro 1E represents a milestone for this young company, which is entering its second 10-year period of development. On the other hand, the company is somewhat like the first person to try a tomato, a Chinese expression about having the courage to try something new. Currently in the China market, no other joint venture has released a JV-owned vehicle using new energy except BMW Brilliance. In addition, this model will carry on the heritage of one of the three German luxury brands, BMW. The Zinoro 1E’s acceleration of is from 0 to 50km/h within 5.5 seconds. Its maximum mileage range is 150km and its maximum speed is 130km/h. Given the current level of market acceptance and the brand recognition of the new-energy vehicle, the Zinoro 1E will ini-

tially include an option to rent the vehicle during the first quarter of 2014.

“Many challenges were waiting for the first person to try a tomato” said Shao Bin, the brand director of Zinoro. Besides the challenges inherent in the infrastructure and product performance, the automotive industry itself is complicated. Compared with FMCG (Fast Moving Consumer Goods), there is more complexity in the entry threshold, investment and market acceptance of the auto industry.”

However, it is not the first time BMW Brilliance has envisioned the possibility of success arising out of challenge. During the 2009 financial crisis, for example, BMW Brilliance announced its investment in a new Tiexi plant and a new engine plant.

“These decisions suggest that BMW Brilliance bears a very clear localizing development strategy and is confident in the China market,” said an insider at BMW Brilliance.

### **The Year of the Horse**

“We are very optimistic about the market prospects for next year,” said Kastner, “because next year is the year of the horse in China, which matches up with the Chinese name of BMW. We believe that





Zinoro 1E,  
the first electric car  
of BMW  
in China.

BMW will take the lead in the year of the horse.”

**How do you control risk and reduce uncertainty when releasing the new brand Zinoro?**

Kastner: Over the past 10 years, BMW Brilliance has given importance to the major BMW models, and this explains why we have enjoyed such successful growth over the past 10 years. We sold over 140,000 BMW units last year and 160,000 units in the first three quarters of this year. We believe that we will set a new sales record this year.

With the support of our core brand, we are now opting to exploit the market for our new-energy vehicle at the strategic level, which is a sort of strategic consideration of investing in the future and leading future technological trends. Both society and the Chinese government have offered great support to the development of new-energy vehicles. We are very lucky because we started R&D for the Zinoro project two years ago, and we have worked with the Chinese government in developing and

***What we want to emphasize is the fact that this car is guaranteed for its technology and safety.***



researching the current market.

Of course, there will be some risks when new products and new technologies are unveiled. However, what we want to emphasize is the fact that this car is guaranteed for its technology and safety; it is a car with absolute driving safety and driving pleasure. Each company has their own definition of risk control. For us, risks associated with new technologies and new products are controllable and manageable. We can control risks because we are sustained by our core brand, BMW, substantial R&D spending and experience, as well as a strong after-sales service team. In turn, it will be a risk if such a new brand and technology are not released at the right time and do not conform to the times.

**What factors did the two shareholders**

**(BMW and BMW Brilliance) consider when the Zinoro brand was chosen?**

Kastner: The new brand, Zinoro, is a very good example of the cooperation between the two parties. Two years ago, in the early stage of the project, we two parties had heated discussions on costs, risk and other practical topics. From the aspect of business, we had to look into return on investment, but that is not all. What we considered more important was whether we could launch such a brand and what this brand should be. Shareholders finally reached an agreement that the brand Zinoro would be developed into a premium Chinese auto brand.

One of the important reasons why the shareholders could reach an agreement so rapidly is that we have a trustworthy and reliable team. In September 2013, BMW Brilliance opened its R&D center in Shenyang which included a team involved in R&D of new-energy battery technologies. Our studios and earnest team contributed to the rapid release of the new brand within two years of the first model's development.

**It seems that the initial production planning for BMW local models was relatively conservative. Does the new brand Zinoro suggest that BMW may make completely different plans for the development of additional new-energy vehicles?**

Kastner: It is better to think realistically whether or not the initial production planning was conservative. From the business perspective, we have to work out the appropriate plan at the right time, ensuring our production capacity can meet market demand. Although our capacity was restricted at the beginning by production lines, we have been always been forward-looking.

We decided to build the Tiexi plant in 2008-2009 when the economic crisis hit the world, followed by establishment of an engine plant soon thereafter. This year, both the Tiexi plant and the Dadong plant are expanding. We are starting to build a new





engine plant, which is the first vital foundry built outside of Europe. All of these steps are a result of the booming Chinese auto market. Thus, it is not proper to judge the past from the standpoint of the future. Our production planning was made in accordance with the situation in the past. We tried to avoid excessive production, which would have been a fatal blow to both the market and our company. Such tragedies have happened in some other markets in the world, resulting in a recession for the entire auto industry, and even demands for subsidies from their governments. We don't want the Chinese auto market to suffer from the same problem.

**Some of BMW Brilliance's decisions made during the past 10 years were quite innovative. To deal with the challenges in the field of new-energy vehicles, what will be invested to guarantee the new brand's competitive edge?**

Kastner: First, we need to maintain the competitive force of our core brand, BMW, then to ensure the proper development of the new brand ZINORO. Some core elements should be taken into account in developing new-energy vehicles: Who are our core customers? And how to improve

***Continuous R&D of battery technology is what we need to do next to develop Zinoro 1E.***



the infrastructure?

Continuous R&D of battery technology is what we need to do next to develop Zinoro 1E. Its maximum mileage is 150km, which is adequate for a daily commute to work in a city. Many consumers have other demands, such as visiting suburbs or places farther way over weekends, which will lead to higher requirements for our products and technologies. Therefore, it is necessary for us to develop hybrids and a plug-in hybrid vehicle. Another trend is in diesel-engine technology, and it is well known that BMW enjoys a leading position in this field.

The whole auto industry, including our counterparts and the Chinese government are working hard to facilitate the development of the new-energy vehicle, and so is BMW. For instance, we have created the Efficient Dynamics strategy, which contributes to greater environmental protection while maintaining driving pleasure. This strategy will be adhered to throughout the development process of additional new-



energy vehicles in the future.

**What percentage will new-energy vehicles account for in BMW Brilliance product line? Or is it more a new trial without set objectives?**

Kastner: Either BMW or BMW Brilliance should release new products and technologies according to market demand. The diesel engine I mentioned previously will become a trend, and it is believed that the diesel-engine vehicle will be very important in the future. But this does not mean that it will replace the traditional petrol-engine vehicle.

At the Guangzhou International Automobile Exhibition held recently, many luxury auto brands exhibited their diesel-engine vehicles. BMW will join them. As for the proportion of the new-energy vehicle in our products, we have clear plans and strategies within our company. But again we need to follow market performance. We will release related information at an appropriate time in the future.





# RETURN OF THE DRAGON



Chinese network giant Huawei now dials India for a slice of its handset business

**By Venkatesha Babu**  
**Photos by Tribhuvan Sharma**

Cai Liqun  
CEO, Huawei India

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## Huawei in India

*Huawei has long been known for its prowess in providing the plumbing that underpins the global telecom network, with customers in 140 countries.*



Victor Shanxin  
President, Huawei  
Devices India

### The Transition

Huawei is the world's second largest telecom and network equipment maker (after Sweden-based Ericsson), with revenues of \$35.5 billion in 2012. It has long been known for its prowess in providing the plumbing that underpins the global telecom network, with customers in 140 countries, and 47 of the world's 50 largest telecom operators as clients. In India, it supplies network equipment to every major service provider—Bharti Airtel, Reliance Communications, BSNL, MTNL, Aircel, Idea Cellular, Tata Teleservices—and is no stranger to the market. In 1999, Huawei established its one of its largest R&D centers in Bangalore. However, it has always focused on the business-to-business (B2B) network equipment market where it is a dominant player along with the likes of Nokia Solutions and Networks, Ericsson and Alcatel-Lucent.

But selling networks and telecom infrastructure is one thing, convincing people to swipe their cards for phones and tablets is a different ball game altogether. A decade ago, Huawei had made a token entry into the global devices business, but the focus was on the home market, one of the fastest growing globally. However, recently it has stepped up its efforts to capture a greater global market share, including India. It launched its first smartphone in 2011, and in India, the firm has moved aggressively over the past 18 months.

Huawei India CEO Cai Liqun sees no reason why the firm cannot replicate the suc-

If you take pride in being au courant with developments in the global smartphone business, here's a quick quiz: While it's common knowledge that Samsung and Apple dominate the segment, who is at No. 3? If your answer is Nokia, HTC or BlackBerry, you'd be wrong.

According to market research firm IDC, it is Huawei—with a global market share of 4.8%. Over the past nine years, Huawei has become one of the fastest growing firms in the mobile handset market. In the Gartner list of global smartphone sales, though, the Chinese firm is at No. 5 (behind Lenovo and LG) with a similar 4.7% market share.

In India, a few months ago, many like 17-year-old Bangalore-based student Aditi Kumar knew nothing of Huawei. Kumar was then looking to upgrade from her old hand-me-down Nokia to a smartphone. She want-

ed an Android OS-based phone, with a large touch screen at a competitive price. For her, an iPhone was still an aspirational product, well beyond her budget.

Weighing the pros and cons of various alternatives, she stumbled on to Huawei. Finally, everything made perfect sense. The phone she settled on, a Huawei Ascend Y300, came with a 4-inch screen and Android 4.1 Jelly Bean. This, for a bargain price of just \$123. Nine months later, Kumar is now an unpaid evangelist of the brand. "Except for the sound output not being very high, I love the touch screen's responsiveness, the long battery life and the seamless way in which it connects with the Wi-Fi at home. There may be better phones in the market at higher price points, but Huawei provides value for money. I've recommended the brand to close friends," she said.





cess it has had with the network business in devices. "We understand the Indian market well. Our devices business—which includes smartphones and feature phones, data cards and MiFi (pocket Wi-Fi routers), tablets, STBs (set-top boxes)—have done well... We're global leaders in mobile broadband devices because we understand consumer needs ahead of the competition, offer a wide range, invest heavily in R&D, boast of many patents and have a better understanding of network optimization and chipsets," he said.

Huawei says its devices business contributed a third of its \$1.5-billion India revenues in 2012. Given that the company, though well known in B2B circles, is relatively new in the business-to-consumer (B2C) segment, can Huawei succeed?

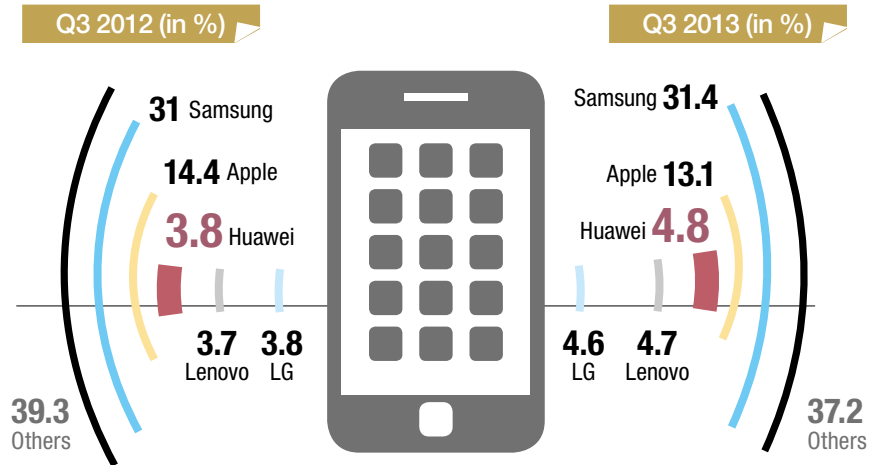
The company is sanguine about its prospects. It invented the ubiquitous dongle to power mobile Internet for most personal computing devices, said Victor Shanxin, president of Huawei Devices India, adding, "In India, we have a market share of over 65 per cent for operator-bundled data cards. We have a history of innovation. Over the years, we have been at the cutting edge of technology and, more importantly, bringing it at affordable price points globally. India is a very key market for our devices business and I am confident we will do well."

So, why this sudden emphasis on devices? According to CyberMedia Research, about 221 million mobile handsets and 3 million tablets were sold in India in 2012. With cable digitization finally being rolled out, the market for STBs has exploded; on-the-go media consumption has increased with data cards and routers—translating into a big opportunity for hardware vendors.

Interestingly, Huawei's core network business has slowed, with telecom operators loath to making expensive capital investments in the current telecom policy environment, which has also adversely affected 3G and 4G rollout. Some service providers that had bought Huawei equipment, and whose licenses got cancelled, did not pay the firm. For instance, Videocon and Huawei are slug-

# SMART STATS

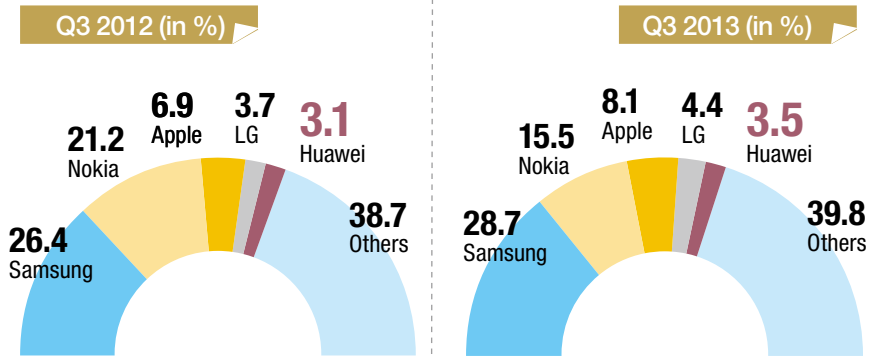
The global smartphone market in terms of vendor share



SOURCE: IDC WORLDWIDE MOBILE PHONE TRACKER, 29 OCT. 2013

# PHONING IN

The overall global mobile phone\* market in terms of vendor share



\*This includes both feature phones and smartphones. SOURCE: Strategy Analytics, Devices Services

*"Over the years, we have been at the cutting edge of technology and, more importantly, bringing it at affordable price points globally."*

ging it out in court over equipment worth \$150 million.

All this has meant that to sustain growth, Huawei has to look beyond its comfort zone and promote its full portfolio of offerings, including what it claims is the world's slimmest phone, the Ascend P6; the world's fastest phone, the Ascend P2; and its 6.1-inch

phablet, the Ascend Mate—available on both Android and Windows platforms.

Anand Narang, marketing director, Huawei Devices India, says the firm has launched a range of Ascend smartphones. "There are about seven smartphones across multiple price points (\$80-\$490)." Huawei sells through Redington, its main national distrib-



utor, in 32 cities, with about 200 “experience” stores and 300 service centers.

### What's The Strategy?

While the firm has had some success, getting substantial market share won't be easy. In the feature-phone segment, which still constitutes over 90% of India's mobile phone market, Nokia is still king. Indian players such as Micromax, Karbonn and Lava cater mainly to price-conscious consumers. The likes of Apple, Sony, HTC and BlackBerry—apart from Nokia and Samsung—battle it out in the fast-growing smartphone segment. Indian players with their value strategy have also started seeing success in the smartphone market, especially in the entry- to mid-level segment. Micromax, for instance, has become the No. 2 smartphone vendor in India, no mean achievement considering the intense competition.

Faisal Kawoosa, lead analyst, CMR Telecoms Practice, said, “Huawei becoming the third largest handset vendor in the world is a significant achievement. However, that's mainly due to its strong presence in China. It will be harder in India, where players have already perfected their China supply chain and are cost warriors. Huawei is yet to build brand equity in the premium phone range.”

The head of a large multinational handset firm, on condition of anonymity, said his firm doesn't see Huawei as a serious threat in the smartphone market. “In Huawei's case, the brand is not well known. It is neither aspirational nor completely a value player like some of the Indian brands are... . It needs to define the market it is addressing. Selling at a time when fashion and technology change very quickly is difficult,” he said.

Vijender Singh, MD, Pantel Technologies, offered a similar sentiment. “The Indian market is very value-for-money oriented. It's not just about having a great product portfolio. Handset vendors need to have a good distribution mechanism too. Building a national network and adapting to the Indian market is not easy. It presents challenges—like multilingual support, browsers, content



and local app stores.”

Narang is quick to the defense. He pointed out that Huawei's new smartphones support seven Indian languages and preset Internet settings of leading telecom operators. “Being global leaders in data cards, our STBs help our partners offer value-added services on their existing platforms and generate more ARPU (average revenue per user). We have, for instance, successfully integrated a Wi-Fi stack in our STBs. We also have HiSpace, an exclusive app store for Huawei device users.”

### The Next Frontier

So, will Huawei's relationship with service providers help it bundle handsets, and thus, crack the market? Can it go from being a B2B to a B2C player? Shanxin admitted that the transition to B2C has been a challenge. “We've made slow and steady progress,” he said. “We are adopting a multi-pronged strategy, doing consumer and brand-tracking research, and listening to what consumers are saying and monitoring trends. This has helped us define a strong portfolio of smartphones, MediaPad tablets and a suite of data cards. In markets like India, we have started building our consumer channel via national and regional distributor structures, which then supply to multiple channels like

e-commerce, multi-brand outlets, Huawei Experience outlets, large-format retail stores and modern trade. In addition, we work with Chetan Bhagat, our brand ambassador, to leverage digital channels. Over four years, we want to be among the top three consumer brands in India and globally,” he said.

For 2013, Huawei's sales target was 1 million units, of which it achieved 80% by November. For 2014, the firm hopes to sell 2 million units, of which it expects the Ascend P6 to account for 15% with 30,000 units coming from India.

Huawei has been bundling data cards with service provider networks and is using a similar model for its phones and STBs too. However, given the low margins in bundling, it has recently launched operator-agnostic data cards and MiFi equipment that are compatible with all operators. So, consumers can pick their favorite operator, and also have the freedom to change.

Given that India is among Huawei's top 10 markets, the firm says it has set up an India product creation center—to add to the 250 after-sales service centers—to understand consumer needs, segment them for product, software and app development and help create a differentiated portfolio. Whether this will truly help the firm crack the India market remains to be seen.



# GETTING THE DOSE RIGHT

Has Indian pharma found its new growth driver in super generics?

By Joe C. Mathew & P.B. Jayakumar  
Illustration by Anthony Lawrence

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Leading domestic drug maker Lupin has been cherry-picking research scientists from the labs of its global competitors such as Teva and Sandoz for its yet-to-be-set-up drug research laboratory in the US, the world's largest medicine market.

Back home, Cipla, the Indian company that took the global drug industry by storm by slashing the cost of anti-AIDS medicines to a thirtieth of the innovators' price a decade ago, is creating a Tech Discovery Engine to nurture innovation through collaborations with small innovation clusters in San Diego, Boston and Cambridge. Dr. Reddy's Laboratories, yet another Indian drug major, has entered into a long-term partnership with Germany's Merck to develop a portfolio of biosimilars (low-cost versions of a biotech drug), with a cancer focus.

The three domestic pharma companies may be researching different therapies, using diverse R&D routes, but their goal is identical: super generics. Looking for a definition? You are unlikely to find one.

Technically, there is no universally accepted definition for super generics. It's a term industry experts use loosely to refer to a host of things. In its broadest sense, it stands for all value-added generic medicines. It could be a new delivery mechanism, a new dosage, or even a never-before-attempted combination of known medicines.

It's the new buzzword in the \$90 billion Indian pharma industry that is ever-embarrassed about its inability to develop a money-spinning new chemical entity (NCE)—despite spending millions in research. Such an NCE is the holy grail for pharma firms. It

***“You can get a 30 to 50% higher price on super generics compared to branded generics.”***

***Aashish Mehra, Strategic  
Decisions Group***

determines whether a company continues to survive on thin margins or is able to demand the price it wants for the new drug. So far, no Indian major has made the cut in drug discovery, that is, come up with a blockbuster.

Until a few years ago, Para IV filing opportunities in the US had leading Indian companies excited. A successful filing entitled a generic drug maker to 180 days of exclusive marketing rights in the US. Today, that



option is no longer as attractive.

Of late, super generics have emerged as the industry's hope for the future. They have caught the fancy of the big players as some categories enjoy a measure of patent protection (3-5 years) in the US under Section 505(b)(2) of the Federal Food, Drug and Cosmetic Act (FFDCA).

Super generics are given regulatory approval as "new drugs" even though they are just modified versions of existing or known medicines, which may or may not have patent protection in the US.

"With a development cost of \$3 million to \$15 million (and up to \$30 million), you are looking at patent protection anywhere between three and five years. You can get a 30 to 50 per cent higher price on super generics compared to branded generics," said Aashish Mehra, partner and MD of Strategic Decisions Group, an advisory company. Of the 96 approvals in the new-drug category given by the US Food and Drug Administration (USFDA) in 2013, two-thirds were new combinations, dosage forms and active ingredients—or super generics.

Having reverse-engineered drugs for years, Indian companies have a natural expertise in several areas of developing a super generic, though they are yet to make their presence felt in the marketplace. For instance, of the 96 USFDA approvals in 2013, only two belonged to Indian firms (a new strength of Lupin's existing Suprax brand and an extended release form of Alembic's anti-depressant tablet desvenlafaxine).

### Super Generics, Ahoy!

Applications for super generics under FFDCA's Section 505(b)(2) are scrutinized on the basis of limited clinical trials of the drug (as against the prohibitively expensive series of clinical trials for a completely new drug in the US) and are, hence, relatively inexpensive. A recent McKinsey report pointed out that the estimated worldwide sales of products that can be categorized as "differentiated generics" were approximately \$15 billion

**Exciting Proposition**  
Super generics that could result in windfall gains in the US market.

Company	Product	Revenue potential (\$mn)
Ranbaxy	Absorica	200
Dr Reddy's	Fondaparinux	150
Cipla	Dymista	100
Lupin	Suprax	100
Glenmark	Crofelemer	80
Sun Pharma	Docefrez	80
Zydus Cadila	Docetaxel	30
Biocon	Alzumab	N/A

***"The future is biosimilars, complex or high-barrier generics and innovatively improved generics."***  
**Subhanu Saxena MD, Cipla**

in 2013, with a potential to go up to \$20 billion and \$37 billion, respectively, in the next two years.

In a June 2013 report put out by HSBC Global Research, Girish Bakhru and Nam Park, equity analysts associated with HSBC Securities, said that many Indian firms are acquiring strength in value-added products or super generics to compete "on quality rather than price" in the global market.

"India's firms are leveraging their core competencies in the R&D process of patent-void products, plus super generics... [T]he near-term generics outlook remains intact, driven by complex products such as topicals, transdermals, inhalers and complex injectables, where Indian companies have already established their presence," said the report.

Brian Tempest, the former Ranbaxy head, has no doubt about the capability of Indian companies. "They are better in terms of cash management and focus on niche product flow. So, while most of the global Western generic players are forecasting single-digit sales growth in the next five years, many Indian companies are enjoying and

expecting double digit sales growth over this period," he said.

### Why Now?

Not that Indian firms weren't aware of Section 505(b)(2) earlier, but they all made a dash for Para IV filings for the huge revenue potential that they offered. That said, very few companies enjoyed great success through such filings. Now, the industry is enjoying what is being called the patent cliff in the US (the impending expiry of a range of patents that provide opportunities for generics to enter the market); there will, however, be a fall in the expiry of pharma patents after 2017, which could seriously hamper the growth and margins of the Indian pharma industry.

A decade ago, India's total drug exports were to the tune of \$2.72 billion. Exports grew to \$14.6 billion during 2012-13. The biggest chunk of revenues came from the US (26%), Europe (19%) and Africa (17%), according to data from the Pharmaceutical Export Promotion Council. The growth of Indian firms was driven by a series of drug-patent expirations in the last decade. Drugs worth \$73 billion went off patent during 2006-10. Another \$97 billion worth of drugs are going off patent by 2015.

"It is true that the ongoing patent cliff has delivered a \$255 billion opportunity; however, the Indian pharma industry is likely to witness a sharp fall after 2017. The lure of the Para IV landscape will decline in all probability, coupled with the reduction in the number of mega patent expiries," said Hitesh Gajaria, a partner in auditing firm KPMG.

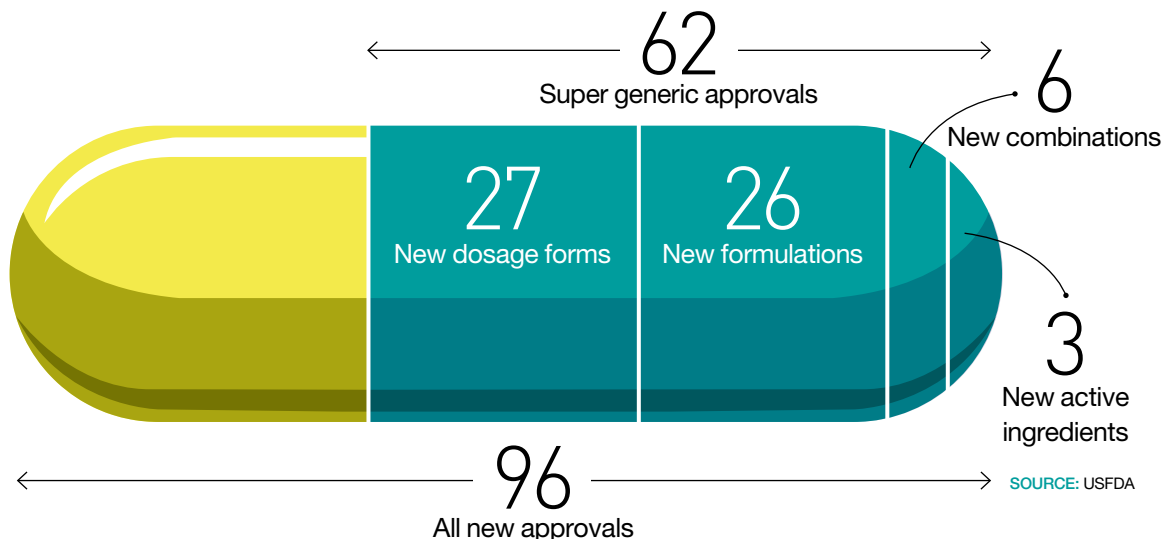
The declining prospect of traditional business models has driven Indian companies toward super generics. "Price erosion is less and margins are better," said Ranjit Kapadia, senior vice-president with Centrum Broking.

Strategic Decisions Group's Mehra considers the R&D entity of Sun Pharma—Sun Pharma Advanced Research Company (SPARC)—to be one of the leading Indian players when it comes to "the most advanced programs in the super generics



# COMING OF AGE

Super generics as a category constituted 65% of all new drug approvals by the USFDA in 2013.



## Of the 96 USFDA approvals in 2013, only two belonged to Indian firms

segment.” In addition to Sun, he rated Cipla as another leading firm that is working hard to develop such products for the global market.

“Indian pharma companies targeting the US have made the transition from producing ‘plain-vanilla generics’ to complex generics such as injectables, oral contraceptives, etc. But with the passage of time, even the complex generics space is getting commoditized, let alone plain-vanilla generics. Today, there are more than 7 or 8 players in injectables, a significant deviation from the past,” said Glenn Saldanha CMD of Glenmark.

According to him, the way forward for any company wanting to step up its growth is to move to the next level—505(b)(2) or higher, that is, drug innovation and discovery. “Indian companies, especially the large ones, will need to move up the curve. The reason being that with a significant business in the US, the small opportunities (revenues from plain-vanilla generic drugs) will not be able to make any meaningful contribution to the growth of the organization. Moreover, with newer entrants in the US generics market, the small opportunities are getting excessively crowded,” said Saldanha.

*“We understand that for transformational opportunities like 505(b)(2), the research has to be cutting edge.”*  
**Glenn Saldanha, Glenmark.**

Subhanu Saxena MD, global CEO of Cipla, believes generic companies should be targeting at least a fifth of their revenues from super generics in the next five years. For an industry that boasts of double-digit annual growth, it could be a good \$4 billion opportunity. “The future is biosimilars, complex or high-barrier generics and innovatively improved generics,” he said.

According to Saxena, having spotted the trend, “Cipla has created Cipla New Ventures that focuses on emerging trends and creating disruptive models to improve patient access and affordability. The Tech Discovery Engine, which is involved in research collaborations in the US, comes within this new ventures group.” Sun Pharma declined to comment on its “super generics” pipeline and the revenue potential for the company.

### The 505(b)(2) Opportunity

Unlike the substantial Indian dominance in

generic drug approvals in the US, very few Indian companies have got new drug approvals under 505(b)(2). The well-known exceptions are Cipla’s allergy drug Dymista, Lupin’s money-spinning antibiotic Suprax, Sun Pharma’s cancer medicine Docefrez and Ranbaxy’s skin disease medicine Absorica. That said, the development of most of these products was not carried out solely by the Indian companies. While it was the Canadian company Cipher that helped Ranbaxy develop its Absorica, Swedish firm Meda helped Cipla with Dymista and Lupin acquired Suprax from Japan’s Fujisawa.

Industry experts feel that fewer product approvals indicate the risk involved in developing a super generic. “Identifying the right 505(b)(2) opportunity is not simple. One has to weigh investments in research and filings versus the likely earnings,” said a Sun spokesperson.

Glenmark’s Saldanha agreed. “The 505(b)





(2) opportunity is significant, but one would need to back it up with resources and competency. It's a high-risk-and-reward game; you need far greater resources and research capabilities compared to producing normal generics," he said.

Mylan's president Rajiv Malik is more skeptical. "This option—505(b)(2)—has been available to pharmaceutical companies for the past 10 or 15 years. However, it was not a priority for them," he said, adding, "There is hardly any business made solely out of such approvals. Therefore, the focus should be on generic-plus [Malik's term for the overall basket of super generics]."

One of the reasons why this approval route was not explored by many is because medicines in this category are not allowed to be substituted. In other words, they can be sold only through prescriptions, which means you need a dedicated sales force to push the new drug among doctors. "So, think twice before you build a sales force just for one such product," said Malik.

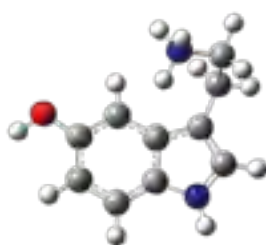
Despite the risks, companies are looking at the 505(b)(2) option. "This route is a natural area of focus for us as we have already demonstrated our capability in new drug innovation, which is a step higher in the value chain. Also, Glenmark spends more on R&D compared to any other Indian pharma company. We understand that for transformational opportunities like 505(b)(2), the research has to be cutting edge," said Saldanha.

However, he declined to provide specifics of his 505(b)(2) plans, saying "it's premature. We have outlined several of these projects—called specialty projects—though we would not want to divulge any detail, as the gestation time for such projects is long and the probability of failure is high." He believes some of the other large Indian companies that are in a position to take risks will also consider the 505(b)(2) opportunity seriously.

"We need an independent drug research center. Currently, we are recruiting top-level people [in the US]. Teva's former chief of innovation research has joined us. The plan

is to set up an R&D center in Florida to develop complex injectables, metered dose inhalers, dry powder inhalers, etc.," said Nilesh Gupta MD of Lupin. The idea behind an independent research center in the US, when Lupin already has a state-of-the-art research facility in Pune, is "to attract the best talent to develop complex molecules (super generics) for the developed markets," he explained.

As the HSBC report noted, SPARC is seeking approval for at least five drugs through



***"Now, the timing is right. We have to move up the value chain; and specialty pharma is the next natural progression."***  
**Nilesh Gupta MD, Lupin**

the 505(b)(2) route. Combitive Starhaler, an inhalation device for administration of a combination of inhaled steroids and bronchodilator drugs, is one of them. The company, which has already launched the product in India, has sought approval in the US under 505(b)(2). A once-a-day formulation of an anti-epileptic drug, Levetiracetam, is yet another SPARC product waiting in line. An application for anti-depressant drug Venlafaxine, with a similar dosage, is also pending. A patient-friendly form of ophthalmic solution Latanoprost, and muscle spasticity capsule Baclofen are the other offerings stated in the report.

Said Cipla's Saxena: "The 505(b)(2) opportunity requires an ecosystem that nurtures creative ideation and experimentation; it also has to be far more tolerant of failure. Such an ecosystem cannot be nurtured in the midst of an assembly-line environment;

it has to be incubated differently."

This explains why Cipla set up its Tech Discovery Engine and why Lupin is scouting for research scientists in the US despite an in-house R&D capability. It could also be the reason why Sun Pharma hived off its R&D division into a separate company, SPARC, and why Glenmark separated its pure generic and value-added businesses.

### Big-Bang Biosimilars

All the companies that are dabbling in super generics have plans to tap the US market as it has the highest revenue potential. As Lupin's Gupta explained, his company's aim is not to get a "new drug" approval in the US, but to secure approvals for generic drugs that are "branded." The company has already filed a dozen applications for regulatory approval of such value-added products, Gupta said.

"These are branded drugs, but you don't need a sales team for them as they can be substituted for existing drugs at the chemist level. That's the advantage," said Gupta. Pulmonary and ophthalmology are the two key areas where Lupin hopes to develop specialty medicines.

All generics that need clinical trials, such as different dosage and controlled-release forms, as well as biosimilars hold this advantage, Gupta explained, adding that Lupin will take a call on biosimilars in the next six months.

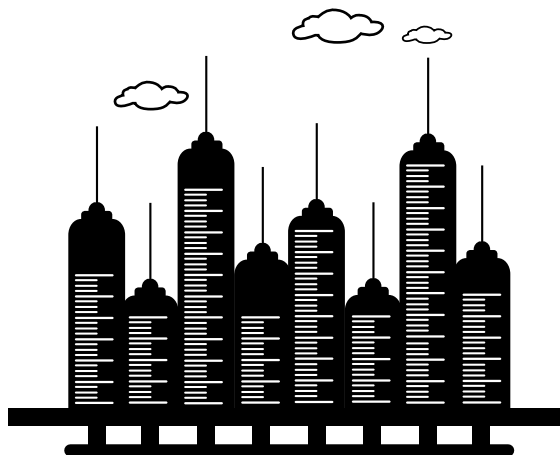
Of the 30-plus new drugs that got USFDA approval in the past two years, most were biologics (products developed from organisms). Several current blockbuster drugs are biologics—for example, Avastin and Rituxan. The patent on at least 48 biologics, with a combined sales of nearly \$73 billion, is due to expire in the next 10 years, paving the way for follow-on products, according to a PriceWaterHouseCoopers study. Eyeing the opportunity, 30-odd biosimilars are either under development or close to securing regulatory approval in various geographies.

In India, companies such as Biocon, Dr. Reddy's Laboratories, Intas and Reliance Life

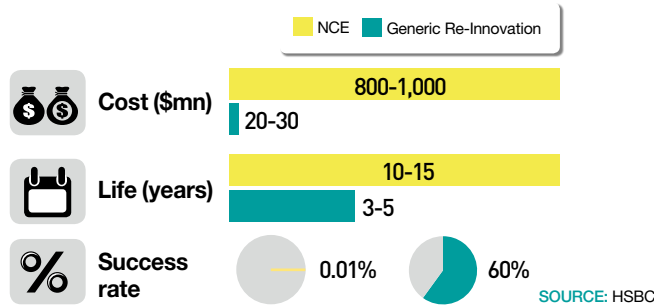


# LOW RISK, HIGH RETURN

Super generics are a relatively safer proposition than going in for development of an original drug in the US since they are more cost-effective.



Specific aspects	Original new drugs	505(b)(2)	Normal generic drug
Clinical trials	Complete	Partial	Bio-equivalence needed
Chance for patent protection	Yes	Yes	No
Market exclusivity	Yes	Yes	No
New strength, new formulations	Yes	Yes	NO
New usage	Yes	Yes	NO



## In 2013, \$15 billion came from the sale of “differentiated generics”

Sciences are trying to tap the biosimilars opportunity.

Biocon chief Kiran Majumdar Shaw says the Indian biopharma industry can bring in additional revenues of \$4.3 billion a year if the government provides the necessary regulatory and infrastructure support at the earliest. It costs \$10 million to \$40 million to develop a biosimilar, compared to \$1 million to 2 million for a plain-vanilla generic, according to experts.

Announcing the deal between Dr. Reddy’s and Merck Serono for development of biosimilars, G. V. Prasad, chairman and CEO of Dr. Reddy’s Laboratories, indicated that biosimilars are an important area of future growth.

As per the recent European Medicines Agency and USFDA guidance on biosimilars, a player in the field of biosimilars will need strong biologics development, manufacturing and commercialization capabilities, which explains Dr. Reddy’s decision to tie up with Merck Serono.

“In all fairness, we are not prepared for the biopharma regime. However, should the situation demand, we will be able to build our

capability [manpower and infrastructure] to join the bandwagon,” said KPMG’s Gajaria.

### The Future

It is true that Indian companies have just started looking at super generics in a big way. But it would be wrong to assume that they are late entrants to the segment.

In 2003, when few multinational companies had succeeded in developing drugs under 505(2)(b), Dr. Reddy’s had successfully developed a “new drug” for the US market. It was a new dosage form of Pfizer’s blockbuster hypertension drug Norvasc (generic name Amlodipine) that made Dr. Reddy’s the first Indian company and one of the first among global generic companies to attempt to crack the super generics market. It’s a different matter that Dr. Reddy’s could not monetize the achievement, as a US court ruled that its version of Amlodipine was infringing the patent rights of Pfizer. The verdict dashed Dr. Reddy’s dream to cash in on an estimated \$200 million opportunity a decade ago.

The recent biosimilar partnership of Dr. Reddy’s is an indication that despite the early

setback, the company is pursuing its goal to transform into a global specialty pharmaceuticals company.

Lupin’s Gupta believes Dr. Reddy’s tryst with Amlodipine was ahead of the times. “Now, the timing is right. We have to move up the value chain; and specialty pharma is the next natural progression,” he said.

Cipla is more vocal. “We have set an audacious goal of bringing the same impact in cancer that we did 10 years ago in HIV with a-dollar-a-day offering. Disruptive technology and innovative go-to-market models can ensure that cancer treatment is accessible to a patient pool 10 to 50 times larger than what it is today. Our goal in New Ventures is to create another revenue stream, the size of Cipla today, in the next 10 to 12 years,” said Cipla’s Saxena.

Well, 10 years is a long time. If Cipla could make AIDS medicines affordable a decade ago, it’s safe to assume that in the next 10 years Indian companies will be able to serve millions of patients suffering from life-threatening diseases by supplying cost-effective medicines.

At least, that’s the intention.



# 109 MILLION BABIES CAN'T BE WRONG

Indonesia's fast-moving consumer goods market has proved to be a long-term moneymaker. Strong economic growth has produced dividends for companies in the sector, and one major presence in the market, US-based Proctor & Gamble, sees the only way forward is up.

**By Muhamad Al Azhari**



Since 1837, P&G has built a rich heritage of touching consumers' lives with brands that make a little better every day.





## Indonesian Consumer

Even though Indonesia's economy is expected to slow this year, as a market of around 250 million people, the archipelago nation remains a magnet for investment in the fast-growing consumer goods (FMCG) sector, including for American multinational consumer giant Procter & Gamble Co., or P&G.

In a recent interview with our magazine, Bert Wouters, president director of PT Procter & Gamble Home Products Indonesia, a local unit of the Ohio-based P&G, said the company is committed to investing in local manufacturing facilities, expanding its brand portfolio as well as developing the finest talent from its Indonesian employees.

"Globally, the company offers many brands, and 26 of them have more than \$1 billion [in net annual] sales globally. In Indonesia, we are actively marketing 11 of those brands, so there are lots of opportunities to take more brands of P&G to complete our portfolio," said Wouters, a native of Belgium with 19 years of experience at P&G.

"The way we look at it is we have just started," he said, adding that Indonesia is one of P&G's top 10 growth markets in the world.

Six P&G products are available in Indonesia, including Olay skin care, Gillette razors, Head & Shoulders and Pantene hair-care products, over-the-counter medication

***"Most of the babies in the world—the future of our planet—are in Asia."***



Vicks and Pampers diapers and baby wipes.

The company has been in operation for over 175 years and currently serves around 4.8 billion consumers across 180 countries. It first tapped the Indonesian market in 1989, a few years after the global acquisition of the Vicks brand by P&G.

### Growth Market

Over the years, P&G has built a strong network and brand position in Indonesia. Its products can be found easily not just in modern retail channels but also in the many millions of small shops, warung, to be found everywhere across the 17,000 islands that make up Indonesia.

We want to be present where shoppers shop," said Wouters, who took over the leadership for P&G operations in Indonesia in August 2013.

P&G invested more than \$100 million between 2011 and 2013 to build its first factory in Indonesia at Karawang in West Java, where the American FMCG giant produces its Pampers diapers.

"Most of the babies in the world—the future of our planet—are in Asia. Close to half of the world's babies are in Asia. Notably—six of the top 11 countries with the highest baby population are in Asia. These six Asian nations, of which Indonesia is one, account for 109 million babies," Wouters stated.

P&G has also announced plans to invest another \$100 million over the next three years as part of a long-term development program to build world-class manufacturing facilities that will produce a number of products from the P&G portfolio.

P&G has about 74 acres of land at Karawang, some 47 miles east of Jakarta and home to a range of industries from automotive to shoe manufacturing. The new plant will be built adjacent to the existing diaper plant, according to Wouters.

The number-one priority is to serve the local market and local consumers," he said, adding that P&G has not crossed off a chance for Indonesia to become a production hub for the nearby region.

"We operate as a global company. That clearly offers an opportunity for us to export into other countries [from the Indonesia plants], if the need is there and the opportunity is there. Right now we are keeping the option open on that."

Apart from diapers, P&G continues to import from its other plants in Asia, including those in Japan, the Philippines and Vietnam.

### Tougher Times

Over the past few years Indonesia has been the darling of the investment community, with economic growth of around 6% each year from 2007 to 2012, thanks to resilient domestic spending and the commodities boom. The country regained its investment-grade status from two major international rating agencies, a status that was lost during the 1998 Asian financial crisis.

Conditions were less positive last year. Rises in the price of subsidized fuels saw inflation accelerate, ending the year at 8.4%,





***Standard Chartered bank estimated Indonesian economic growth to have been around 5.6% last year.***

nearly double the 4.3% figure at the end of 2012. Economic growth is likely to fall from 6.2% in 2012: Standard Chartered bank estimated Indonesian economic growth to have been around 5.6% last year.

The government's projection for this year is still bullish, targeting a growth rebound to around 6%, although many are skeptical about the figure. The World Bank estimates that Indonesia's economy will slow to 5.3% this year, while the International Monetary Fund forecasts growth of around 5.0 to 5.5%.

The country's currency, the rupiah, was hit hard last year with its value falling around 24% to 12,171 per dollar at the end of 2013. The currency has been hit by continuous capital outflows triggered by the US tapering of its stimulus program and investors' concerns about weakening economic fundamentals.

These factors have not caused much concern at P&G. "Undeniably, we see a bit of a slowdown this year," said Wouters, who has served in management positions for P&G in Europe and the Middle East. He has been responsible for global design and strategic planning for P&G's laundry portfolio across emerging markets.

While P&G's plants are spread around the world and thus provide "natural hedging" against currency fluctuations, Wouters said P&G prefers to look to Indonesia's prospects in the longer term.

"The fact that 65% of Indonesia's population is under 35 years of age, the rise of its middle class and income per capita is simply tremendous," said the executive, a graduate in romance philology from the University of Leuven and with a MBA from the University of Antwerp, both in Belgium. P&G, he added, is committed to create "brand propositions" to meet the needs of all economic segments in Indonesia.

### **Competition**

Wouters' long-term confidence in the Indonesian market is likely to be shared by other consumer goods giants, like the Anglo-Dutch multinational consumer goods producer Unilever, Japan's Kao Corporation and local businesses like Wings Group, owned by the Katuari family, which has been investing strongly to cater to the needs of the fast-growing middle-class market in Indonesia.

Asked to comment on competition in the FMCG sector, Wouters is philosophical: "Competition is always a fear and has always been tough. The sector is called fast-moving consumer goods. It is known to be highly competitive." That competition "is not any different in Indonesia than any other places in the world," he added.

P&G has always been committed to innovation, which he said is more than invention.

"It is not just about products, but process as well. Innovation ranges from product formulation, package design and brand-building and supply systems," he said. As for his focus of attention as the leader of P&G's Indonesian operation, Wouters stated, "I fundamentally believe that people are at the basis of everything you do. When you take care of the people, they will take care of the business."

Wouters, who now leads around 90 employees at PT Procter & Gamble's headquarters, plus another 300 personnel at the Karawang plant operations, stresses that a major task is to create future leaders for P&G from Indonesia.

"I started my career in P&G. It is my first and only employer. What I like about working for P&G is that we find talent developing among the young in their careers... We love grooming people. The company believes that talent development is very important," he said.

Wouters has learned quickly about Indonesia. His favorite Indonesian foods include mie ayam, soto ayam and sop buntut. Nor will it be all work for the father of two: He intends to spend as much time as he can exploring the diversity and beauty of Indonesia's nature.

"You have some of the most beautiful beaches in the world," he said, adding he has already visited beaches in Sumatera, East Java and Bali. "I have a chance to see some wonderful places in Indonesia. My wife has made a long list of places to visit."



# UD TRUCKS : IN INDONESIA FOR THE LONG HAUL

A Volvo-driven Japanese truck maker gears up for a strong performance in the archipelago.

By Hayat Indriyatno

It's a clear autumn day in scenic Shirosato, Japan. The distant hum of an engine turns into a growl, then a roar—a hulking amber-hued truck is being put through its paces at the Japan Automotive Research Institute, and it doesn't seem to have any business doing the kinds of speeds it's clocking at the center's high-speed test track.

Nor does it seem to fit in among all the flashy concept cars, shiny compacts and dolled-up race queens at the Tokyo International Motor Show, a couple of hours'

drive away. Yet there it stands, at the other end of the hall from where visitors are fawning over Toyota's latest consumer offerings.

The Quester, part of an all-new range of heavy-duty trucks from Japan's UD Trucks, isn't even supposed to be in the country. It was designed from the ground up with markets like Indonesia in mind—think coal mines, winding mountain passes and roads that are just as likely to be potholed as they are paved.

Joachim Rosenberg, the executive vice

president of the Volvo Group, UD's parent company, took pains to point out that in this regard, the Quester represents a first from any Japanese truck manufacturer. All other models in use in emerging markets like Indonesia are lower-specified, stripped-down versions of their Japanese-market counterparts.

### A New Approach

It was with trucks like these that UD, then called Nissan Diesel, broke into the





Indonesian market some 30 years ago, growing to become among the top three brands by sales today. The other two top-rankers, Hino from Toyota and Mitsubishi, are also from Japan.

The advent of the Quester, then, represents an entirely new approach to what UD Trucks acknowledges is an increasingly important market. Indonesia, Thailand and Malaysia will be the first to get the new trucks, which are being built at a previously-mothballed Volvo plant just outside Bangkok—another first for UD Trucks, whose other models are all built at its factory in Ageo, outside Tokyo.

“We, in the Volvo Group,” declared Loic Mellinand, the senior vice president of the UD Trucks global brand, “see Indonesia as the next Brazil.”

That’s a bold statement to make, but Mellinand is confident all the signs point to a long-term economic and development boom that his company’s trucks will play a growing role in helping deliver.

“If you consider the size of the market, Indonesia could represent easily 30 percent of total Quester sales” for Southeast Asia, he said in an interview in the cab of a 1960s Nissan Diesel PTC81 truck at the JARI track. “In Asia,” Mellinand added, “Indonesia will play a big role.”

### **Carving Its Own Niche**

Indonesia is already UD’s second-biggest market in the world, and with the arrival of the Quester looks poised to overtake Japan for top spot, Rosenberg said during a visit to Jakarta in September.

Indonesian customers were among those who placed orders for nearly 1,000 of the trucks within the first week of their global launch in late August. Delivery of the vehicles began in December.

Mellinand conceded that UD’s brand recognition is not as strong as it could be in Indonesia, a market that is more familiar with the Nissan Diesel brand.

“There is a very positive brand perception, but because UD is a new name in a way, I

***“This is a new product and a platform which will live for at least 15 years, so we have to take a long-term perspective.”***

think the awareness can be improved,” he said. “And UD in general has not been assertive enough as a brand, and I want to strengthen that so that customers can know and judge for themselves whether we are a credible value proposition for them.”

That value proposition comes in the form of the Quester, which was conceived in 2007, the same year that the Volvo Group took over the Nissan Diesel brand. The new range is thus meant to combine the best of UD’s Japanese tradition of quality with Volvo’s global manufacturing expertise, to meet the demands of customers in growth markets who don’t necessarily want all the bells and whistles of trucks like the flagship Quon from UD, but still want the same high level of reliability, fuel efficiency and ruggedness.

“Indonesian businesses need better efficiency. So I don’t see why Indonesian customers would not need a similar level of efficiency” as customers in developed markets, Mellinand said. “Can everyone afford to pay the same price? No. But aspiring to have the same level of efficiency? Absolutely. As a truck company, this is a nice mission to have, to be able to bring these new technologies at a cost the customer can afford, while still being able to make a profit.”

The company is also boosting its after-sales presence in the country, having recently opened its spare parts warehouse in Balikpapan in East Kalimantan—Indonesia’s coal-mining heart. Previously, parts for customers in the area had to come from Singapore, by way of Jakarta, but the new facility is designed to ensure less waiting

## **Indonesian Transportation**

time and squeeze more productivity out of each truck.

But for UD Trucks and other heavy-equipment manufacturers reliant on the mining industry for sales, the short-term prospects in Indonesia will be colored by the government’s ban on the export of unprocessed mineral commodities, which took effect in January.

Industry representatives have for the past year warned of a steep decline in production should the ban, designed at adding value to mineral exports, not be eased, while heavy equipment sellers like United Tractors, one of UD Trucks’ two distributors in the country, have predicted “stagnant” sales in 2014.

Mellinand acknowledged the short-term trend, but pointed out that UD Trucks is not expecting swift returns on its hefty investment in developing the Quester line. “We know that right now business is tough. We are suffering like everyone, but we are confident,” he said.

“For an investment like this, you take a return on at least a five-year period, but this is a new product and a platform which will live for at least 15 years, so we have to take a long-term perspective.”

That means seeing past the ban—about whose scope and enforcement the government has issued conflicting statements—and realizing Indonesia’s true potential.

“Indonesia is a very large economy; it’s growing fast, it has a large population, and is well-endowed with natural resources, so we believe in Indonesia,” Mellinand said. “We have an extremely positive outlook on Indonesia. Given the demographics, the size of the country, the economics and what’s happening currently in Indonesia—a country that is really modernizing itself—we have a strong outlook.”

He emphasized the point by noting UD Trucks’ long history in Indonesia. “When we do something and we go somewhere, we stay,” he said. “We are there for the long term; we bite the bullet when we have to bite the bullet, and when we have a few good years, we, of course, enjoy that.”



## CAN MOBLY SURVIVE ITS OWN SUCCESS?

In late 2011, three entrepreneurs started to sell furniture online. Today, their revenue is \$42 million—and the company may be worth five times this figure.  
**By Lucas Amorim**

First, it was books and CDs; then, electronic devices, clothes, shoes and wine. Brazilians have gotten used to buying everything on the Internet in recent years. In 2013, online retail increased 25% and reached \$11.76 billion in revenue. But one sector was out of this equation—furniture. None of the online retail stores made selling beds, sofas, and wardrobes as a priority, and none of the large furniture stores invested big in selling their products online

either. It is only natural: Who in their right mind would buy a three-seat sofa without sitting on it first? While earning their MBAs in the United States, three engineers from São Paulo—Victor Noda, Marcelo Marques, and Mario Fernandes—really thought there was an opportunity there. In November 2011 they launched, in São Paulo, Mobly, an online furniture shop. And surprisingly people started buying sofas on the Internet! In 2013, Mobly made \$50.4



million—twice as much as the previous year. The store currently sells furniture worth \$6.3 million per month. In two years, \$33.6 million was invested in the company, and new partners, such as the German company Rocket, JP Morgan and the billionaire Venezuelan family Cisneros came on board. According to executives that know the



details of those transactions, Mobly was valued at around \$210 million at the time of the last financial contribution, made by the Cisneros family.

### A Logistics Knot

How did they manage to succeed so fast in such a short time? The biggest accomplishment of the three former students that created Mobly was that they untied a logistics knot that had scared off traditional retailers. Imagine how complex and expensive it would be to manufacture a wardrobe in Bento Gonçalves, in the state of Rio Grande do Sul, and have it shipped to a client in Ji-Parana in the countryside of Rondônia. Before launching the web page, the founders of Mobly spent six months training shipping companies and choosing furniture suppliers (that today total 500).

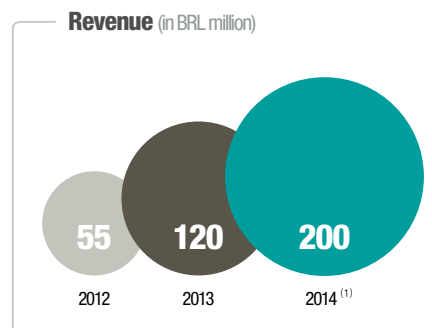
The range of furniture is about 45,000 different models today. Their shipping system was inspired by the American retailer Wayfair that made \$1 billion in 2013 selling furniture online. Wayfair has 12,000 suppliers and no distribution center. Products are shipped from the plant straight to the clients. Mobly has adopted a mixed model. The smaller and most popular items, such as chairs and kitchen utensils, are stored at a warehouse in Jundiaí, in upstate São Paulo. Beds and wardrobes are ordered after being purchased, and it may take up to 30 days for them to be delivered.

"People are used to waiting for furniture to be delivered even when they purchase from traditional stores," said Noda, the CEO of the company. To overcome consumers' hesitancy, Mobly takes 3D pictures of all furniture. Clients also have the option of seeing how the furniture would look in a real room. The company is currently developing a technology that will enable clients to send a picture of their living room to see how a certain piece of furniture would look in that room.

The growth of Mobly is a great example

## AT MOBLY, 45,000 FURNITURE MODELS ARE AVAILABLE TODAY

The revenue and worth value of Mobly, an online furniture retailer established in November 2011



### MARKET VALUE

**500 million reais<sup>(2)</sup>**

(1) Forecast (2) Estimate by consultants and competitors  
Source: company (1 real= \$.42)

of how things work in the Brazilian Internet today. There is a competition to create the leaders of every niche. And, at this point, investors and entrepreneurs know they shouldn't be afraid of spending money. That's why the first partnership with the German company Rocket was key for Mobly to grow the way it did. The Germans invested \$7.6 million five months before the webpage was launched. This agreement gave the three founders access to the technology Rocket uses in more than 70 e-commerce websites it owns around the world. One example is the already popular way of identifying what customers like based on their Internet searches—to later suggest a chair that would appeal to them.

The price paid by Mobly's founders was a massive dilution. Today the three of them own only 6% of the company's stocks. "To succeed in e-commerce you have to grow fast and control space," stated Victor Kong, Head of the Investments Division of the

Cisneros family.

Should everything work out, the partners expect to start profiting by the end of 2014. Up to this point, Mobly has operated in the red, a situation shared by several Brazilian e-commerce websites. In Germany, furniture retailer Home 24, created by Rocket a year before Mobly, does not yield profits yet either. "Rocket is known for investing in ventures that grow with huge marketing investments and take a while to profit. Mobly is in the phase to prove they can make this step," explained an executive of the sector.

### Competition

Things can get a bit complicated at this new phase since online furniture retail is no longer news. According to consulting company E-bit, furniture is among the products with highest sales growth on the Internet. In 2013 furniture represented 8.5% of everything sold online in comparison to 7.2% in 2011. One of the fastest-growing companies is the Brazilian subsidiary of the German company Westwing, specializing in short-time sales. The pieces are displayed for sale for only a couple of days, stimulating impulse purchase. The company operates in 10 countries and its revenue was \$621 million in 2013. Brazil, which the company entered in 2012, is already its second largest market.

Another new company is Oppa, established in late 2011 by Max Reichel, a German citizen. Unlike Mobly, Oppa has a team of 25 people who design its products that are later manufactured by 120 third parties. For those who wish to see the products in person, Oppa has opened five showrooms in São Paulo and in Rio de Janeiro. Peter Thiel, the American billionaire who created the payment service PayPal, is among the company's investors.

Mobly's founders are opening a new market. Sadly for them, the competition has arrived before the profits.