

How a Lean & Agile Thailand can fit in ASEAN

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I recently read an article by Marc Singer of McKinsey & Company,¹ which grappled with how larger corporations keep pace in an increasingly dynamic business environment. This requires new ideas to be urgently conceived, tested and implemented based on consumer feedback and behaviors. While not specifically mentioning *Lean* and *Agile* methodologies, the article supported the argument that these will improve a firm's competitiveness.

After reading the article, it dawned on me how relevant it was to Thailand. I'd attended a forum earlier that day on how Thai-based entities can compete in ASEAN and what Thailand can offer as a base. I fully agreed with an argument that a more favorable tax structure for International Headquarters (IHQ's) would only be nominally helpful and that Thailand should compete on other factors.

Going Lean & Agile

Although they have become the two leading decision-making processes for tech start-ups throughout the world, the *Lean* and *Agile* processes lend themselves to all types of organization: large or small; private or public sector.

Lean was first exemplified by Toyota for its manufacturing processes: its principles and practices avoid waste by ensuring that development focuses on what customers truly want. This is done by periodically launching Minimum Valuable Products (MVP's) to gain valuable customer feedback for directing future development. It does no good to complete a project on time and within budget if customers aren't interested.

Likewise, there's little point in tweaking the corporate tax structure to attract corporations to establish international headquarters in Thailand, if the result falls far short of competing with jurisdictions like Singapore.

In an *Agile* process, cross-functional teams work on particular phases (or iterations). The priorities for each iteration are dictated by the value of a product feature to the customer. This ensures the features most important to customers are completed first and the business has the agility to react to rapid change to customer priorities. Deadlines and budgets are set for each iteration to ensure timing and cost targets are met.

¹ http://www.mckinsey.com/insights/marketing_sales/growing_by_adapting_at_speed

Similarly, it makes more sense to concentrate on prioritizing incentives around the advantages Thailand offers which corporations actually want most.

Thailand's Competitive Advantage

Thailand holds a competitive advantage within ASEAN and, if supported properly, it can become the leading center for innovation in the region.

It compares favorably to the larger ASEAN countries in terms of supporting IT infrastructure and is a highly connected marketplace. As for the smaller ASEAN countries, Thailand has a larger IT talent pool and domestic consumer market. It also neighbor to the ASEAN emerging markets of Cambodia, Lao and Myanmar. These are relatively untapped markets, in which Thai firms enjoy superior access.

Furthermore, Thailand's IT talent possesses the much coveted "soft" skills (sales, project management, etc.) demanded of project owners throughout the region. This is because the top IT talent comprises of either freelancers or start-up founders. The former makes much more money doing project work for foreign clients than the salaries they would receive from a Thai-based employee; the latter receives a salary maybe slightly less than a local employer would offer, but enjoys a much greater upside and freedom of creative thought.

While some say that Singapore is the ASEAN start-up hub, I'd argue that Thailand has the most vibrant start-up ecosystem in the region. It attracts major interest from global investors and provides a very supportive community to IT entrepreneurs.

In Singapore, a large percentage of venture capital funding is from public sources, which has proven to be very inefficient and ineffective in producing the large number of successful start-ups expected. Also, many Singapore-registered start-ups receiving funding are not Singaporean – they are from Thailand and other ASEAN countries, whose overall business regulations are not friendly to smaller and service-based ventures.

Furthermore Singapore has a smaller domestic market for Singaporean start-ups to launch from and, more importantly, different consumer behavior to that of its neighboring countries. A Thai start-up can develop and test a product or service in Thailand that will be much more aligned with the consumer tastes and expectations of consumers in such countries as Indonesia or Vietnam. Thailand has the creative and innovative talent combined with a larger and superior domestic test market and that is what counts.

With Thailand's IT talent possessing superior creative and problem-solving abilities, "soft" skills and are being well-versed in *Lean* and *Agile* methodologies, innovative energies within Thailand should be harnessed for competitive advantage.

Strategic Thinking is Needed

It's fair to say that, regarding tech start-ups, employment numbers or other traditional economic measurements are not impressive. However a *Lean* precept is to avoid relying upon such vanity metrics and ask "Are we looking at the right metrics?"

The real value lies in their intrinsic value. If major corporations begin to engage with or acquire tech start-ups to learn processes (*agile*), apply new technologies and utilize their regional reach (e-commerce and social media platforms), then the former become more innovative and competitive.

Similarly, to truly appreciate and take advantage of Thailand's competitive advantage, Thai-based corporations need to think in more strategic terms. If an investor or acquirer considers the profitability of a start-up as a major determinant in their investment decision, they are missing the intrinsic value which can prove to be much more valuable. Many tech companies enjoying billion dollar exits aren't yet profitable. The price paid for securing a market leading position or land grab is profitability in the near-term.

Acquiring that particular product/service, technology, distribution platform, etc. translates into much larger financial returns because it makes a corporation's much larger operations significantly more efficient and/or competitive. If you can invest a few million dollars in a market leading start-up whose online platform can increase your annual sales from \$500 million to \$800 million, does it matter that that the start-up with an annual burn rate of \$200,000 has yet to reach profitability?

How can large corporations benefit from Thai tech start-ups?

The most common way for large corporations to access a tech start-up's innovative products and processes is to be a financial sponsor or making a direct equity investment.

Financial sponsorship is sometimes a cheaper and less time-consuming way to support an early-stage start-up that is developing an innovation that may have a strategic value.

An equity investment is made with the expectation that the start-up has the potential to be a market leader in an area of strategic interest. MBMG Group has recently established the MBMG Angel group to present our clients and investment partners such strategic investment opportunities.

Larger corporations can also engage with start-ups by offering them project work to financially support the development of their innovative product. This develops and grows a working relationship and also allows greater efficiencies as the scope of work grows; particularly when the target market of the start-up matches the existing customers of the corporate partner.

A co-marketing partnership is another alternative. A start-up can offer a new distribution channel or a fresher delivery than a larger corporate partner; whereas the latter gives a large captive audience. There can also be mutual benefits in branding: the corporate partner can benefit from being associated with an innovative, trend-setting start-up using state-of-the art technology. For start-ups, co-branding with an established market player offers much greater exposure and credibility.

Comparable Advantage

Thinking strategically will compel decision-makers to look for new ways to become more competitive. Thailand needs visionary thinking from both government and large corporations to determine where it has competitive advantages, or better yet, comparable advantages within ASEAN and focus efforts on optimally leveraging them. Thailand has much to benefit from being *Lean* and *Agile* and the visionary thinking required for Thailand to find its proper place in ASEAN. Both government and business leaders have a vital role to play.

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